
HALDIMAND COUNTY

Report HRD-04-2021 Employee Benefit Plan Renewals 2021 For Consideration by Council in Committee on June 1, 2021



OBJECTIVE:

To approve the 2021 Employee Group Benefits insurance plan renewals for eligible Haldimand County employees, Volunteer Firefighters, Members of Council and retired employees.

RECOMMENDATIONS:

1. THAT Report HRD-04-2021 Employee Benefit Plan Renewals 2021 be received;
2. AND THAT Memorandum HRD-M01-2021 Addendum to Report HRD-04-2021 Employee Benefit Plan Renewals 2021 be received and remain confidential;
3. AND THAT Sun Life's monthly employee benefit plan renewal premium rates, plus applicable taxes, identified as "Negotiated Renewal Costs" in Attachment #1 to Memorandum HRD-M01-2021, be approved effective July 1, 2021;
4. AND THAT \$208,859.69 be withdrawn from the surplus funds held in the Sun Life Deposit Fund in order to receive the applicable Ontario Retail Sales Tax rebate for the 2018 and 2019 policy years, with the refunded amount to be transferred to the Employee Benefits Reserve Fund.

Prepared by: Jennifer Long, Acting Coordinator, HRMS/Benefits

Reviewed by: Katie Meyer, Manager, Human Resources

Respectfully submitted: Cathy Case, General Manager of Corporate & Social Services

Approved: Craig Manley, MCIP, RPP, Chief Administrative Officer

EXECUTIVE SUMMARY:

This report reflects the proposed 2021 renewal rates for Extended Health Care, Dental, Long Term Disability (LTD) and Life Insurance benefits for eligible Haldimand County Council members, employees, retirees and volunteer firefighters. The level of benefits provided to each particular group are approved throughout the year via Council reports on negotiating parameters and collective agreement ratification, benefits changes, etc. This report strictly deals with the annual plan premiums related to the level of benefits already approved by Council.

The proposed 2021 renewal rates include increases to Basic Life (2%) and LTD premiums (16%); no increase to Extended Health Care premiums (0%); and a reduction to Dental premiums (4%). In addition, the Accident & Sickness (A&S) Insurance policy for firefighters provided through VFIS of Canada requires an increase (1.5%). Industrial Alliance Insurance and Financial Services (IAF) is not proposing any changes to the current Accidental Death & Dismemberment (AD&D) insurance rates.

Compared to the December 2020 benefits forecast, the 2021/2022 renewal is reflecting a higher than expected increase overall. In December 2020, a memo was presented to Council predicting a total decrease in premiums of 2% based on 8 months of the 12 month review period. It was anticipated that we would see a reduction of approximately \$54,000. Now, with the full 12 months of data available,

there is an overall increase of 2.4%. The increase is primarily associated with an unexpected rise in Extended Health Care claims experience over the last 4 months of the year, as well as an increase in LTD, offset partially by anticipated savings in Dental and Life rates. The total increase in annual premiums over the previous year of 2.4% equates to approximately \$66,100 with tax, bringing the total annualized cost of Extended Health Care, Dental, LTD and Life Insurance for Haldimand County staff and retirees, including the proposed renewal rate increases, to approximately \$2,771,000.

In aggregate, the financially-accounted health and dental benefits operated in a surplus position for the past year. After fully funding the Claims Fluctuation Reserve, a surplus of \$248,801 has been transferred to the County's deposit account, bringing the balance as of December 31, 2020, to \$458,409. Related to these accumulated premium surpluses, the County is eligible for a Retail Sales Tax (RST) credit if the funds are returned within four years of the end of the original policy year. In order to secure the RST refund of \$12,024.96 for the 2018 policy year and a refund of \$4,292.77 for the 2019 policy year, the County must withdraw \$208,859.69 from the deposit account held by Sun Life prior to December 31, 2022. These refunded amounts are recommended to be transferred to the County's Employee Benefits Reserve Fund.

BACKGROUND:

Haldimand County provides Employee group benefits for Extended Health Care (EHC), Dental Care, Life Insurance, Long Term Disability and Accidental Death and Dismemberment (AD&D) for all eligible full-time employees, members of Council, certain retirees and on-duty volunteer firefighters (Life and Accident & Sickness (A&S) only). The County also coordinates optional A&S insurance for off-duty volunteer firefighter benefits, at their own expense.

