MORNEAU SHEPELL

31st Annual Breakfast Seminar

Toronto, September 10, 2013

Compensation Trends & Projections for 2014™

Presenters

Introduction	
Compensation	Richard Béliveau
Pension Plans	Paul Winnett
Health and Benefits	Joy Sloane

INTRODUCTION

Context

- Survey conducted between mid-June and mid-August
- Recovery?
  - United States: accelerating growth
  - China GDP: weakest growth in 14 years
  - Canada GDP: slow growth
- Inflation (12 months) in July 2013
  - United States: 2%
    - Trending upward since May
  - Canada: 1.3%
    - Same as in July 2012

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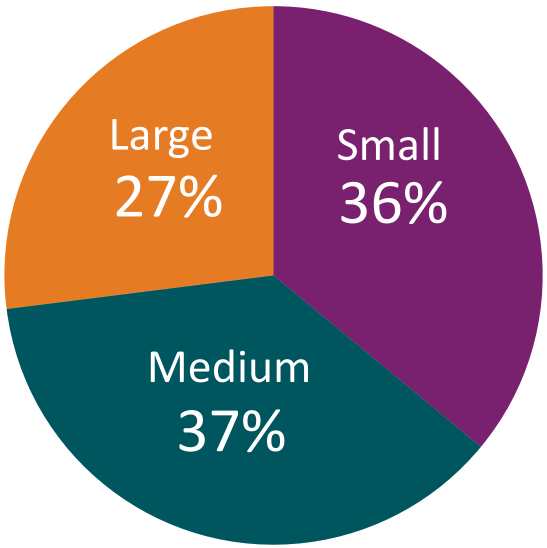
Participants

308
organizations

Nearly
3M
employees



Industry sectors	
Manufacturing	28%
Services	26%
Finance	12%
Trade	10%
Utilities and construction	8%
Public administration	6%
Natural resources	4%
Other	6%

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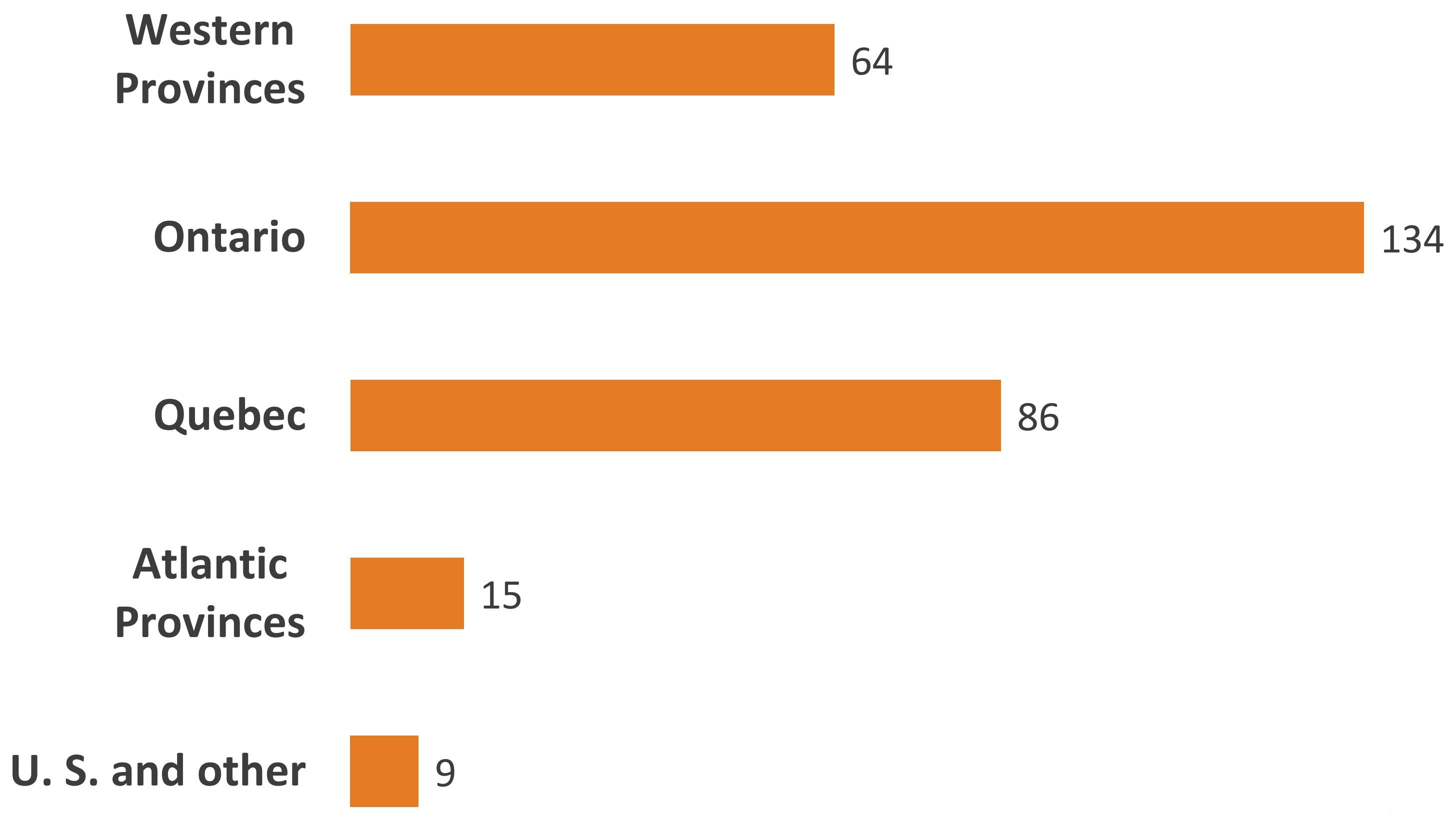
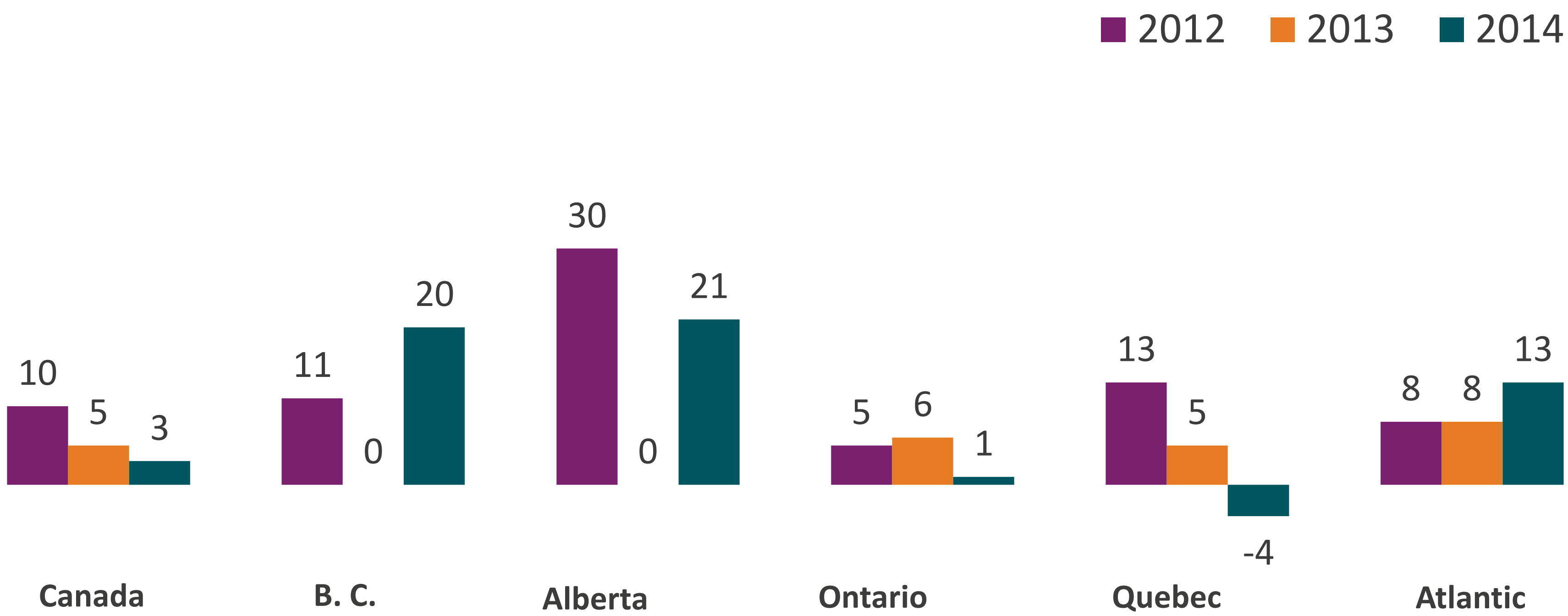
Number of respondents by region



