Gallagher Better Works℠ Newsletter

Canada, Spring 2019

Gallagher

Insurance | Risk Management | Consulting

Gallagher Benefit Services Canada names Melanie Jeannotte as the new national president.

We are pleased to announce that in February, Gallagher Benefit Services (Canada) Group Inc. named Melanie Jeannotte as the new National President. Prior to this role, Melanie served as area president, Western Canada, for Gallagher's Benefits & HR Consulting practice.

The Benefits & HR Consulting division of Gallagher in Canada has grown sizably in reach and service offerings through its holistic benefits focus on organizational wellbeing and by partnering with exceptional, local merger partners coast to coast—from Victoria, British Columbia, to Atlantic Canada.

Leslie Lemenager, president of Gallagher's International Employee Benefits Consulting and Brokerage, shared, "We are proud to be locally grown and globally known. Our business in Canada has reached a size where it is important to evolve our management structure to scale for the future. Given Melanie's leadership skills and expertise in growing businesses, naming her to this new role of National President for GBS Canada will enable us to continue to expand our client-service capabilities across Canada."

The company's comprehensive approach to Benefits & HR Consulting goes well beyond basic healthcare coverage. Its total wellbeing framework involves a spectrum of innovative solutions encompassing benefits, retirement, employee communications and workplace culture programs. It's an approach focused on attracting and retaining top talent while driving greater productivity, profitability and organizational growth.

Jeannotte remarked, "I'm excited for this new opportunity and to be a part of GBS Canada's tremendous growth story. I feel fortunate to work alongside some of the best consulting experts across the country." She continued, "Together, we have unlimited opportunity to help employers of all sizes manage their benefits and HR programs more strategically to reward and attract the talent they need to grow while benefiting their balance sheets."

Contact Melanie Jeannotte at Melanie_Jeannotte@ajg.com.

Welcome to our Gallagher Better Works℠ newsletter. We trust you will find the enclosed information to be timely and useful to your business planning. If you have any questions regarding this content, please contact your local Gallagher representative.

INSIDE THIS ISSUE

Ontario: Settlement on age discrimination benefits case.

By Kat Lacy-Wilson, Area Assistant Vice President, Compliance Counsel

In our June 2018 article, we discussed the case of *Talos v. Grand Erie District School Board*. In *Talos*, Talos, a high school teacher who recently turned 65, filed an age discrimination complaint against the school board because of its policy of terminating employee benefits for employees age 65 and older. The School Board had enacted this provision in reliance of Section 25 (2.1) of the Human Rights Code (Code), which allows pension and benefits plans to treat employees age 65 and older and younger than 18 different than the remaining workers. In their interim decision, the Human Rights Tribunal (Tribunal) agreed with Talos by stating that the Code's provision was unconstitutional and violates the Canadian Charter of Rights and Freedoms' (Charter) prohibition against age discrimination.

In March 2019, the Tribunal's case was closed when the parties entered into a settlement agreement. Further, no formal legislation was introduced to modify the Code in order to remove the aforementioned provision.

So where does this leave employers who have adopted similar provisions for benefits that they offer to employees age 65 and older? Right now, because nothing has legally changed that would require employers to modify their existing language, employers can continue to use this benefits eligibility design.

We will continue to monitor this situation and provide additional information should any new guidance become available. In the interim, it may be a good idea for some employers to discuss their benefits' strategy with their consultants to ensure that their current offerings are, at the very least, consistent with their peer groups and their benefits goals.

Changes to Manitoba's retail sales tax.

By Kat Lacy-Wilson, Area Assistant Vice President, Compliance Counsel

Below is our summary of the recent reduction of Manitoba's retail sales tax (RST). As our goal is to assist employers with their compliance obligations, we have provided the summary in a Q&A format.

How and when will the RST change?

Effective July 1, 2019, the RST will drop from 8% to 7%. This reduction in cost is a return to the original 7% that was enacted by Manitoba's 2012 budget, and is expected to provide financial relief for employers and consumers.

WHAT INSURANCE PRODUCTS ARE IMPACTED BY THE RST?

The RST applies to the following group, association and affinity products:

- Life
- Disability (both short-term and long term)
- Critical illness
- Accidental death and dismemberment (AD&D)

It is important to note that health and dental, long-term care and annuities products are not subject to the RST.

ARE THERE ANY TRANSITIONAL PROVISIONS?

Recognizing that there could be confusion as to the application of the amended tax rate, Manitoba developed the following transitional guidance.

Non-Group Definite Term Contracts:

Definite term contracts (e.g. a 12-month contract) that were endorsed prior to July 1, 2019, must pay the 8% rate.

Definite term contracts that were endorsed prior on or after July 1, 2019, are subject to the 7% rate.

The RST due on multiyear contracts is based on when the installment payment is due because this payment usually includes the RST amount. Payments due before July 1, 2019, are subject to the 8% rate while payments due on or after July 1, 2019 will have to pay the 7% rate.

Indefinite Term and Group Contracts:

The RST applies based on the premium payment's due date. Therefore, premiums due prior to July 1, 2019, must pay the 8% rate, while those that are due on or after July 1, 2019, must pay the 7% rate.