The Group Benefits Program for the Corporation of Haldimand County is underwritten by Sun Life Assurance Company of Canada, with the exception of the AD&D. The AD&D Insurance is underwritten by IAF, Special Markets Solutions for eligible full time employees and Council members, while VFIS underwrites the A&S benefits for eligible volunteer firefighters.

Annually, the County utilizes the services of a benefits consultant, Mosey & Mosey. The services provided by the consultant assists the County in comprehensive data and market analysis, renewal negotiations, budget forecasting, collective bargaining support, plan design consulting to ensure control of plan expenditures and keeping the County abreast of upcoming benefits changes and how they may impact the plan to make sure that we have the most accurate information to make informed decisions. The consultant allows the County to minimize the internal resources required to effectively manage the complex employee group benefits program. For the purposes of this report, the consultant has analyzed the premium rate changes and negotiated with the underwriters on the County's behalf, noting multiple areas where negotiations resulted in a lower increase than initially presented by the provider.

This report reflects the fifth renewal period since the benefits contract was awarded in February 2016.

ANALYSIS:

Proposed 2021 employee group benefits insurance premium rate changes, as recommended by the County's benefits consultant, are summarized in the following table. These changes to the Employer paid premium rates are for the current policy coverages and do not consider any future changes in the type or extent of benefits covered by the various insurance plans, such as those approved through collective agreement negotiations/arbitration awards.

BENEFIT	CARRIER	GROUP COVERED	RENEWAL DATE	PROPOSED 2021 PREMIUM IMPACT
Extended Health Care	Sun Life	Eligible Employees, Council and Retirees	July 1, 2021	No change
Dental	Sun Life	Eligible Employees, Council and Retirees	July 1, 2021	-4.0%
Life Insurance	Sun Life	Eligible Employees, Council, Volunteer Firefighters and Retirees	July 1, 2021	+2.0%
Long Term Disability	Sun Life	Eligible Employees	July 1, 2021	+16%
Accidental Death and Dismemberment	Industrial Alliance Pacific (SMS)	Employees and Council	March 1, 2021	No Change
On-Duty Accident and Sickness	VFIS of Canada	Volunteer Firefighters	July 1, 2021	+1.5%

In the past, Council has requested a complete copy of the Renewal Rate Report prepared by Mosey & Mosey. Given that it contains information that can be attributed to identified individual(s), this report is being provided as a closed session addendum through Memorandum HRD-M01-2021. The negotiated renewal rates identified in the addendum are based on the monthly premium rates for employees currently covered by the respective groups and include the applicable 8% retail sales tax. The actual cost of each insurance plan can fluctuate because the number of employees in each group who are eligible for benefits on a monthly basis changes throughout the year, as does an individual's election of single or family coverage. Actual costs are provided to Council through normal variance reporting methods.

The following provides a summary explanation of the renewal for each category of benefit.

Accidental Death and Dismemberment

This insurance coverage is for current eligible full time employees and Members of Council. The Accidental Death and Dismemberment (AD&D) rates remain unchanged, effective March 1, 2021.

Volunteer Firefighters Accident and Sickness

The County provides Accident and Sickness (A&S) insurance in the amount of \$100,000 for On Duty Coverage for the Volunteer Firefighters (VFF's). The County pays 100% of the premium for On Duty Coverage for the approved complement of VFF's. Also available is optional A&S insurance in the amount of \$100,000 for Off Duty Coverage, which is paid for by those individual VFF's who elect to enroll. The On Duty Coverage has not seen an increase since July 1, 2017. The 1.5% increase equates to a total increase of approximately \$220.00 annually.