Business environment

Staffing

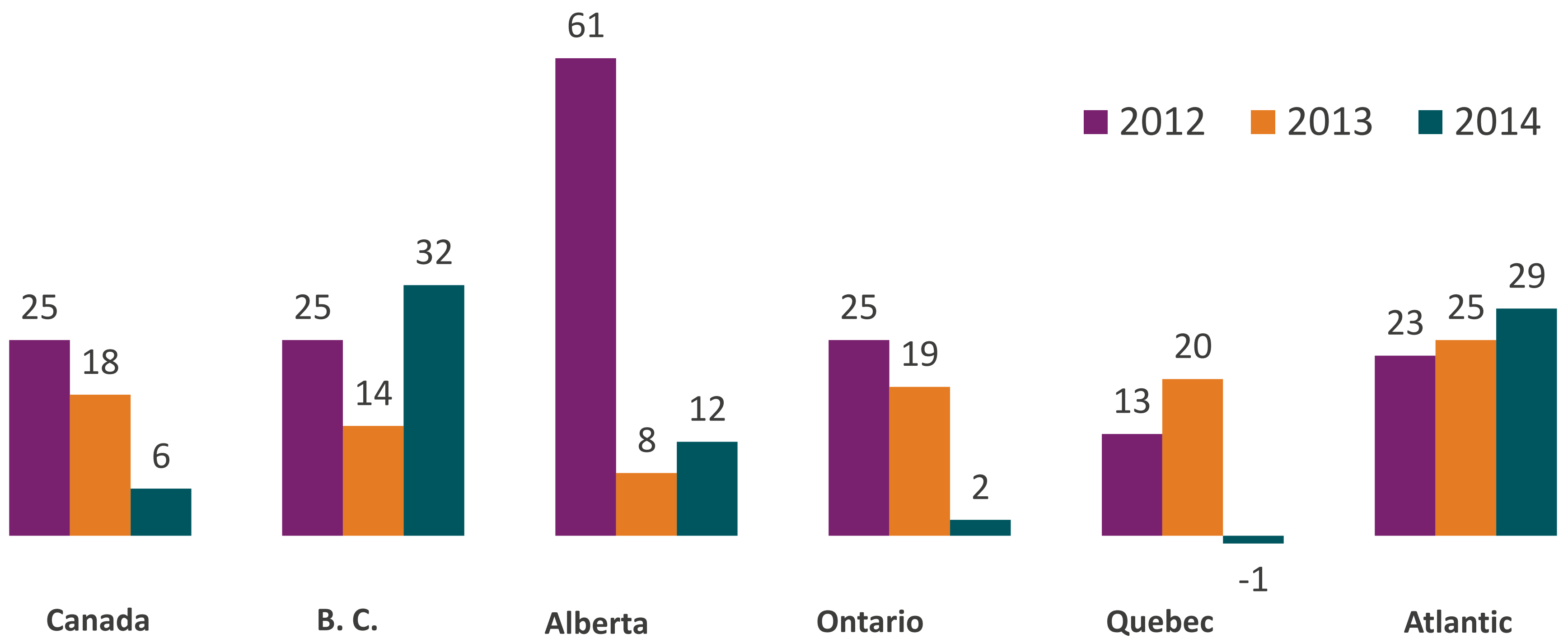
Net % of organizations expecting significant increases (decreases)



Business environment

Profitability

Net % of organizations expecting significant increases (decreases)



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COMPENSATION

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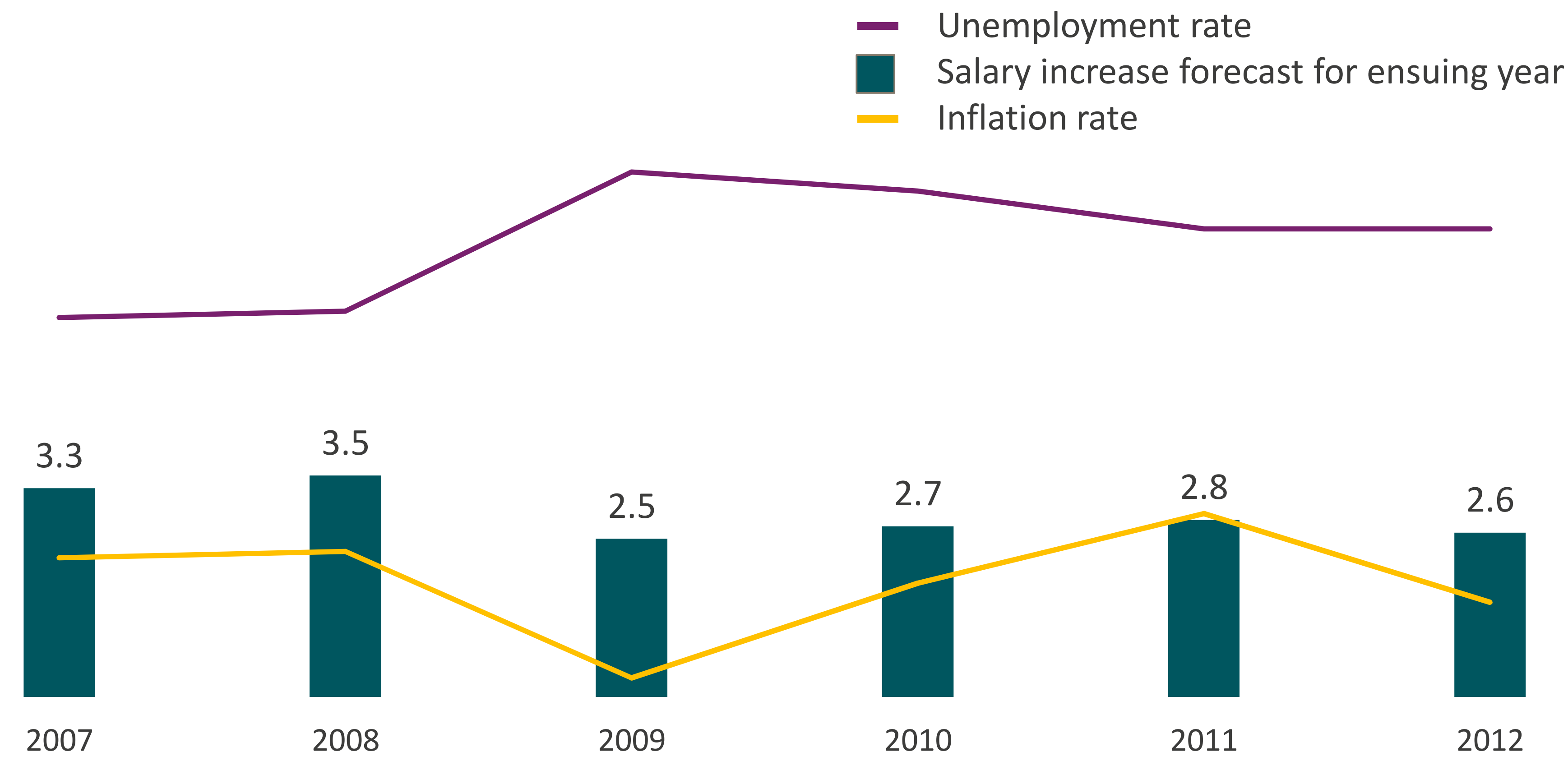
Average salary increase forecasts

Historical overview



2014 respondent forecasts

	Average increase	Excluding freezes
Base salaries	2.6% Same than average actual and last year's average forecast	2.7%
Salary structures	1.7%	2.1% **20% of observations reflect forecasts of potential freezes to salary structures**

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Salary freezes

By employee category - % of participants

	Observed				Forecast
	2010	2011	2012	2013	2014
Executives	26	14	12	15	9
Management and professionals	22	8	8	8	4
Technical and administrative staff	21	7	14	7	3

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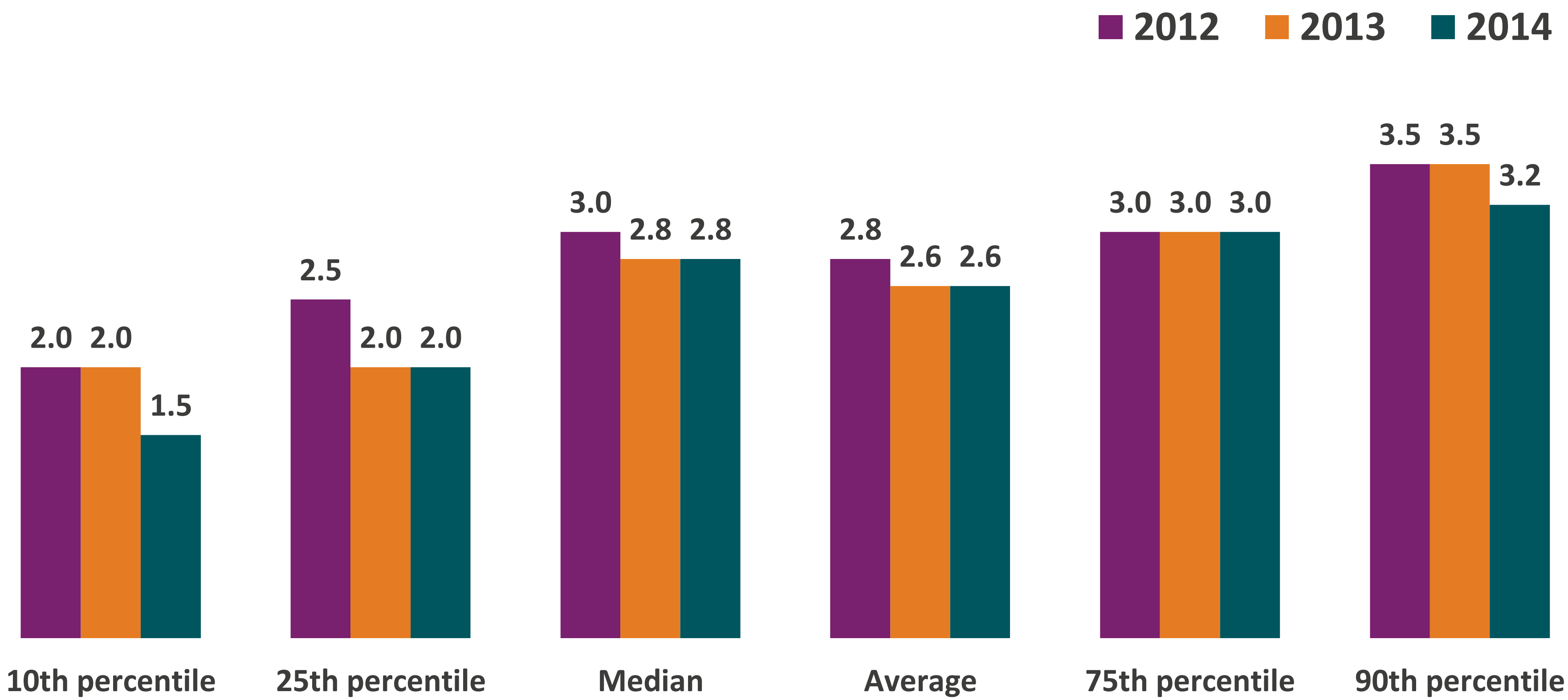
Distribution of salary increase budget forecasts (%)