WHERE CAN EMPLOYERS LEARN MORE ABOUT THE RST AND THESE RECENT CHANGES?

Manitoba's tabled budget, available at: https://www.gov.mb.ca/asset_library/en/budget2019/budget.pdf, provides an overview of the RST's amendment.

Manitoba Finance outlines the Rate Reduction Transitional Rules in Notice RST19-01, which is available here: https://www.gov.mb.ca/finance/taxation/pubs/bulletins/noticerst1901.pdf.

Please note that this amendment changes information in our Annual Canada Reference Guide.

We will continue to monitor this situation and keep you updated should any additional clarification or guidance become available.

Employee wellbeing: a proactive approach to mental health.

By Holly Isaman, National Wellbeing & Engagement Consultant

Mental health and employee wellbeing continues to be the theme throughout 2019 for many organizations. With psychology claims averaging $300–$500 per visit and the number of sessions for treatment varying widely by individual, organizations are realizing that the standard $500 psychology maximum may not be enough to support employees dealing with mental health issues. In an effort to promote employee wellbeing, this has caused many employers to start increasing psychology maximums within their benefits plan. While this may be one way to support employees and to promote wellbeing, this reactive approach may not be financially sustainable as costs relating to mental health continue to rise (currently costing the Canadian economy an estimated $51 billion dollars annually),[1] and as mental health is expected to be the leading cause of disability in Canada by 2030.[2]

How can employers spot mental health concerns within their organization? In today's data-driven society, benefit plan annual reviews can be your best resource to identify hidden signs of mental health issues. It may not always be as clear-cut as seeing increased psychology claims or a spike in drug claims for depression—but taking a broader view of your organizations structure such as the demographics of your population, observing certain drug patterns, examining your disability trends, reviewing engagement survey scores and studying exit interview trends can provide some insight into what is happening within your organization. All of this information, when viewed in an integrative way, will help you gauge whether your organization is providing a psychologically supportive environment for employees.

In terms of the demographics of your group, the average age of your employee population can aid you with understanding how mental health problems can arise. As your employee group ages, common chronic illnesses such as diabetes and cardiovascular diseases become more prevalent. Adults over the age of 45 are at higher risk for developing these illnesses and studies show that those that with chronic diseases are more likely to also suffer from depression.[3] This relationship or comorbidity between chronic illnesses and mental health[4] suggests that chronic illnesses should not be ignored.

[1] https://www.camh.ca/en/driving-change/the-crisis-is-real/mental-health-statistics

[2] https://www.dietitians.ca/Downloads/Public/Nutrition-and-Mental-Health-1.aspx

[3] https://www.cdc.gov/pcd/issues/2005/jan/04_0066.htm

[4] https://www150.statcan.gc.ca/n1/pub/82-622-x/2011006/findings-resultats-eng.htm

Depending on the size of your group, benefit plan annual reviews often provide you with the top 10 drugs claimed and top drug therapeutic classifications for your group. A closer look at these reports can provide some insight to the overall health of your organization as claims for diabetes, high blood pressure and cardiovascular drugs can be an early indication of mental health issues down the road. It is also worth noting that members with at least one chronic disease tend to use their drug plan more often.[5]

Furthermore, examining short-term and long-term disability claims patterns can support the wellbeing picture of your group. These claims are generally classified into diagnosis categories (or primary causes) such as musculoskeletal disorders, nervous system-related disorders, cardiovascular disorders, cancer and mental disorders. While a disability diagnosis with mental disorders is an undeniable sign for mental health concerns, the other primary causes should not be neglected, as members with these conditions may likely be suffering with mental health issues.[6,7] Although the primary cause (musculoskeletal, cardiovascular, etc.) for the absence may be resolved through treatment, the possible underlying mental health issue may prevent a timely and successful return to work.

With an aging population, increased risk of diabetes/cardiovascular diseases and the relationship between chronic diseases with mental health, encouraging employees to leverage their benefits toolbox is one solution for organizations to mitigate rising health costs related to mental health. Helping employees view their benefits as tools and resources will empower them to take action on their overall wellbeing and mental health needs.

Nutritional education maybe be a consideration for employers to engage employees in their wellbeing. Not only can nutrition help prevent or reduce the risk of chronic diseases such as diabetes developing amongst employees, it can be an indirect link to improving an employee's overall mental health. Dieticians of Canada suggest that the food consumed is generally associated with mood, behaviour and cognition.[8] Employers and employees can reach out to their employee and family assistance provider for resources on nutrition at little to no additional cost. Alternatively, Canada's food guide[9] offers a wealth of information that employers and employees can access at no cost.

Recognizing the early signs of mental health issues can help employers take proactive steps to effectively prevent or mitigate rising health costs associated with mental health. As each organization is unique, a closer analysis on an individual basis may need to be considered. For a closer look at your organizations claims patterns, please contact a Gallagher Benefit Services representative.