Basic Life

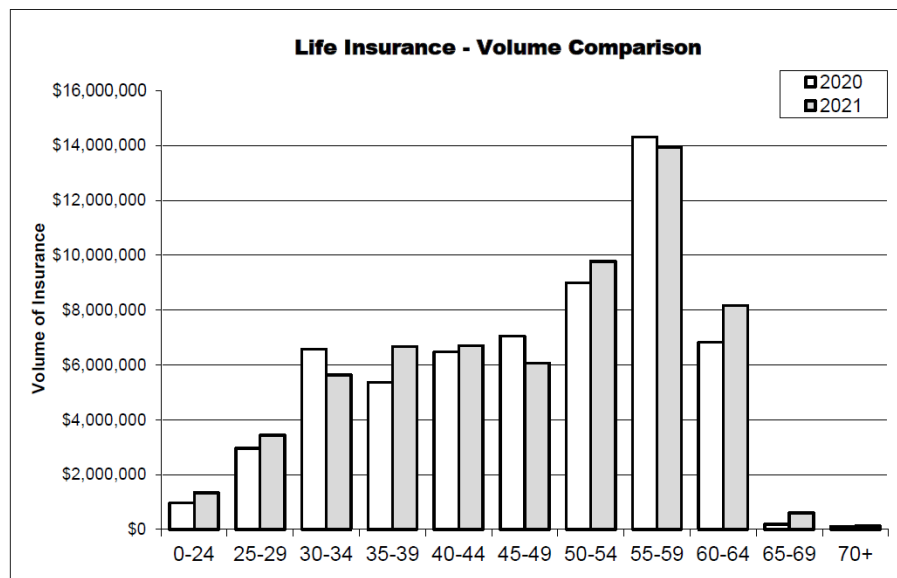
The Life Insurance benefit is underwritten on a partially experience-rated/partially pooled basis. A certain degree of credibility is applied to the claims experience under the Life Insurance benefit and is considered in the renewal calculations.

Sun Life uses the most recent 5½ years of claims experience when calculating their renewal (see pages 5 to 10 in Attachment 1 of Closed Session Memorandum HRD-M01-2021 for full details). The total paid Life Insurance claims for the 5½ year period ending January 31, 2021 are \$562,000, for five claimants.

In addition to the County's actual claims experience, the following are considered in determining the renewal rates:

1. **Conversion charges** – These are the charges assessed against the plan for those individuals who convert their group insurance coverage to an individual policy following termination of their group coverage. There was one individual who converted their Life Insurance coverage during the 5½ year period August 1, 2015 to January 31, 2021. When converting, there is not a requirement to submit evidence of insurability, therefore the risk to the insurer is higher than under usual circumstances. The total amount of coverage converted was \$10,000 and the total of the conversion charges was \$1,550.
2. **Required Reserves for Incurred but Not Reported claims (IBNR reserves)** – These are the reserves held by the insurer to reflect the liability for claims that have potentially been incurred, but not yet reported to the insurer. In the event of plan termination, the insurer would use these reserves to pay any claims which were incurred prior to, but which are settled following, the plan termination.
3. **Waiver of Premium Reserves** – These reserves are held by the insurer to reflect the liability for future claim payments to those individuals who are disabled and whose Life Insurance coverage is being continued without premium payment. There are currently 6 open active Waiver of Premium claims; of these, 3 were incurred on or after August 1, 2015 (during the renewal analysis period). The total amount of the Waiver of Premium Reserves held in relation to these 3 claims is \$81,072 and the total amount of Life Insurance of these 3 claimants is \$400,000.
4. After the above is taken into consideration, the balance of the renewal premium is based on the age, sex and volume of insurance for eligible employees. These factors are considered the “manual rate” that applies to the premium and represents the pooled portion of the premium.

The following employee demographics information, for the current renewal and last year's renewal is shown to illustrate what the manual rate is based on.



Based on a combination of the claims experience and the manual rate structure, an increase is required to the Life Insurance premiums rates at the renewal on July 1, 2021. This equates to a total increase of approximately \$4,500 annually.

Long Term Disability

The Long Term Disability Insurance benefit is underwritten on a partially experience-rated/partially pooled basis. The County's claims experience under the Long Term Disability Insurance benefit is a

factor that is considered in the renewal calculations. The balance of the renewal calculation is based on the demographics (age, sex and volume of insurance) of the insured employees. This demographic information determines the “manual rate” that applies to the group and represents the pooled portion of the underwriting arrangement.

Sun Life used the most recent 5½ years of claims experience for the Long Term Disability Insurance benefit in their renewal calculations, with a renewal period of August 1, 2015 to January 31, 2021 (see pages 11 to 17 in Attachment 1 of Closed Session Memorandum HRD-M01-2021 for full details).

