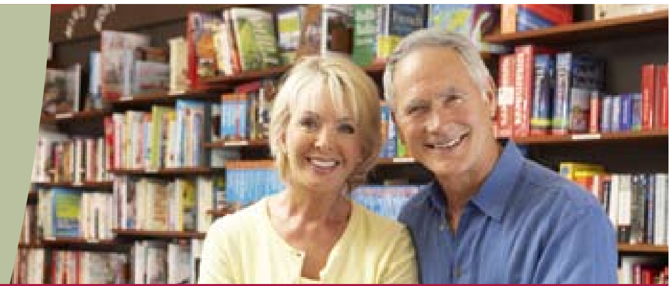
MONTRIDGE Edge QUARTERLY

Keeping You Informed | Issue 08 | April 2010





*"At Montridge, our commitment to excellence means sharing your vision and successfully exceeding your personal and professional financial goals. That's the Montridge edge."*



FEATURE

# Closing the gap with executive disability benefits

**By John Medrzycki, Partner, CFP, CLU, CH.F.C, RHU, REBC**

If you're an executive, when was the last time you reviewed your workplace benefits package? Take a close look and you'll likely find that something may be missing.

Although living benefits, such as critical illness and long-term care insurance, get priority when an executive makes his/her financial plan, many higher-income earners don't consider additional disability insurance.

Instead, they simply count on their group long-term disability (LTD) program for their necessary protection. Depending on how the disability program is structured, that may be a mistake because group plans often have "gaps" that leave executives without enough coverage.

## Addressing Gaps in Coverage

In many firms, executives inadvertently discriminate against themselves when setting up a group benefits plan. This happens in part because different employees have different needs, but group LTD is a product designed to cover everyone, generally without customization.

Under a typical group plan, executives receive a lower LTD benefit – calculated as a percentage of total compensation – than their lower-income earning colleagues. There are many reasons why this happens:

- There is a "ceiling" on the LTD plan that may not provide maximum coverage to all employees
- The income used to calculate benefits doesn't typically include bonuses, commission, pension, profit sharing, or stock options
- The quality of the benefits may be inappropriate, e.g., accumulation of days lost, lack of partial/residual benefits, etc.
- Many employers aren't aware of the differences between individual and group disability programs, and they don't know the options available when creating their corporate disability program.

The chart below shows how income replacement ratios are reduced in a typical group LTD plan design, with a maximum coverage of $5,000 per month:

CONTINUES ON NEXT PAGE

| | | Traditional LTD | | Customized Combination Disability | | | |
|---|---|---|---|---|---|---|---|
| Employee | Income | LTD Benefit | Income Replaced | LTD Benefit | Top Up Benefit | Total | Income Replaced |
| CEO | $300,000 | $5,000 | 35% | $5,000 | $6,850 | $11,850 | 82% |
| CFO | $280,000 | $5,000 | 37% | $5,000 | $6,150 | $11,150 | 82% |
| COO | $250,000 | $5,000 | 41% | $5,000 | $5,050 | $10,050 | 82% |
| CTO | $250,000 | $5,000 | 41% | $5,000 | $5,050 | $10,050 | 82% |
| VP, Sales | $200,000 | $5,000 | 50% | $5,000 | $3,175 | $8,175 | 82% |
| VP, Oper. | $180,000 | $5,000 | 55% | $5,000 | $2,425 | $7,425 | 82% |
| | $1,460,000 | $30,000 | | $30,000 | $28,700 | $58,700 | |

# Small businesses can offer retirement and savings programs

**By Craig Miller, Associate**

All businesses face a unique challenge when it comes to offering competitive compensation packages. With more limited scale and financial resources than larger employers, it's not an easy task for them to provide comparable options to current and potential employees.

Viable retirement and savings plan options have lagged behind extended health plan options for the small business segment. Unable to meet the minimum cash flow requirements (typically $100,000 or more), small companies were either priced out of the market entirely, or had to resort to admin-heavy extensions of individual plans for their members.

Finally, the market has changed with the introduction of plan designs that now cater to small companies. To participate, a small company now only needs a minimum of three employees and a minimum of $10,000 in cash flow.

CONTINUES ON PAGE FOUR

FEATURE CONTINUED FROM PAGE ONE

An executive earning $100,000 in total compensation would have approximately 85% of their net take-home pay replaced. This is what a group LTD plan is designed to do. However, an executive earning $300,000 will see less than 40% of their take-home income replaced. This 45% difference in net replacement, on the same group plan, is the gap that needs to be considered.

## Case Study: Standard Group LTD Plan

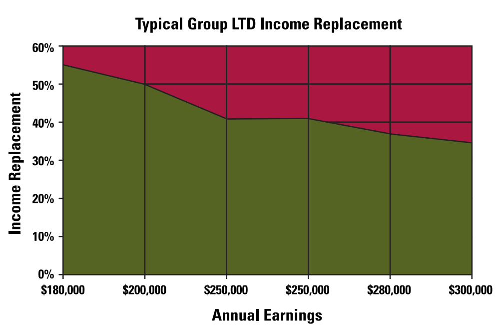
Let's examine a sample case study. In this example, a mid-sized Canadian company has six executives whose incomes range between $180,000 and $300,000. The company has a standard group LTD plan that replaces income based on the traditional 66.67% schedule, to a maximum of $5,000 per month.