[5] https://www.sanofi.ca/-/media/Project/One-Sanofi-Web/Websites/North-America/Sanofi-CA/Home/en/About-us/The-Sanofi-Canada-Healthcare-Survey/The-Sanofi-Canada-Healthcare-Survey-2018---Full-Report.pdf?la=en&hash=AE6899CB29A043F778B1BE34132E85B4A1183010

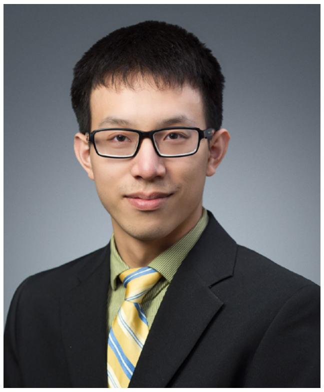
[6] C.P. Carney, L. Jones and R.F. Woolson, "Medical Comorbidity in Women and Men With Schizophrenia: A Population-Based Controlled Study," Journal of General Internal Medicine 21 no. 11 (2006): 1133-1137.

[7] https://ontario.cmha.ca/documents/the-relationship-between-mental-health-mental-illness-and-chronic-physical-conditions/

[8] https://www.dietitians.ca/Downloads/Public/Nutrition-and-Mental-Health-1.aspx

[9] https://food-guide.canada.ca/en/

National Pharmacare: The future of drug coverage.



By Jessica Bitcon, Account Manager
Ian Lin, Analyst, Group Benefit Services
Sarah Hedayat, Team Lead, Benefit Consulting Services

Canada's healthcare system is publicly funded and provides all citizens with access to health coverage regardless of medical history, personal income or standard of living. However, many people do not realize that Canada is one of three developed countries in the world with a universal healthcare program that does not include prescription drugs. This means that most Canadians are only able to access pharmaceutical coverage through either their employer's private health plan offerings, if available, or through provincial or territorial public drug plans, which are often limited in their formulary coverages. Some Canadians are still not able to afford the medications they need because of this lack of universal access to drug coverage.

Recognizing that these gaps in coverage exist, in 2018 the government of Canada created the Advisory Council on the Implementation of National Pharmacare (the Council). The Council's primary purpose is to assess options and provide recommendations on the implementation of a National Pharmacare program.

The Council consulted extensively with Canadians to gain an understanding of their views on the issue as part of its mandate. To date, it has sought feedback from federal, Provincial and Territorial governments, as well as indigenous peoples, experts, patients and insurance providers.

An important question to ask is "what could National Pharmacare look like?" Several entities have proposed different options, including:

- A fully covered drug formulary with the Federal government as the sole payer
- Limiting coverage only to individuals who are not enrolled in a private plan, similar to Ontario's OHIP+ program
- A more specific approach that would only cover high-cost biologic and specialty drugs, subject to a specific threshold, such as income

While the above options have been placed on the table for the Council's consideration, other plausible alternatives may also be taken into account.

Attention should also be given to a number of opportunities and risks that may arise as a result of implementing a National Pharmacare program, including the following:

Opportunities	Risks
The increased negotiation power of a National Pharmacare program could lead to reduced drug costs.	Depending on the structure of the National Pharmacare program, Canadians may end up with lower levels of coverage than they currently have access to through their employer's private plan.
A single, uniform administrative process would replace the multiple compliance and regulatory requirements of the differing Provincial and Territorial drug plans.	The adjudication of drug claims is a major profit driver for insurance carriers, and the reduction in claims to adjudicate due to the implementation of a National Pharmacare program may result in other benefit lines of coverage increasing in cost as a method to offset this profit loss.
If high-cost biologic and specialty drugs are transferred in whole or in part to a National Pharmacare program, this may result in cost relief to employer-sponsored private drug programs.	To fund a National Pharmacare program, there may be additional costs to employers such as increased taxes.
Uniform drug coverage would allow for employers to adjust their budgets to provide better, proactive efforts for attraction and retention.	Employers' ability to attract and retain top talent may be impacted if drug coverage is transferred to a National Pharmacare program.

On March 5, 2019, the Council released an interim report to the Minister of Health and the Minister of Finance. This report provided an overview of the work undertaken by the Council so far, as well as outlining the core principles and foundations on which any National Pharmacare program should be based.

The Council identified six core principles that must govern any National Pharmacare program, regardless of what form it takes.

1. Ensure prescription drugs are accessible to all Canadian residents based on medical need, and that there are no barriers to this access, financial or otherwise.
2. Ensure that, across all jurisdictions, coverage is and remains portable and consistent.
3. Establish a comprehensive, evidence-based formulary. Special consideration will be required for drugs used to treat rare diseases.
4. Design and deliver a program that is in partnership with both patients and Canadian citizens.
5. Root the program on a strong partnership between all levels of government (Federal, Provincial and Territorial), as well as Indigenous peoples.
6. Include a comprehensive pharmaceutical management system that focuses on and promotes safety, innovation, value and sustainability of prescription drug costs.

The Council also identified three features that should constitute the foundation of the National Pharmacare program.

1. Establish a national drug agency responsible for advising government stakeholders on the National Pharmacare program.
2. Create a comprehensive, evidence-based formulary that will provide national consistency from both a coverage and access perspective, as well as for drug approval processes. The formulary would fall under the purview of the national drug agency.
3. Invest, both financially and otherwise, to develop information technology systems that will be used for prescription tracking, claims adjudication and processing, as well as data collection.