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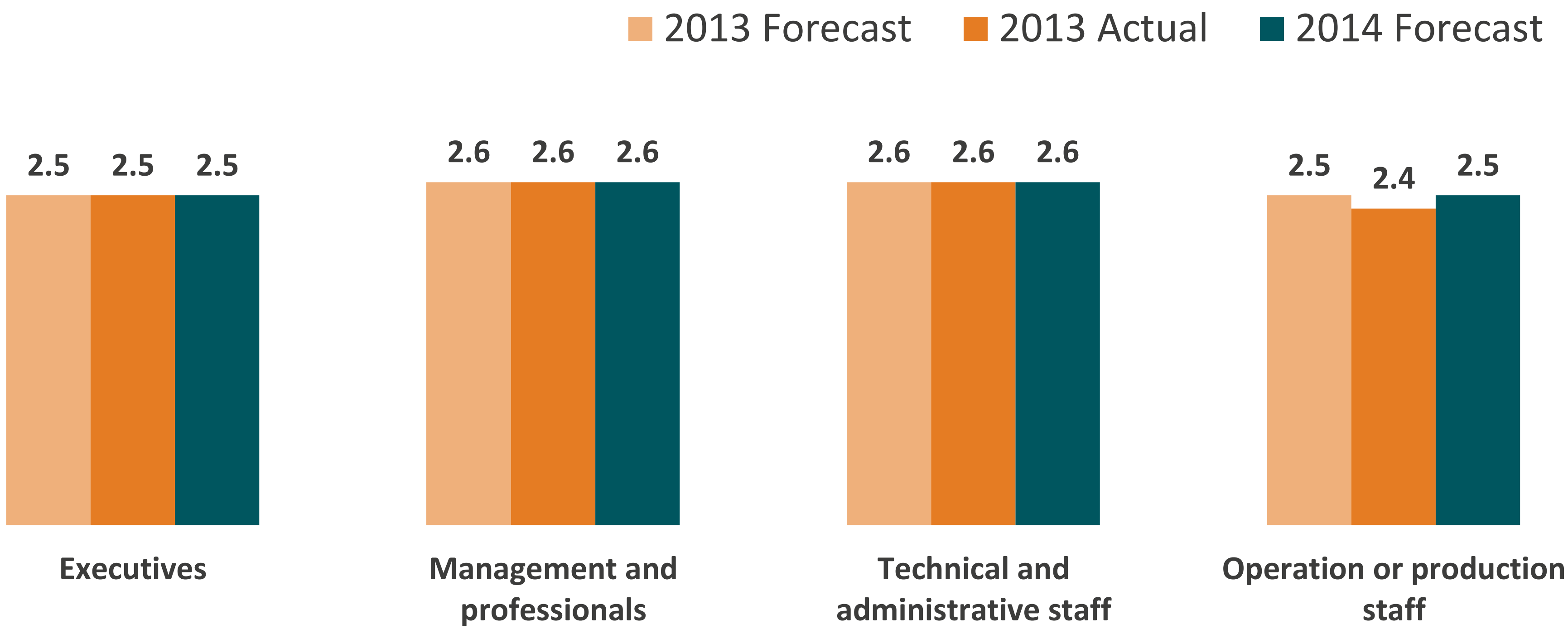
Average salary increase (%)