This plan would cover most employees at up to approximately 85% of their take-home income against long-term disability. However, this is not the case for the executives.

The chart on the right shows each executive's total income, as well as their corresponding group LTD coverage. Coverage for non-executive employees isn't shown, but is close to 85% of their take-home income. The maximum coverage for both groups is $5,000 per month.

Income replacement for executives, based on this schedule, ranges from a high of 55%, to a low of 35%.

And therein lies the problem – a group LTD plan that is designed to insure the majority of employees leaves executives coming up short. If the goal of a disability plan is to maintain an acceptable standard of living while unable to work, then it is woefully inadequate for the key members of the company.




## Narrowing the Gap

To narrow the gap, a company should consider sponsoring and purchasing individualized disability policies to "top up" the existing group LTD plan for its executives. This concept brings executive income replacement percentages to a level more consistent with those of the rest of the employees in the company.

While there are many possible solutions, traditionally the insurance industry has provided options that involve using either group or individual concepts, but not both. By combining individual coverage with group coverage, employers can:

- Consider more forms of executive compensation
- Address uninsured pensions
- Customize disability policies
- Create cutting-edge benefit solutions that address unique needs and manage future costs

As employers juggle escalating employee benefit costs with the concern for the need to provide adequate coverage, they are more receptive than ever to these types of innovative benefit programs. Employers can be assured that their key executives will be properly insured against disability, protecting them from potentially difficult situations in the event an under-insured executive is injured.

*John Medrzycki specializes in unique executive benefits, employee benefit plans, and corporate disability programs.*

# Montridge Investment Counsel Ltd. 2010: Q1 Market Edge

**By Andrea Lee, CFA, Portfolio Manager**

The first three months of 2010 have now come and gone. Investors were hopeful that the new year would begin with some of the positive momentum carried over from the latter half of 2009. For the most part, world stock markets moved quietly higher, with the Canadian market gaining 2.5% and the U.S. market gaining 4.9%. As of March 31st, the TSX closed at 12,037 – a level not seen in about 18 months.

The first quarter also brought some significant challenges to the forefront, including high debt levels in Greece and other nations; a surging loonie; the expectation of rising interest rates; and persistent inflation and budget deficits. At the moment, it appears the economic recovery has enough momentum to overcome these challenges, but 2010 is shaping up to be another interesting year to observe the tightrope that policy-makers worldwide must walk as they balance removing excess economic stimulus with preserving the delicate recovery.

| Index Name | Region | Mar. 31, 2010 Close | Year-to-Date Performance (to Mar. 31/10) | Previous YTD Performance (to Dec. 31/09) |
|---|---|---|---|---|
| TSX Composite | Canada | 12,037 | 2.48% | 30.43% |
| S&P 500 | USA | 1,169 | 4.87% | 24.27% |
| Dow Jones | USA | 10,856 | 4.11% | 19.54% |
| FTSE 100 | UK | 5,679 | 4.93% | 22.63% |
| Nikkei 225 | Japan | 11,089 | 5.15% | 19.04% |
| Hang Seng | Hong Kong | 21,239 | (-2.89%) | 52.02% |
| SENSEX | India | 17,527 | 0.36% | 81.03% |

The Canadian dollar ended the quarter at $0.98 USD.

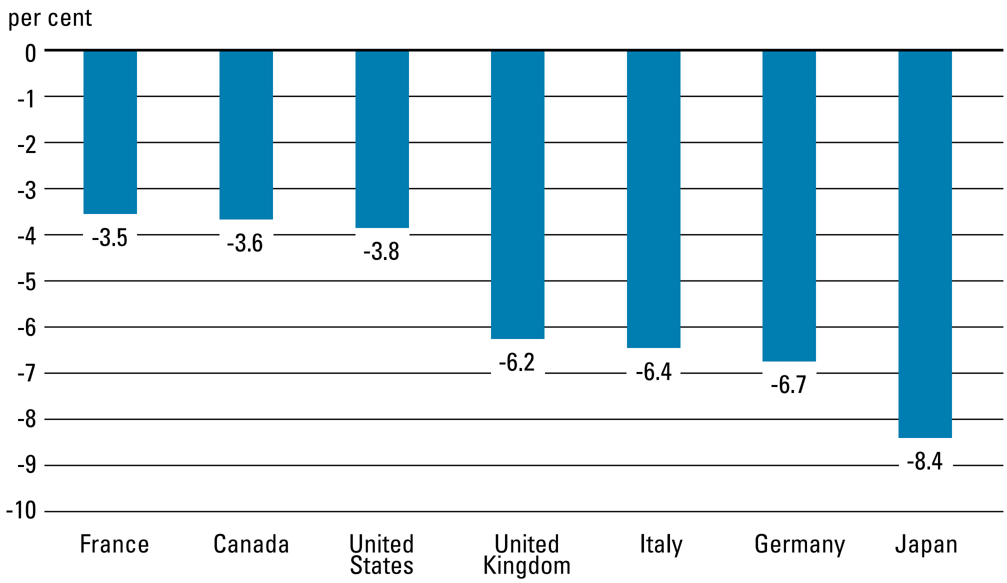
## Canada – A Solid Performer in Unpredictable Times