The Council's final recommendation to the Ministers of Health and Finance is expected to be released in the next few months. The recommended structure for the future National Pharmacare program, including how the core principles and foundations will fit into that structure, will inevitably have an impact on employer-sponsored healthcare programs. What that impact will be remains to be seen.

If you would like more information regarding the National Pharmacare discussion, please review the discussion paper published by the Federal government: Discussion Paper: National Pharmacare.

If you would like to review the Council's interim report in full, it is available on the federal government's website: Interim Report.

H, not R: Communicating benefits to humans, not resources.

By Chris Lee, Vice President, Communications

Consider a 200-employee company that makes an annual investment of $1 million without considering the return on investment (ROI) or making an effort to maximize the value of this spend. Believe it or not, this happens much more frequently than you might think.

Now consider that a typical employee health and dental benefits plan can cost about $2,500 per employee per year. Add in a further $2,500 per employee per year on a typical matching contribution toward a defined contribution retirement plan—and, in our example of a 200-employee company, the total annual cost comes in at $1 million. If your organization has more than 20 employees, there's a good chance your annual investment is in the hundreds of thousands of dollars.

All too often employees don't fully appreciate the commitment of the plan to their health and financial security. This article discusses ways organizations can better leverage what they are already providing to plan members.

Improving ROI Through Better Communication

Spending more time on thoughtfully and effectively communicating health and welfare benefits and retirement plans can have a meaningful impact.

The International Foundation of Employee Benefit Plans surveyed plan sponsors two years ago and found that 89% of employers consider the main goal of their benefits communication to be helping participants understand and better use their benefits. This was also the top item occupying the most time for 70% of respondents.

Improved communication can potentially yield better ROI, including the following:

- **Productivity gains.** When an organization provides clear communications, it becomes easier and takes less time for employees to find and understand the information they need.
- **Increased morale and reduced turnover.** The more that employees appreciate the value of their health and retirement benefits, the more engaged they are and the stronger the organizational culture becomes.
- **Healthier employees and less impact on plan.** It may seem counterintuitive, but knowing their benefits means employees will be better positioned to treat or even prevent conditions at earlier and less costly stages.
- **Less stress.** Simplifying communications on relatively complex topics like insurance and retirement can reduce stress and contribute to increased employee confidence in their coverage and savings.

- **Retire on their own terms.** The cost of employees who can't afford to retire because they failed to contribute to their group retirement plan can lead to other costs to an organization. These include:
  - » Reduced morale and productivity
  - » Relatively high-cost employees at the top of their pay band
  - » Costlier employees to terminate
  - » More usage of benefits and claims for disability, medication and other services
  - » Increased absenteeism

The Potential to Reduce Costs

The ROI is potentially there for organizations that use effective communications for their benefits and retirement plans. But getting members to understand the full spectrum of a group benefits plan can be challenging, even for the most engaged employees. Common questions an employee might have about services and benefits include:

- What's AD&D, and why should I care?
- What are paramedical services, and do I benefit from them?
- How do I decide which investments to choose for my retirement savings?

The above services and benefits, along with everything else that a benefits package includes, are important forms of compensation to signal that an organization cares about its employees. The higher the perceived value of these benefits, the more significant they are as components of a total rewards offering.

In addition, illness is expensive, and the increasing costs of sponsoring a private drug plan continue to add pressure to benefits plans. Promoting wellness and the benefits of fitness, healthy eating and stress management could potentially help employees prevent illness and the high costs associated with it.

So communicating to employees can potentially help reduce costs on two fronts: 1) promoting wellness and prevention, and 2) creating a workforce of employees who understand their benefits and who can make more informed choices.

Six Steps for More Effective Communications

Creating effective communications for employees means thinking through potential audiences and what they can absorb. After all, the benefits that are provided to employees are only as good as the effectiveness with which their value is communicated. Taking the time to inform and educate employees can help organizations build a happier, healthier and more productive work environment.

There are a number of things to think about when communicating to employees, and following are six starting points for how to leverage communications to help employees better understand their total rewards package.

1. Step into employees' shoes. When the typical worker starts a conversation with a colleague and asks how work is going, so often the answer is "Busy." Employees are busy—projects, meetings and emails are just a few of the actions that they are likely dealing with, and these items could be taking up more time than an average eight-hour workday has to offer. This is why it's helpful to try to step into employees' shoes: If they are strapped for time to accomplish their day-to-day tasks, how likely is it that they'll spend time on benefits messaging?
2. Consider what other messages are coming in. Employees can be bombarded with messaging—Remember that benefits professionals are not the only ones vying for attention. There's a large variety of important information that employees face on a regular basis, increasing the competition for precious time. For example, an employee may be facing an information technology (IT) software update that is scheduled for the weekend, goal-setting may be due within the week, and an online training course may need to be completed by end of day. They could also be receiving information on upcoming facilities updates, retirement seminars, charity drives, updated policies and handbooks, quarterly results and more—the list goes on and on. By considering what types of internal communications employees may be facing and trying to plan a calendar of communications, an organization can ensure that employees aren't being overwhelmed and that benefits messages are less likely to be overlooked.