By job categories

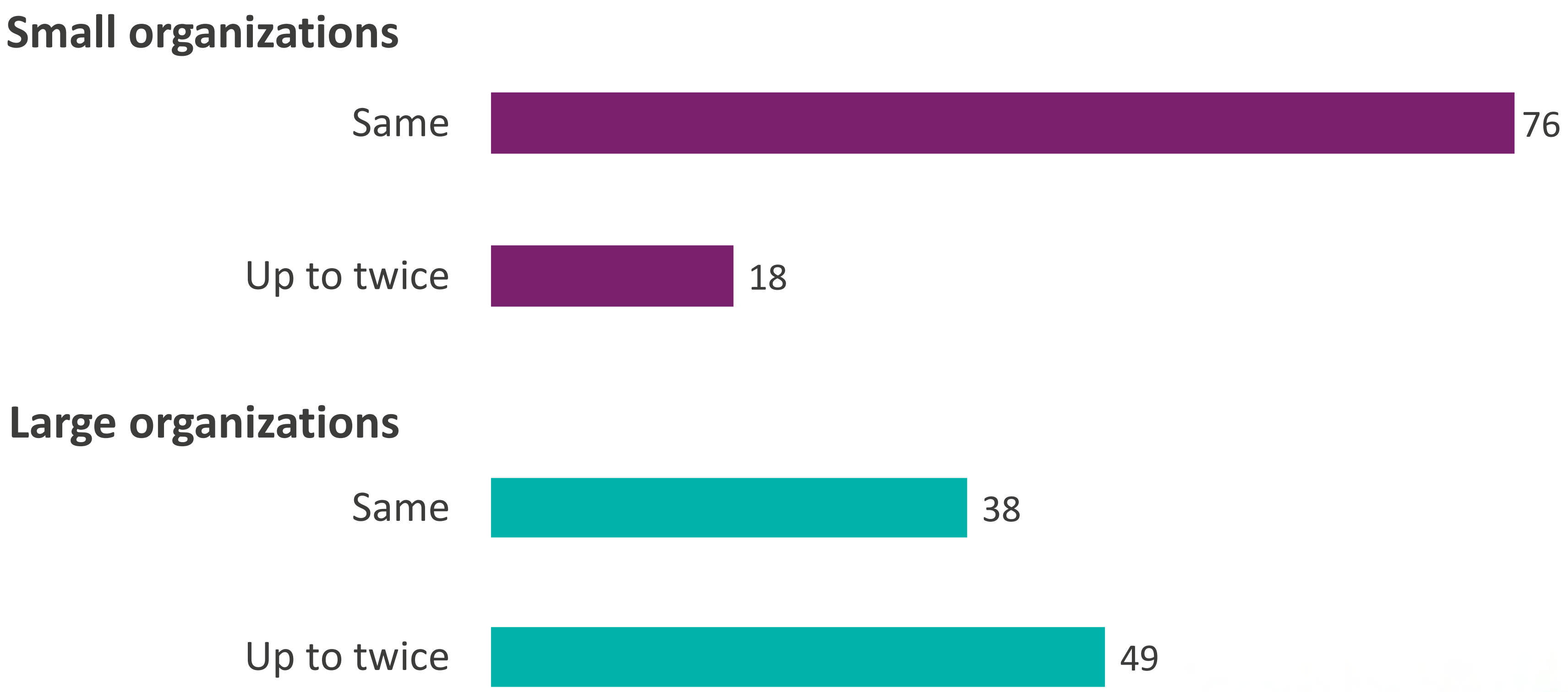
National



Salary increase forecasts

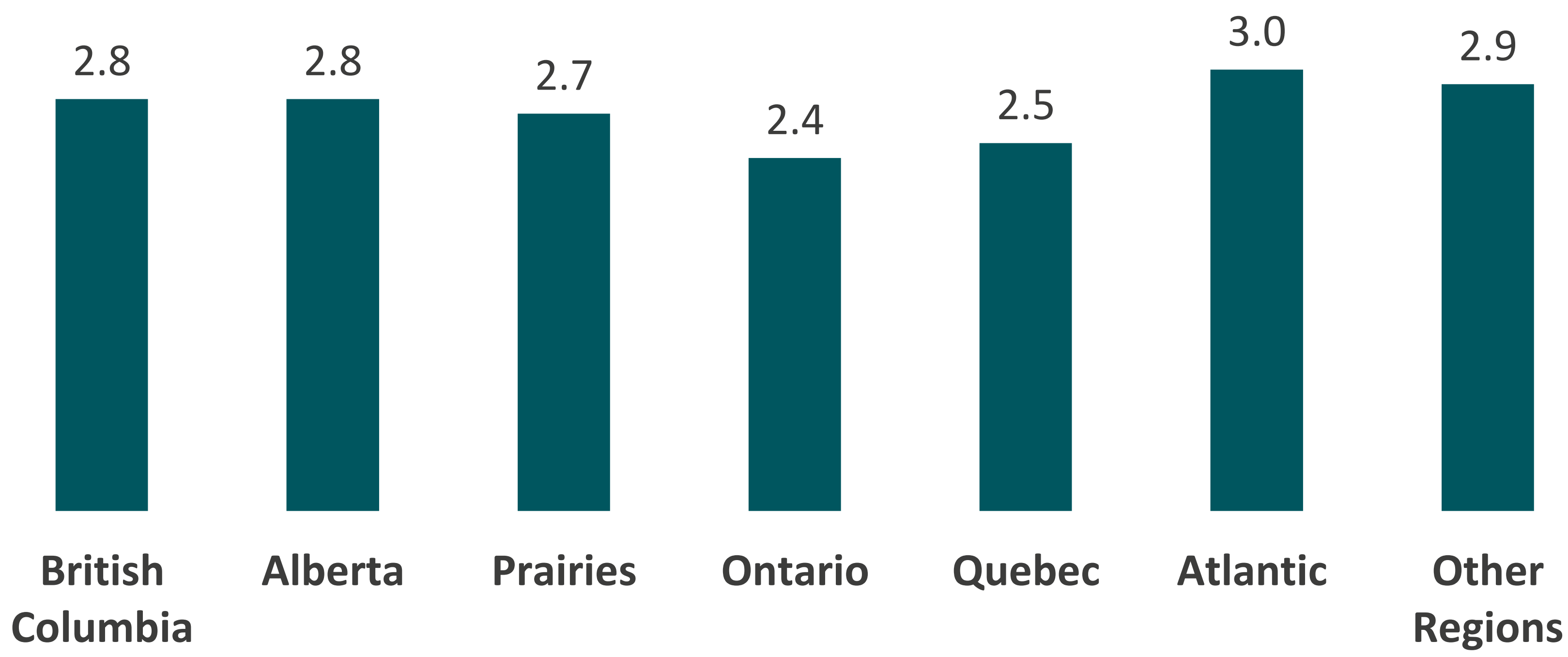
For top performers

% of participants



Average 2014 salary increase forecasts (%)

By respondents' region



Differences in salary increase forecasts by region

53% of respondents report hiring staff in more than one Canadian region

Percentage of these respondents granting salary increases **relative to** National budget	Higher	Lower
Alberta	12%	3%
Prairies	5%	2%
British Columbia	4%	3%
Québec	3%	3%
Atlantic	3%	5%
Ontario	1%	4%

For more than 60% of respondents, region has no impact

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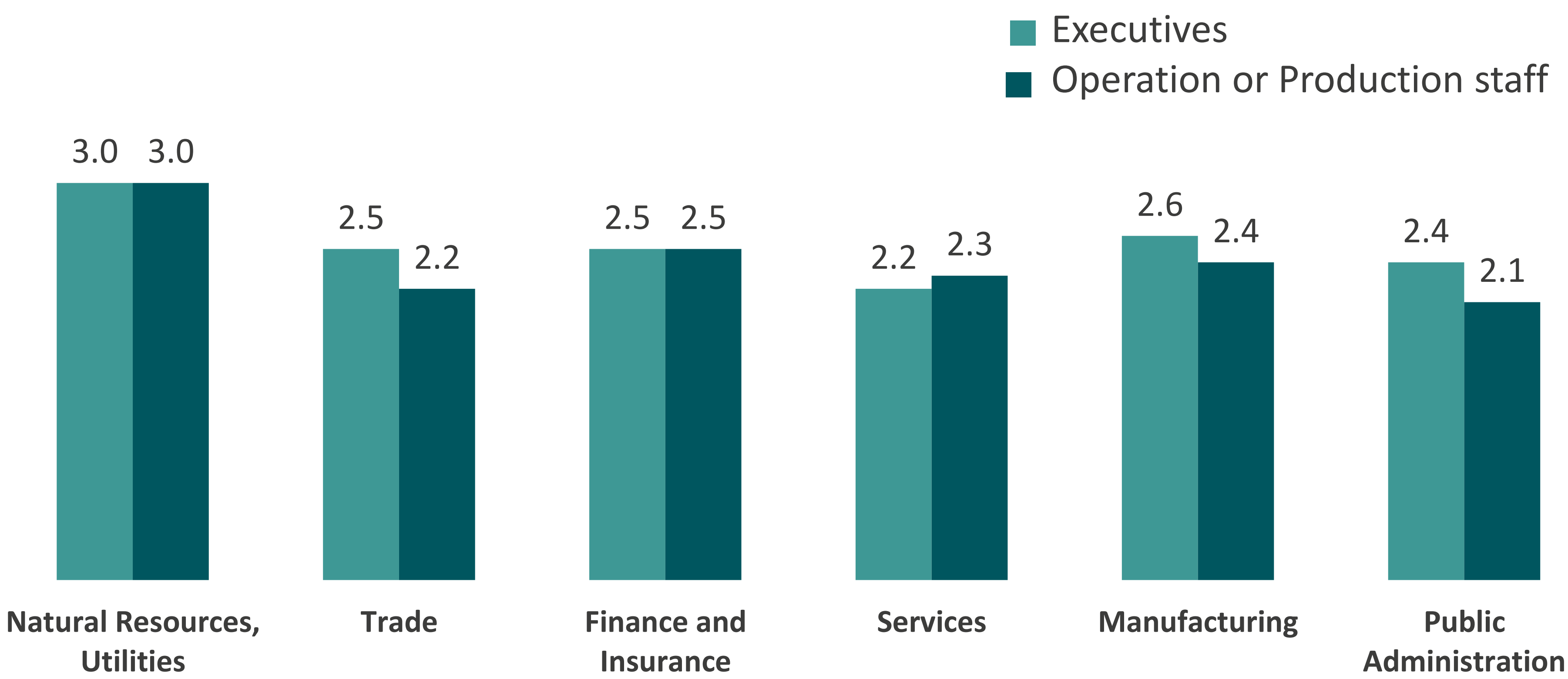
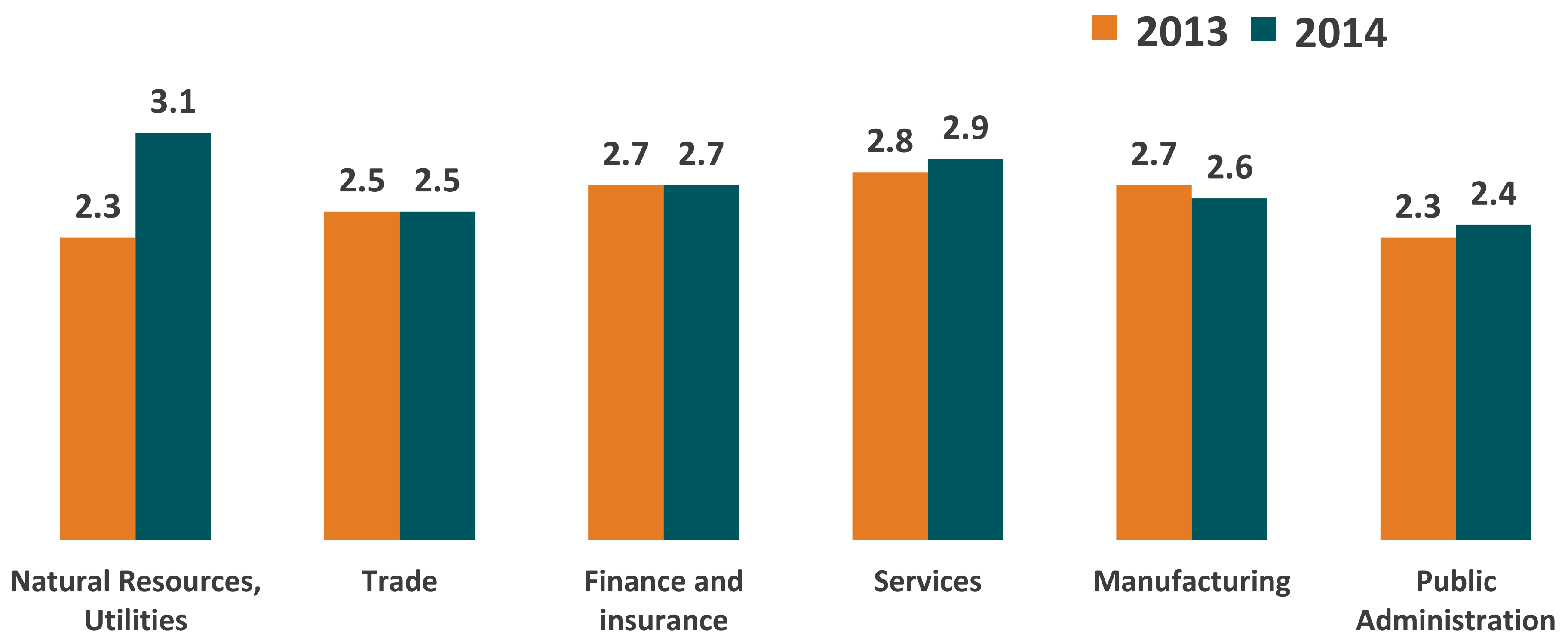
Average 2014 salary increase forecasts (%)