There were 12 individuals who received Long Term disability benefit payments during the period August 1, 2015 to January 31, 2021, with payments totalling \$962,075. Five of these individuals became totally disabled prior to August 1, 2015, and in this regard, the amount of their benefit payments are not considered in the renewal calculations. The seven individuals who became disabled after August 1, 2015 that fall into this 5½ year renewal calculation period received LTD payments totalling \$253,580.

In addition to paid LTD claims, the Disabled Life Reserve (DLR) impacts premiums. The DLR is held to fund future claim payments for the individuals who are disabled. There are currently 5 open active LTD claims and 2 pending claims; of these 4 were incurred on or after August 1, 2015 (during the renewal analysis period). The amount of the DLR held in relation to the 4 open/pending claims incurred on or after August 1, 2015 is \$1,166,447.

Over the last few years Sun Life’s disability claims experience on their entire block of business has sustained significant increases (as well as other insurers in the marketplace) to the number of mental health related disability claims, and with those types of claims come LTD cases that are longer in duration and with higher LTD payouts. Based on these escalating costs, Sun Life has modified their renewal analysis and introduced a Claims Incidence Adjustment factor on a corporate wide basis. This new factor will account for the “expected” increase in the claims incidence in the experience rated portion of the renewal calculation.

Sun Life’s original proposal indicated a 26% increase, of which 10.5% was entirely tied to this new Claims Incidence Adjustment compounded by a second year in a row with a substantial increase to the manual rate. Sun Life’s manual rate increases have been introduced as a result of a low interest rate environment which impacts the funding of the LTD claim payments and reserves. Sun Life’s interest income on disabled life reserves over the last several years would normally contribute towards the funding of LTD claim payments, however, with less interest income earned, there is less to contribute.

Mosey & Mosey contested the excessive manual rate adjustment given the fact that there have been no changes to the County’s plan design, nor change in demographics and coupled with the Claims Incidence Adjustment factor which addresses the same risk twice. No allowance had been made for the County’s positive and stable performance over the past 5 years.

After negotiations by Mosey & Mosey, the Long Term Disability Insurance premium rates were reduced to an increase of 16% from the originally proposed 26%, effective July 1, 2021. This equates to a total increase of approximately \$84,300 on an annual basis.