3. Focus on being comprehensible, as opposed to comprehensive. There's a tendency to want to immediately provide all of the information about a topic to employees so that no questions are left unanswered. But sometimes this can backfire, especially if employees believe the content is intimidating and could potentially encroach on their productivity. PowerPoint slides that are heavy on text and long-winded emails might be complete and comprehensive, but they are less likely to be fully read, if they are read at all. If employees see a lengthy email pop into their inbox but don't have time to read it, they are more likely to set it aside. Even if their intent is to review it later, there is an increased chance of that message getting lost in the shuffle. Instead, try to make the same point in fewer words. By condensing the content, employees won't feel as burdened and will be more likely to read it. Organizations can also provide links within communications to deliver more thorough and comprehensive information for those individuals who want more details. Keeping the initial messaging short and sweet can help to mitigate the chances of it being passed over, and it may increase productivity by decreasing the time spent on long emails.

4. Don't assume others will know what it means. When benefits professionals look at material through an employee's lens, it is easier to see that clear and effective communication matters. Drug plans, health insurance, dental and vision—these all come with industry jargon that benefits professionals sometimes take for granted. At times, as subject matter experts, benefits professionals forget that terms such as reasonable and customary fees, AD&D or employee assistance programs aren't as well-known to many other employees. Ensure that any benefits jargon is explained in clear terms.

5. Create snackable messages. Structure messages by breaking out the content. Lists can help to break down the information into more manageable pieces. Provide clear steps for employees to follow, or create order within the communication. This way, even if employees are skimming the message, they can get the highlights of the content through headings and subheadings.

6. Know when it won't work. An important part of the message isn't the message at all, it's the medium being used. Try to find different ways to engage audiences, but don't select certain methods just for the sake of using them—even the best intentions do not always pay off. For example, many professionals love using videos to engage an audience, but people in a quiet, open-concept office may not like videos. And shift workers with little access to computers in the day-to-day work environment likely won't benefit from the six-page PDF posted on a company intranet. How an organization sends its message is often as important as the message itself, so consider the best ways to connect with employees—and subsets of employees—before creating messages and deciding on how to send them.

Employees can derive great value from their benefits, and organizations invest heavily in them, which is why it's so important to make sure employees understand and appreciate the benefits that are offered. Effective communications can help employees better understand their benefits and how to get the most out of their plans. Remember to step into their shoes, consider condensing information, get rid of the jargon and create some order that will help employees quickly read through and understand what's important.

A tale of two organizations

Much has been written in the press over the past 12 months about the $6 million compensation of the former chief executive officer of Hydro One Limited, Mr. Mayo Schmidt. The government of Ontario recently imposed a cap of $1,500,000 on the compensation of the CEO of Hydro One, to be in line with the compensation of the CEO of Ontario Power Generation (OPG).

How did we get to this point? To find the answer, this article examines:

- The process these two organizations have used to determine the compensation of their CEOs over the past 20 years since they were spun off from Ontario Hydro
- How changes in the government at Queens Park and political reaction to certain key events have affected the compensation of the two companies' CEOs
- How much the CEOs actually earned over the period
- The potential implications of the new government's recent decisions going forward for broader public sector organizations in Ontario

Background

Hydro One and Ontario Power Generation were created 20 years ago when Ontario Hydro was separated in April 1999 into five organizations by Mike Harris' Progressive Conservative Government. The following is a high-level current comparison of the two organizations:

	Hydro One	Ontario Power Generation
Regulated Business	Electricity transmission	Electricity generation
Assets	$26.4 billion	$48.8 billion
Annual revenues	$6.2 billion	$5.2 billion
Employees	8,600	9,200
Key differentiators	• 1.4 million customers • 47.4% owned by the province of Ontario, 1.5% by OPG and 51.1 % publicly traded	• Nuclear operations • 100% owned by the Province of Ontario

Hydro One's transition from being a part of Ontario Hydro to becoming a Crown Corporation in 1999 and then subsequently to a publicly traded organization in 2015 has been somewhat of a roller coaster ride, especially for Hydro One's CEOs, as the following timeline demonstrates:

Dates	Hydro One Timeline
April 1, 1999	Ontario Hydro Services (OHSC) is formed. Former Deputy Minister of Finance and former Ontario Hydro Vice President Ms. Eleanor Clitheroe is appointed CEO.
May 1, 2000	OHSC is renamed "Hydro One."
July 19, 2002	Ms. Clitheroe is terminated due to an expense controversy Tom Parkinson becomes CEO.
December 8, 2006	Tom Parkinson resigns over an expense controversy He receives almost $3.0 million in severance, creating a political uproar.
Early 2007	Ms. Laura Formusa is promoted to CEO of Hydro One.
June 2007	Hydro One changes its approach to executive compensation in order to conform with the recommendation of an independent panel.
March 31, 2012	Executive compensation is frozen in the broader public sector.
September 19, 2012	Ms. Formusa announces she is stepping down as CEO.
January 2013	Mr. Carmine Marcello is promoted to CEO of Hydro One.
June 2015	Hydro One's executive compensation freeze is lifted by the Province.
September 3, 2015	Mr. Mayo Schmidt is appointed CEO of Hydro One two months prior to the November Initial Public Offering.
March 19, 2018	Hydro One's annual management proxy circular is released. Mr. Schmidt's target compensation has been increased by 62%.
April 11, 2018	Doug Ford takes aim at Hydro One's "$6 million-dollar man."
June 7, 2018	The Progressive Conservative Party wins the Ontario election.
July 11, 2018	Mr. Schmidt retires from Hydro One. He receives no severance, his stock options are cancelled, but his share units continue to vest at target. Hydro One's CFO, Mr. Paul Dobson, is appointed Acting CEO.
July 15, 2018	*The Hydro Accountability Act, 2018* gives Management Board of Cabinet final say over Hydro One's executive compensation.
February 14, 2019	Hydro One submits a New Compensation Framework with a proposed CEO total compensation cap of $2,775,000.
February 21, 2019	Management Board of Cabinet issues directive to Hydro One's Board of Directors capping CEO total compensation at $1,500,000.
March 8, 2019	Hydro One's Board agrees to limit the CEO's salary to $500,000 and the CEO's incentives to $1,000,000.
March 28, 2019	Hydro One announces it has hired BC Hydro's EVP Operations, Mark Poweska, as its new CEO.

Meanwhile, apart from the first four years, OPG's CEO situation has been relatively stable.

Dates	OPG Timeline
April 1, 1999	Ontario Power Generation is formed. Mr. Ron Osborne, former Ontario Hydro CEO, is appointed CEO.
October 2, 2003	The Liberal Party wins the Ontario election.
December 4, 2003	Mr. Osborne is asked to resign by the new government.
May 2, 2005	Mr. Jim Hankinson from New Brunswick Power is appointed CEO.
July 1, 2009	Mr. Hankinson retires. Mr. Thomas Mitchell is promoted from chief nuclear officer to CEO.
March 31, 2012	Executive compensation is frozen in the broader public sector.
August 21, 2015	Mr. Mitchell retires. Mr. Jeffrey Lyash is recruited from the U.S. as CEO of OPG.
September 7, 2016	Regulation 304/16 introduces new procedures for determining executive compensation within the broader public sector in Ontario.
January 1, 2017	OPG's executive compensation program under the regulation produces $3,800,000 potential CEO total direct compensation. OPG's board caps the CEO's total direct compensation at $1,937,500, with a target of $1,500,000.
February 13, 2019	Mr. Lyash announces he is returning to the U.S. as CEO of the Tennessee Valley Authority. Mr. Ken Hartwick, OPG's CFO, is appointed CEO effective April 1.

Peer Groups

Key first steps in developing any executive compensation policy include defining an appropriate group of peer organizations for comparison purposes, and then determining how competitive the organization wants to be with the peer group, typically focusing on the 50th percentile.

Hydro One CEO Compensation Peer Groups

Hydro One's peer group and competitive executive compensation strategy has changed a number of times over the past 20 years.

From 1999 to mid-2007, Hydro One's executive compensation comparator group consisted of a group of Canadian utility and energy companies and industrial organizations, weighted 80% private sector and 20% public sector. Total compensation at Hydro One was to be targeted at the 75th percentile of the total cash compensation (i.e., salary plus target bonus, but not including long-term incentive compensation) of the comparator group. As of 2007, this group had consisted of 35 private sector companies and 9 public sector organizations.

The political outcry following the almost $3.0 million severance paid to ex-Hydro One CEO Tom Parkinson in late 2006, in part, led the incumbent Liberal Government to establish an agency review panel in January 2007 led by former Molson's CEO Mr. James Arnett. In May 2007, the panel submitted its report on Phase I of its review of Ontario's provincially owned electricity agencies. Based on the panel's executive compensation recommendations, Hydro One implemented the following guidelines for all new executives and new senior management:

- Use comparative market data based on a 50/50 blend of public and private sector companies in determining total compensation.
- Establish Hydro One's total compensation relative to the 50th percentile of the blended market total compensation data (i.e., salary, target bonus, annualized net present value of long-term incentives (new), benefits and pension).

The resulting comparator group consisted of 30 Canadian-based companies (15 public and 15 private) each year, approximately two-thirds of which were utilities. In 2014, for example, the comparator group included the following companies:

Public Sector	Private Sector
Atomic Energy of Canada	ArcelorMittal Canada
Business Development Bank	Amec Americas
Canada Mortgage and Housing	Barrick Gold
Canadian Standards Association	Bombardier Transportation Canada
Enersource Hydro Mississauga	Bruce Power
Farm Credit Canada	Canadian National Railway
Government of Ontario	Fortis
Hydro Ottawa	FortisBC Energy
NB Power	Glencore
Ontario Power Authority	Goldcorp
Ontario Power Generation	Newfoundland Power
Royal Canadian Mint	Siemens Canada
SaskEnergy	Suncor Energy
SaskTel	Ultramar
Toronto Hydro	Vale Canada

In anticipation of Hydro One's November 2015 initial public offering, the company developed a new primary reference group for its incoming CEO and CFO consisting of the four largest utilities listed on the Toronto Stock Exchange, plus four other TSX-listed companies within the broader energy industry that were deemed to be of comparable size and scope of operations to Hydro One, as follows:

2015 Reference Group	
Utility Peers	**Broader Energy Peers**
AltaGas Ltd.	ATCO Ltd.
Emera Incorporated	Inter Pipeline
Fortis Inc.	Keyera Corp.
Pembina Pipeline	TransAlta

Based on this peer group, Mr. Mayo Schmidt was hired with target compensation of $4 million.