By industry



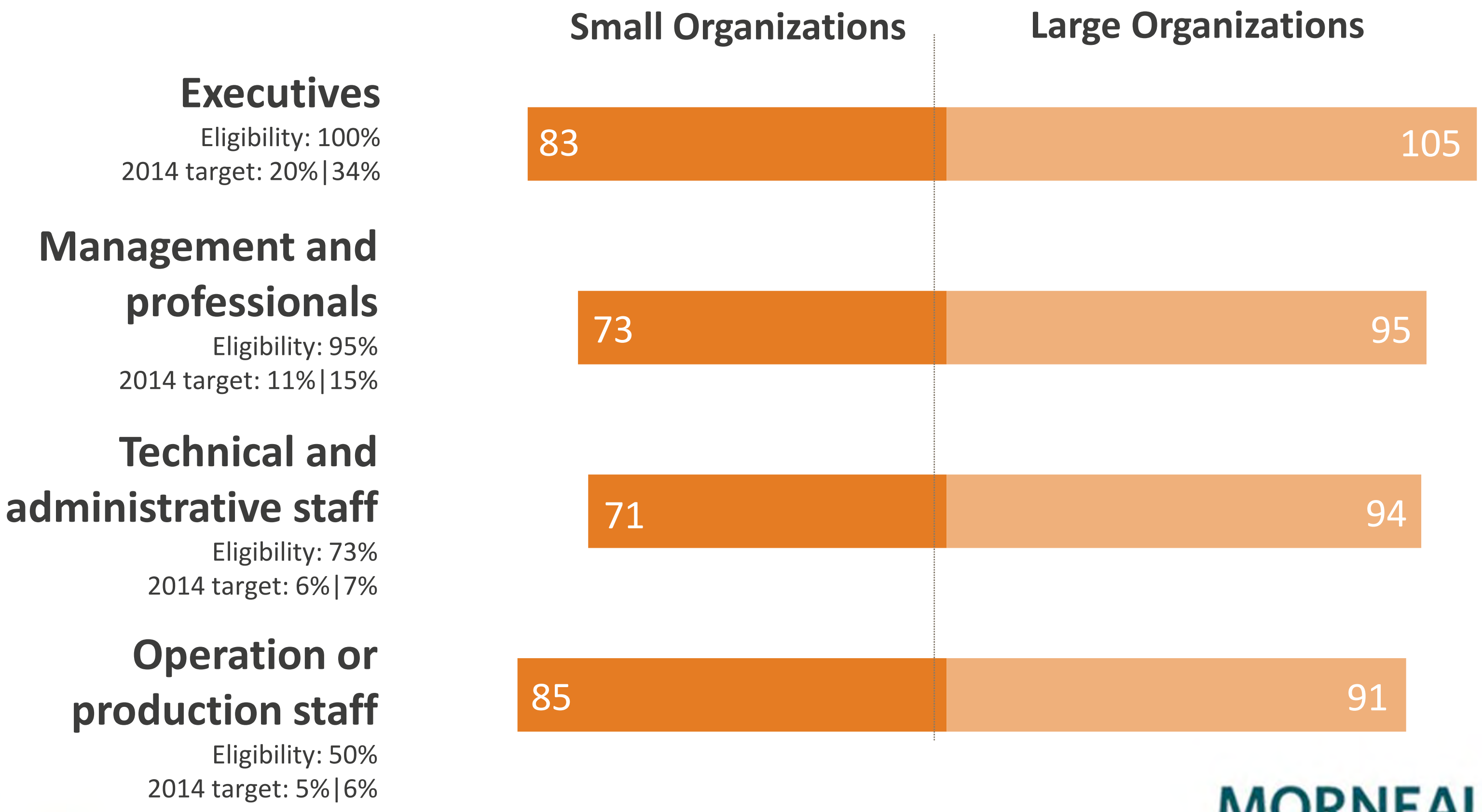
Average salary increase forecasts (%)

By industry for management and professionals



Annual bonuses

Current payout as % of 2013 target



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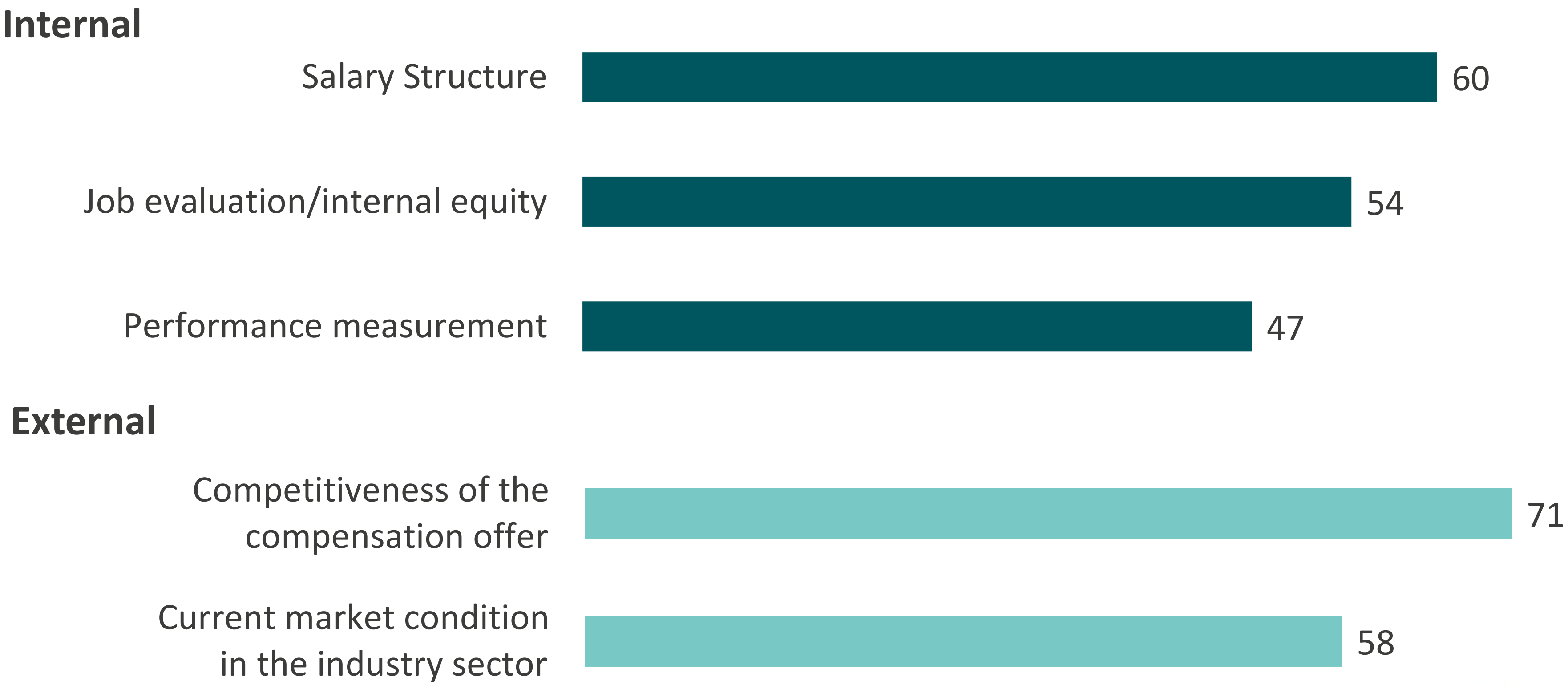
Key issues in compensation in 2014

% of participants



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PENSION PLANS

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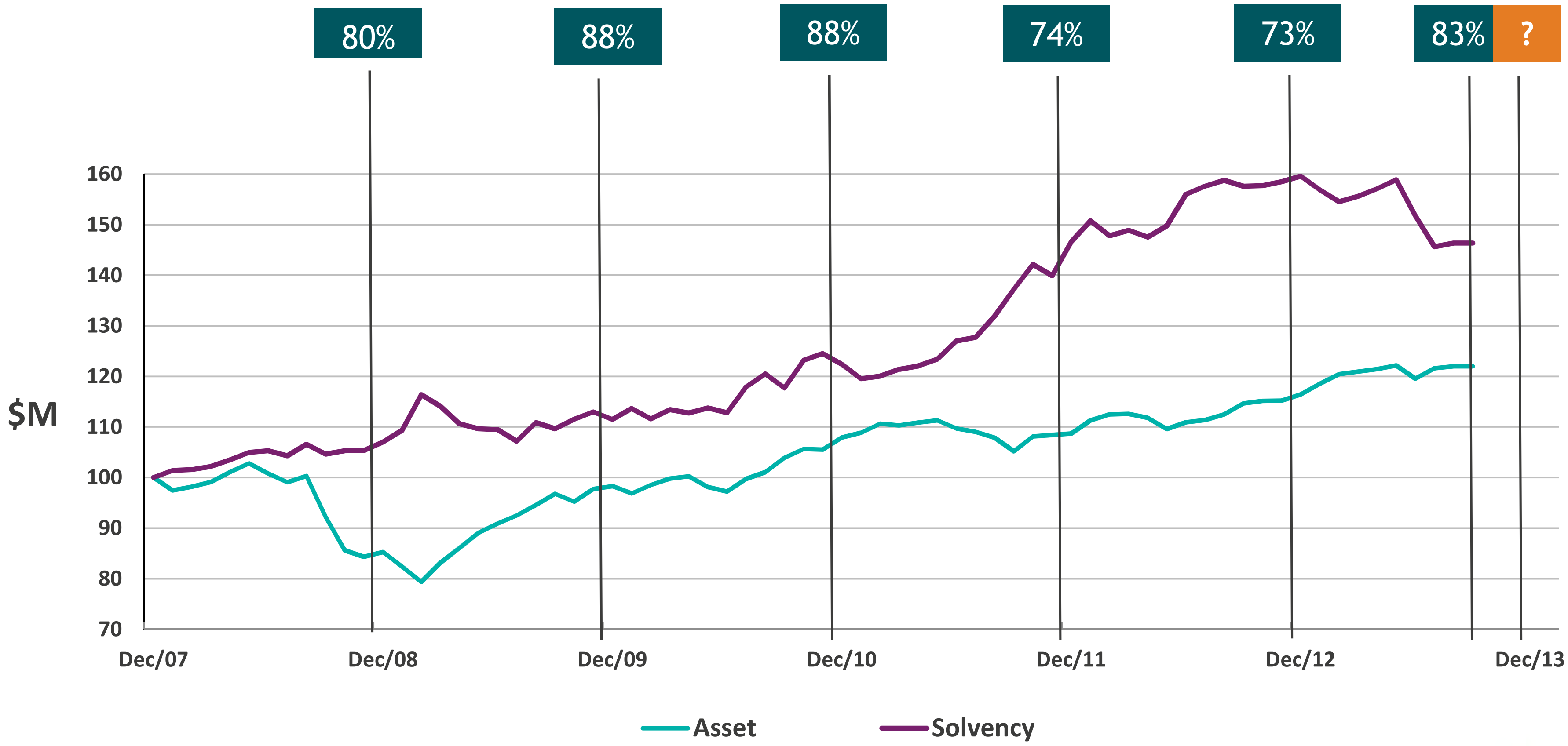
Current economic context