The global financial crisis that roared into Canada in October 2008 was sent packing by the end of 2009. The Canadian economy proved it could weather the financial crisis as one of the strongest economic performers over the course of the recession. As seen in the chart on the bottom right, Canada has done better than almost all other G7 nations. By May 2009, the recession had ended in Canada, and in the fourth quarter our economy experienced its biggest quarterly growth rate since 2000. The TSX Composite Index enjoyed its best annual return since 1979, closing up a whopping 35.1% over the '09 calendar year. When compared to its abysmal -33% return posted in 2008, investors definitely had a reason to smile again in 2009.

Going forward, factors that may slow the pace of Canada's economic recovery include high unemployment, a strong dollar, interest rate hikes, and decreased exports due to continuing economic turmoil around the world. The reality of today's marketplace is that no country can escape the influence of global financial instability. However, Canada's strong performance in 2009 is indicative of our relatively strong fundamentals and will likely mark us as a safe haven for investors in 2010.

If you would like to speak about the markets or your situation, please contact your portfolio manager, Andrea Lee, at 604.682.1603 ext 236.

### Contraction in Real GDP during the Recession in G7 Nations




Note: The overall contradiction in GDP is measured by the peak-to-trough decline in real GDP in each country; 2008Q2-2009Q3 for United Kingdom; 2008Q2-2009Q2 for Italy; 2008Q2-2009Q1 for France, Germany and Japan; 2008Q3-2009Q2 for United States; 2008Q4-2009Q2 for Canada.

Sources: Statistics Canada; U.S. Bureau of Economic Analysis; Japan Cabinet Office; U.K. Office for National Statistics; Deutsche Bundesbank; Institut national de la statistique et des études économiques; Istituto nazionale di statistica.

Source: Department of Finance Canada

*Andrea Lee is a Chartered Financial Analyst and manages portfolios for Montridge Investment Counsel Ltd.*

# Self-employed can now access special EI benefits

Montridge Financial Group has many clients who are self-employed, or have negotiated working contracts with self-employed individuals. For those in your organization who fall under this description, please forward this information to them.

Beginning in January 2011, self-employed Canadians will be able to access Employment Insurance (EI) special benefits. There are four types of EI special benefits:

- Maternity benefits
- Parental benefits
- Sickness benefits
- Compassionate care benefits

Please note those who register after April 1, 2010 will have to wait 12 months before applying for benefits.

For more information, see: www.servicecanada.gc.ca/eng/sc/ei/self_employed_workers.shtml

*Stay on top of what's happening and maintain your competitive edge. Our Quarterly Newsletter features information about products, business trends, the financial world, as well as what's new at Montridge.*

MONTRIDGE®

MONTRIDGE FINANCIAL GROUP LTD.

MONTRIDGE INVESTMENT COUNSEL LTD.

**www.montridge.com**
**info@montridge.com**

## Employee benefits benchmarking now available

Montridge Financial Group is proud to announce our involvement with Sun Life's Plan Insite, a powerful benchmarking tool for our employee benefit clients.

Plan Insite provides statistical data regarding claims utilization and plan designs for employee benefit policies across Canada. These reports can be created and provided for all our benefit clients, regardless of insurer. You now have the opportunity to see what your industry and competitors are providing, and how those benefits are being viewed and used.

Over the next few months, we will contact you regarding the information you would like to review. We are excited to offer this tool to both current and potential clients.

For more information from Sun Life, visit: www.sunlife.ca/planinsite

CONTINUED FROM PAGE TWO

There are a number of features that make an employer-sponsored savings program an excellent addition to your total compensation offering:

- Both Group Registered Retirement Savings Plan and Tax-Free Savings Account can be included – they are highly effective ways for employees to save
- Depending on the situation, RRSP and Deferred-Profit Sharing Plan combinations are available
- Branded funds from top investment managers, with lower fees than comparable retail fund management fees
- Access to financial tools and services for your employees
- Hassle-free administration, record-keeping and reporting are handled for you

Plan administration fees are built into the management fees for each fund option. In other words, there are no employer costs other than any matching contributions an employer may elect to make on behalf of employees.

A retirement or savings plan can be an excellent addition to an employer's total compensation offering. They provide employers with an easy, tax-effective plan, and their employees with a cost-effective way to save for their futures.

For more information on how to gain a key competitive advantage in terms of attracting and retaining talent, please contact me: craig@montridge.com.

*Craig Miller is a Montridge Associate. He works in both the employee benefits and planning fields.*

## Disclaimer