In 2017, a broader peer group of 19 organizations was used for all Hydro One's senior executives, including the CEO and CFO, as follows:

2017 Reference Group	
Utility Peers	**Asset Intensive Companies**
AltaGas	Agrium
ATCO	Air Canada
Emera	Canadian National Railway
Fortis	Canadian Pacific Railway
Inter Pipeline	Canadian Tire
Keyera	CGI Group
Pembina Pipeline	National Bank
TransAlta	Rogers Communications
TransCanada	SNC-Lavalin
	Telus

The CEO's target compensation increased by 62% to $6.5 million as a result of this change.

Even further changes to the peer group were anticipated following the close of Hydro One's proposed purchase of U.S.-based Avista Corporation in the second half of 2018. Had this takeover gone through, Mr. Schmidt's target compensation would have increased once again, as U.S. companies typically pay their CEOs more than Canadian companies.

Following the June 2018 election, the new government implemented the Hydro One Accountability, which required Hydro One's board to develop a new executive compensation program for Cabinet approval.

In February 2019, Hydro One's board developed the following revised peer group of 13 Canadian organizations for this purpose:

2019 Reference Group	
Utility and Energy Peers	**Public Sector Peers**
AltaGas	Hydro Quebec
ATCO	BC Hydro
Emera	Ontario Power Generation
Fortis	Toronto Hydro
Inter Pipeline	
Keyera	
Pembina Pipeline	
TransAlta	

It should be noted that the eight utility and energy peers in this group are the same private sector companies that were in the 2017 peer group, with the sole exception of TransCanada, which was removed. Meanwhile, the four public sector peers replaced the 10 asset-intensive companies.

The government of Ontario subsequently imposed the following peer group on Hydro One.

OPG Comparator Groups

The publicly available information on OPG's comparator groups only goes back to 2008 when OPG issued its first annual "Statement of Executive Compensation" as required by the Canadian Securities Administrators.

From 2008 to 2013 the OPG peer group included the following equally-weighted private sector and public sector peer group:

Private Sector	Public Sector
Air Canada	Atomic Energy of Canada
Atco Ltd	BC Hydro
Canadian Natural Resources	Canada Post
Canadian Pacific Railway	Canadian Broadcasting Corporation
CN Rail	Hydro One
Enbridge	Hydro Quebec
Husky Energy	London Health Sciences
Nexen	Mount Sinai Hospital
NOVA Chemicals	Sunnybrook Health Sciences Centre
Talisman Energy	The Hospital for Sick Children
TransAlta Corp	Trillium Health Centre TransCanada
TransCanada	University Health Network

From 2014 to 2016, OPG no longer listed the companies in its peer group. No changes were made to the CEO's compensation during this period. However, OPG did state that it benchmarked executive compensation against the 50th percentile of the comparator group's compensation.

In the fall of 2016, OPG became one of the first Ontario broader public sector organizations to issue a formal executive compensation program pursuant to Regulation 304/16 under the BPSEC Act.[1] The company was given permission by the Province to include both private sector and U.S. organizations for this purpose.

The peer group for the CEO position included the CEOs of the nine largest nuclear power generation companies in the U.S., plus Bruce Power and two Canadian public sector utilities with revenues greater than $4 billion, as follows:

Private Sector		Public Sector
Bruce Power	FirstEnergy	Hydro Quebec
Dominion Resources	NextEra Energy	BC Hydro
Duke Energy	PSEG	
Entergy	Southern Company Services	
Exelon	Tennessee Valley Authority	

The maximum allowable CEO compensation as of January 1, 2017, based on this peer group was $3.8 million, largely due to the impact of the nine U.S. companies. Nevertheless, OPG's board decided to target the CEO's compensation under the program at $1,500,000, with an annual cap of $1,937,500. Mr. Lyash's 2017 target compensation as OPG's CEO was not increased as a result of this board decision.

CEO Compensation Histories

How much were the CEOs of the two companies actually paid over the past 20 years?

The publicly available information on Hydro One's CEO and OPG's CEO cash compensation for the initial 1999 to 2007 period is limited to their "Sunshine List" disclosures (see Table 1 on page 16). During this time period, their average CEO cash compensation was similar, approximately $1.2 million at Hydro One and $1.4 million at OPG.

During the following period from 2008 to 2017 prior to Hydro One becoming a publicly traded company in November 2015, the total cash compensation of Hydro One's CEOs declined by about 30% to around $850,000. Meanwhile, the total cash compensation paid to OPG's CEOs increased by about 15% to an average of around $1,600,000 (see Table 1).