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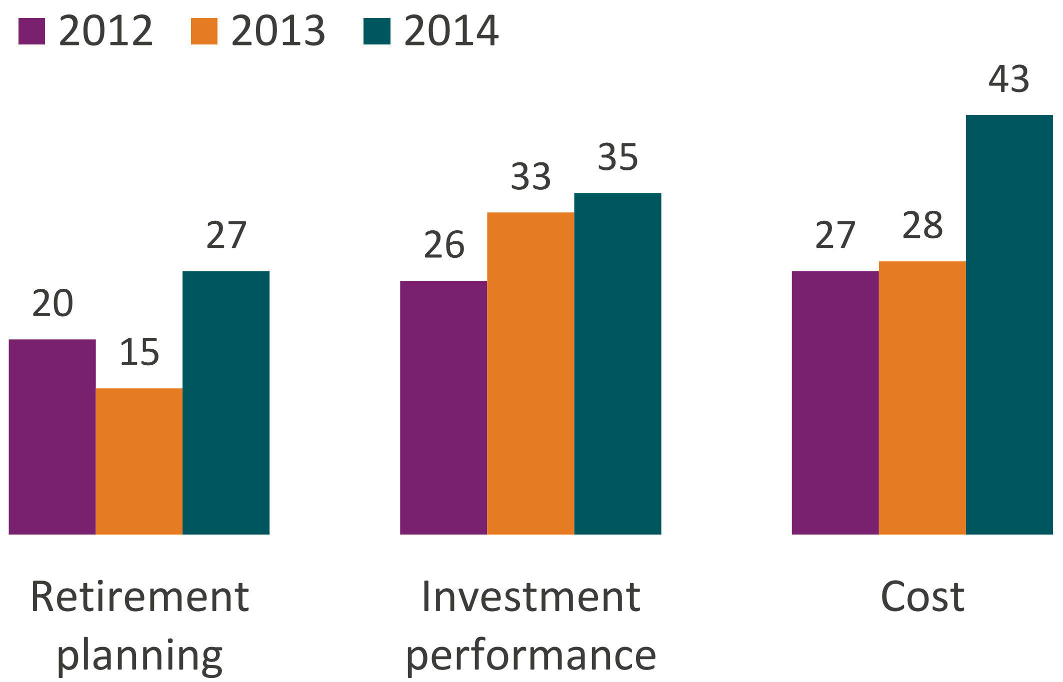
Key issues