The disparity between the two organizations reversed in 2015 when Hydro One went public and gave Mr. Schmidt a total direct compensation package of $4.0 million, which was increased even further in 2017 to $6.5 million, primarily as a result of the updated peer group, making Mr. Schmidt the "$6 million-dollar man." Table 2 (page 16) summarizes the total CEO compensation program of the two organizations from 2015 to 2017.

Hydro One's new CEO will have an annual salary of $500,000 cap, and maximum annual and long-term incentives totaling $1,000,000 as mandated by management board.

Implications for the Broad Public Sector

When the new government rescinded Regulation 304/16 in August 2018, it froze all executive compensation within the broader public sector in Ontario and indicated that it would develop a new approach to executive compensation by June 2019.

Based on the Hydro One decisions and other situations we are aware of, we are not expecting the Ontario government to be more lenient when it comes to executive compensation within the broader public sector. In fact, we expect them to be tougher than the former government.

Conclusion

CEO compensation continues to be a lightning rod in both the public and private sectors, as the Hydro One story illustrates.

What are the boards of directors to do? On the one hand, all boards are required by the Supreme Court in the BCE decision[2] to "act in the best interests of the corporation" when making their decisions, not just for the sole benefit of shareholders, employees, suppliers or customers.

[1]Broader Public Sector Executive Compensation Act, 2014

[2]BCE Inc. v. 1976 Debentureholders, 2008 SCC 69

The voice of the shareholder has become increasingly louder in recent years, however.

- At Hydro One, the role of the largest shareholder changed over time from general oversight in 1999, to more arm's length in 2015, and then back to greater control in mid-2018. The executive compensation program has had to respond to the wishes of its largest shareholder, the province of Ontario.

A good executive compensation program and philosophy should always support the organization's business strategy and be updated regularly.

- The Hydro One strategy changed from a primary focus on more effective Ontario energy transmission as a separate crown corporation, to growth through acquisitions as a publicly traded Ontario-based corporation, and now to reducing Ontario electricity rates. Hydro One's executive compensation program seems to reflect these changes in strategy.

No doubt the executive compensation story at Hydro One and OPG will continue to make headlines as well as others, as companies attempt to balance governance, business strategy, talent attraction and retention at the top.

[3]Source: The Sunshine List

[4]Includes $600,000 retention bonus

[5]Source: Hydro One Management Information Circulars and OPG annual "Statements of Executive Compensation"

[6]Includes $407,500 "transition bonus"

[7]Prorated for 4 months' service

[8]Increased by 62% effective May 4, 2017

[9]Prorated to August 21, 2015

[10]Prorated from August 4, 2015. Includes $450,000 signing bonus

Tables

Table 1: Hydro One and OPG CEO Total Cash Compensation From 1999 to 2014[3]

Year	Hydro One CEO		OPG CEO	
1999	E. Clitheroe	$723,203	R. Osborne	$1,351,304
2000	E. Clitheroe	$1,249,598	R. Osborne	$1,767,870
2001	E. Clitheroe	$1,622,228	R. Osborne	$1,874,103
2002	E. Clitheroe T. Parkinson	$1,470,041 $557,20	R. Osborne	$2,264,311
2003	T. Parkinson	$999,042	R. Osborne R. Dicerni	$925,998 $579,100
2004	T. Parkinson	$1,069,442	R. Osborne R. Dicerni	$676,541 $885,217
2005	T. Parkinson	$1,563,222	R. Dicerni J. Hankinson	$866,562 $593,010
2006	T. Parkinson	$1,560,901	J. Hankinson	$1,480,804
2007	L. Formusa	$794,299	J. Hankinson	$1,788,719
2008	L. Formusa	$924,437	J. Hankinson	$2,475,800[4]
2009	L. Formusa	$975,176	J. Hankinson T. Mitchell	$2,150,116 $1,011,334
2010	L. Formusa	$953,844	T. Mitchell	$1,325,119
2011	L. Formusa	$961,963	T. Mitchell	$1,824,000
2012	L. Formusa	$1,036,740	T. Mitchell	$1,720,000
2013	C. Marcello	$724,917	T. Mitchell	$1,714,000
2014	C. Marcello	$741,554	T. Mitchell	$1,555,200

Table 2: 2015 to 2018 Hydro One and OPG CEO Compensation Programs[5]

	CEO	Annual Salary	Annual Incentive	Long-Term Incentives	Target Total Direct Compensation	Total Direct Compensation for the Year
Hydro One						
2015	C. Marcello M. Schmidt	$525,000 $850,000	65% 90%	0% 280%	$866,250 $3,995,000	$1,222,500[6] $1,321,423[7]
2016	M. Schmidt	$850,000	90%	280%	$3,995,000	$4,399,948
2017	M. Schmidt	$1,200,000	110%	330%	$6,480,000[8]	$6,074,319
Ontario Power Generation						
2015	T. Mitchell J. Lyash	$800,000 $775,000	100% 100%	0% 0%	$1,600,000 $1,550,000	$1,096,290[9] $1,122,406[10]
2016	J. Lyash	$775,000	100%	0%	$1,550,000	$1,530,459
2017	J. Lyash	$775,000	100%	0%	$1,550,000	$1,722,825

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