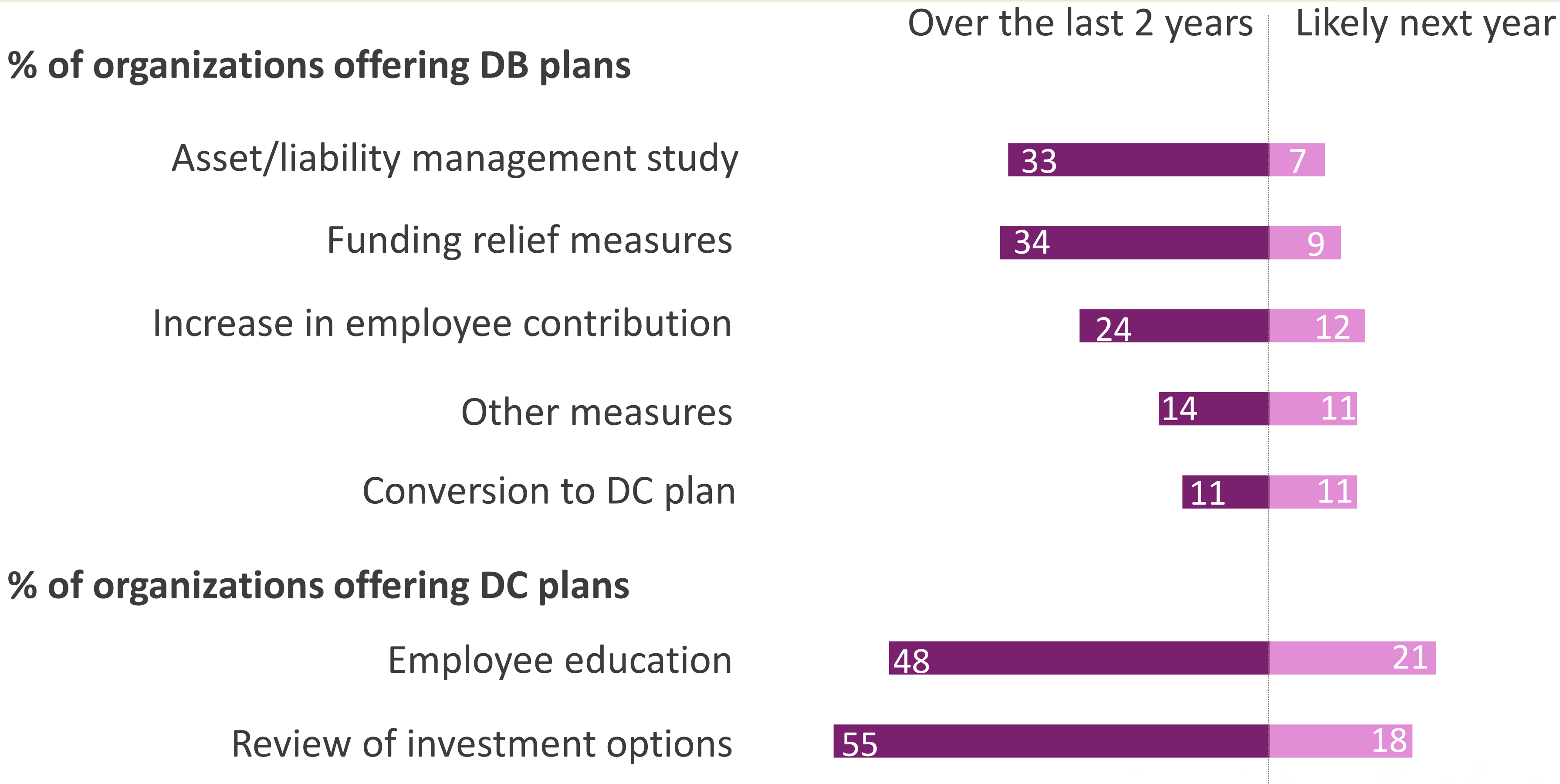
Pension plans

% of participants



67% with DB plans indicate cost as the key issue

Past and future pension initiatives



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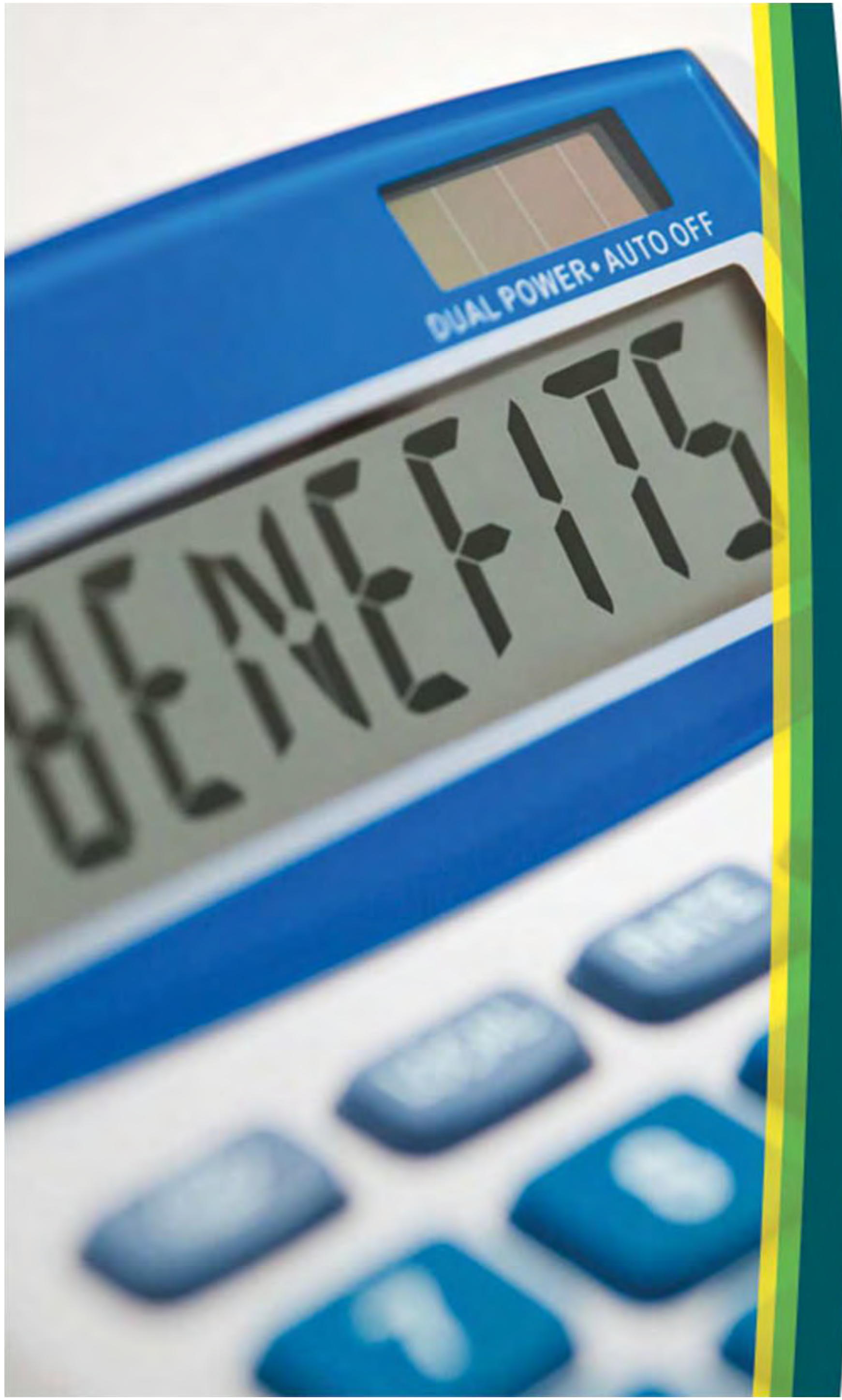
Other issues

DB Plans

- Risk sharing and management
- Mortality improvement

DC Plans

- Individual balance sheet
- New guidelines
- Pooled registered pension plan



HEALTH AND BENEFITS

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2014 key issues group benefits

% of participants

	2013	2014
Health care costs	45	68
Disability management	34	45
Competitiveness	21	32
Plan design	11	27
Plan administration	14	21

7 participants out of 10 consider health care cost a key issue

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Group benefits for active employees

% of participants who made changes over the last 2 years or likely to make changes next year

	Improvements	Reductions
Health care	24	3
Disability insurance	11	4
Prescription drug card	15	4
Dental care	15	4
Critical illness coverage	10	1
Health spending account	13	1

Keeping an attractive plan remains important despite rising costs

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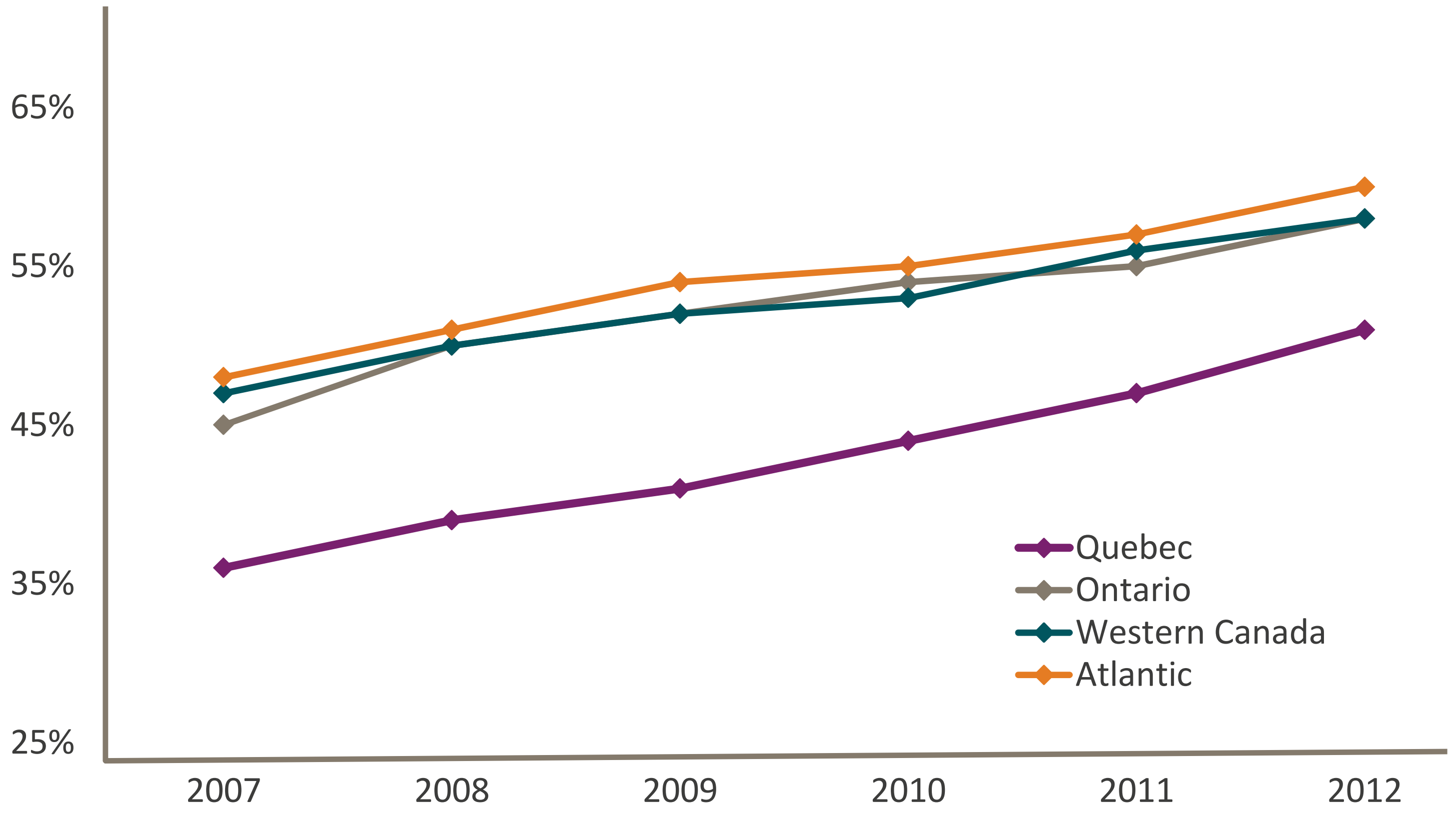
Generics vs. brand name

Take-up rate as a % of prescriptions



Source: Telus Healthcare Conference, April 2013

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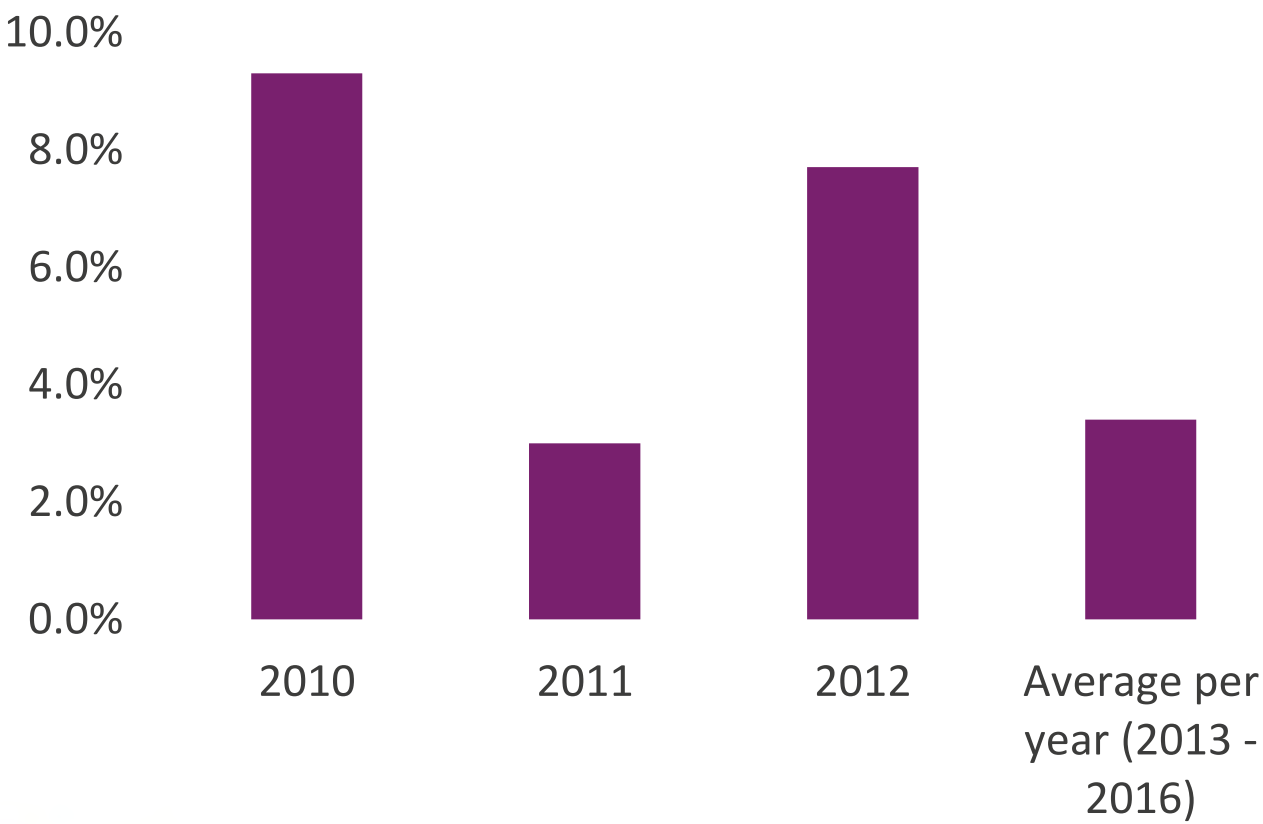
Introduction of generics over the years

As a % of claims in 2012



- **Many generics came on the market over the last few years**
- **New generics from 2013 to 2016 will represent an annual average 3.4% of claims paid**

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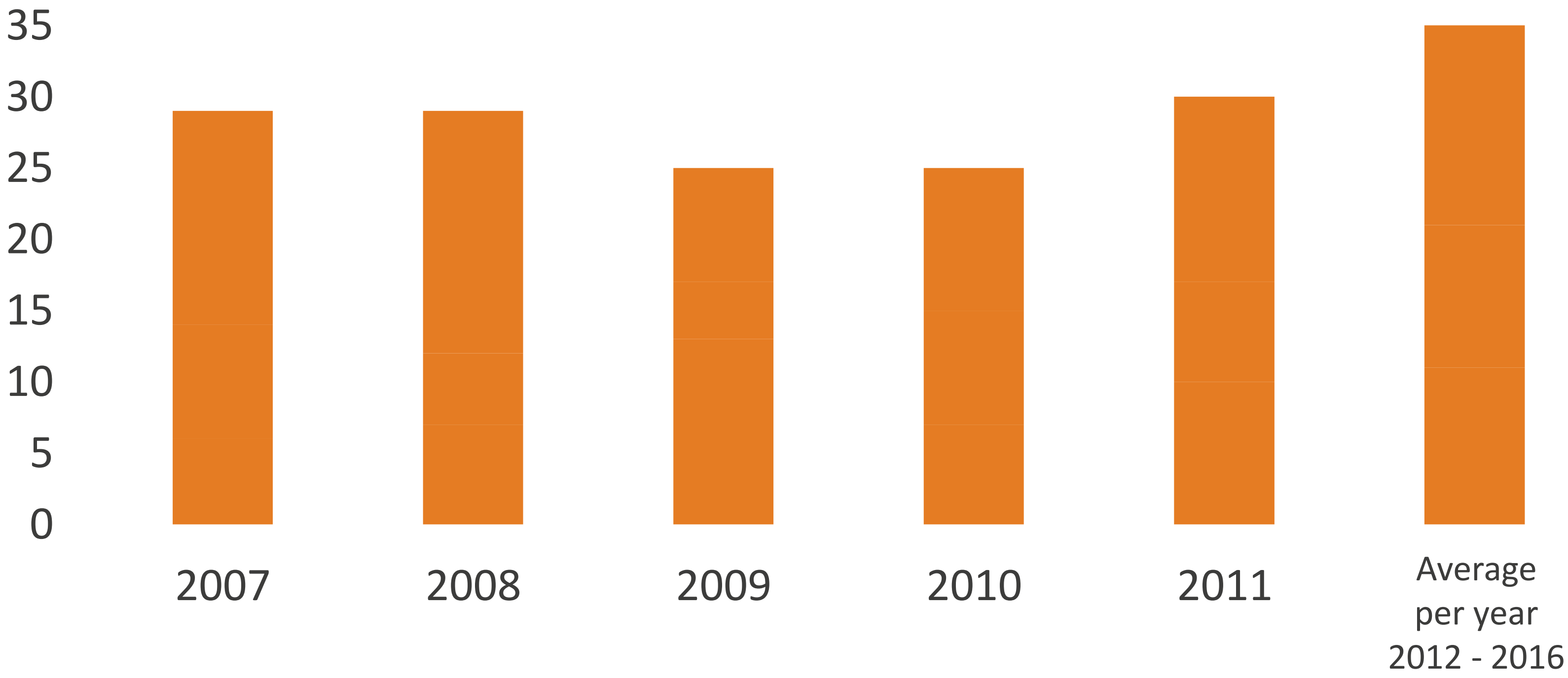
Impact of specialty drugs

Number of new medication



Source: IMS Institute for Healthcare Informatics, May 2012

Specialty drugs at client ABC

High cost drugs (above $600 per prescription)

	2010/ 2011	2011/ 2012	2012/ 2013
As a % of prescriptions	1	1	1
As a % of total cost	24	27	28

1 prescription out of 100 is for a specialty medication

Specialty medication represents 28% of the total drug cost

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Strategy for comprehensive health management in 2014

% of participants who made changes

	Actions taken over the last 2 years	Actions likely to be taken next year
Training people leaders on mental health	14	40
Psychologically safe workplace programs	20	29

Reduce mental health related costs by 15-33%

A confirmed client need

Opportunity for Canadian organizations

- Annual Canadian private sector spend on Workplace Mental Health related disability: $180B STD and $135B LTD
- Annual cost to employers of absenteeism and presenteeism related to Workplace Mental Health is $6.3B

$1,500 per person per year

And it's only getting more urgent

- Impact of the new Standard for Psychological Health and Safety
- Continuing legislative pressures

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Mental illness: A pervasive health issue

1 in 5 Canadians will experience a form of mental illness at some point in their lives

Every day **500,000 Canadians** are absent from work due to a form of mental illness

#1 cause of workplace disability

Mental health disability claims represent **70% of disability costs** in Canada

Help can make a difference for **80%** of people who are affected by depression, allowing them to get back to their regular activities.

Mental health problems costs the Canadian economy **$51 billion** annually

What is the impact of mental illness in your organization?

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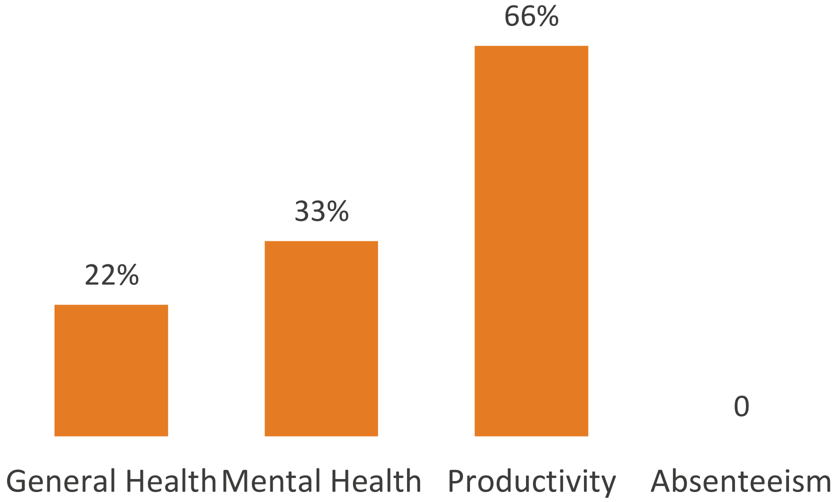
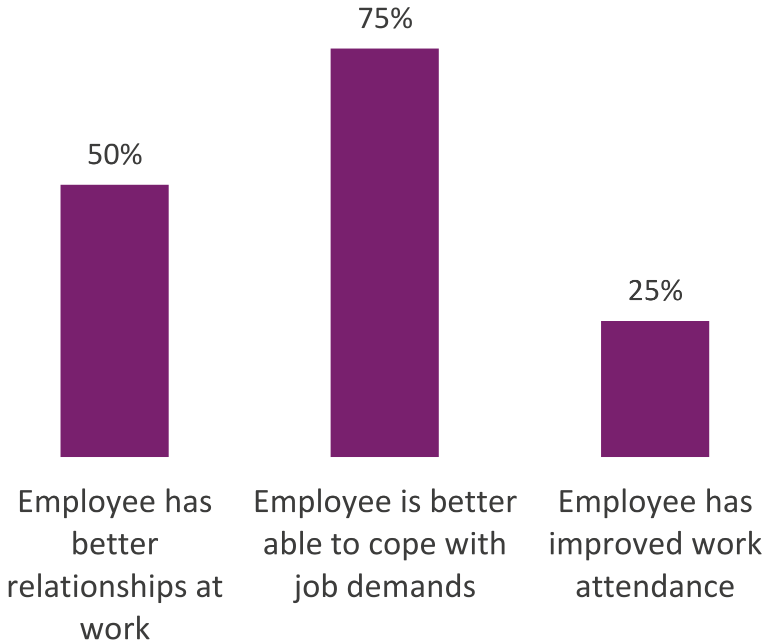
Healthy workplace scorecard

Engagement & productivity- Sample Client

Self reported improvement post counselling



Employee productivity



75% of employees assisted by EFAP report better ability to be productive in meeting job demands. Better relationships contribute to better customer engagements.

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Conclusion

- Although employers are concerned with rising health costs, offering competitive benefits may temper the approach to reducing benefit coverage
- Progressive employers are determining an overall health strategy for their organization, that will provide the tools to help change and reward positive and healthy employee behaviour – and ultimately change the cost curve
- Employers need to rethink the provision and delivery of benefits
- Workplace Mental Health will continue to create opportunities

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QUESTIONS

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