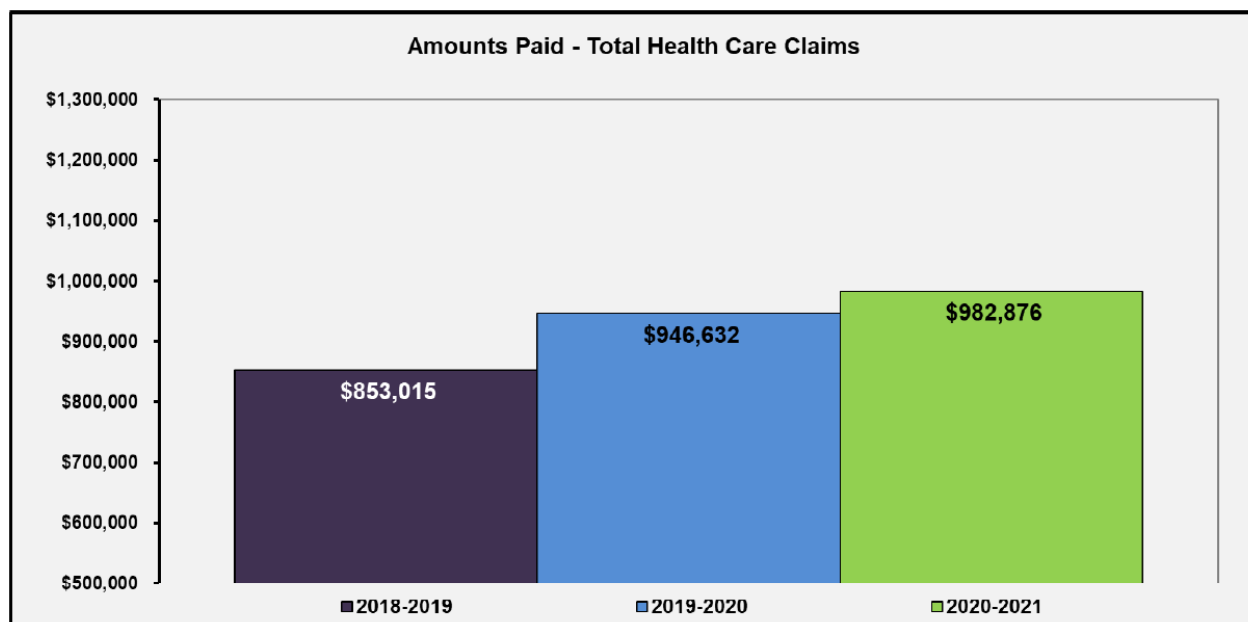
Extended Health Care

The Extended Health Care (EHC) benefits are provided through Sun Life and are determined solely on the County’s experience rating. The objective in determining the renewal premium rates is to ensure that the premiums generated during the policy year are sufficient to fund:

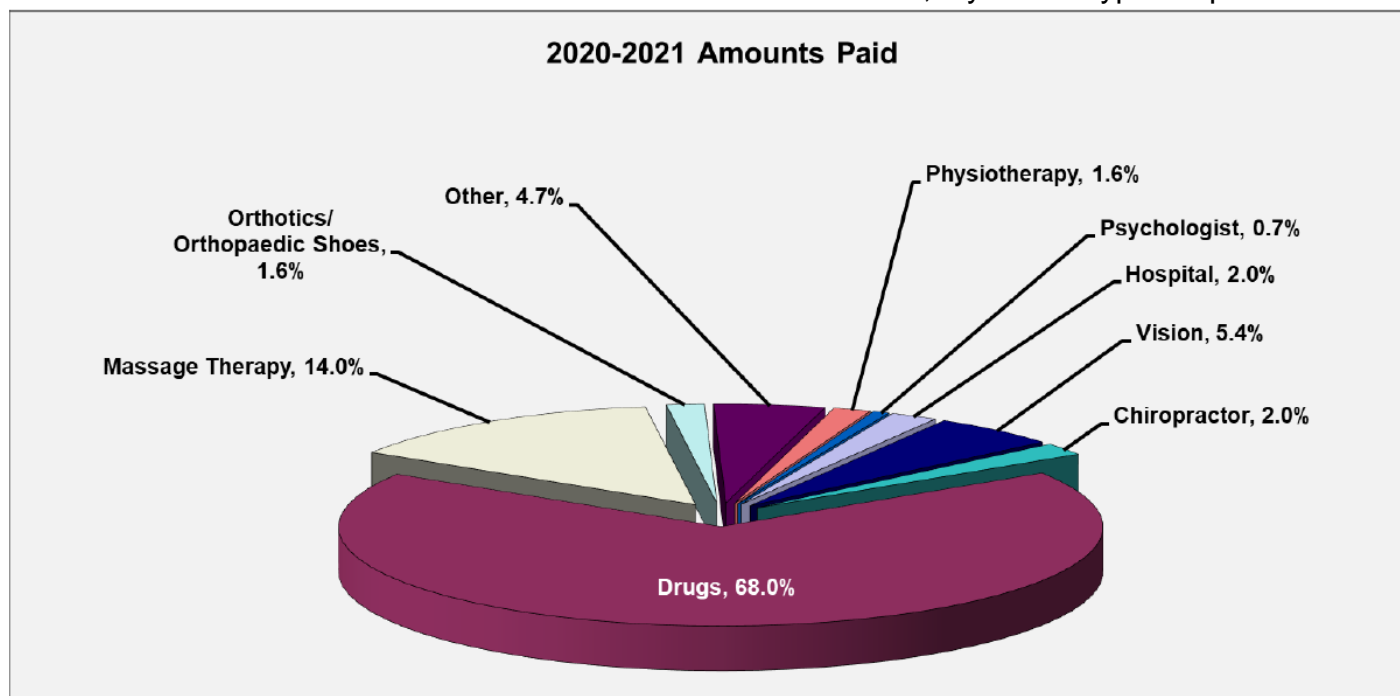
- i. The claims paid during the policy year;
- ii. The pooling charge assessed by Sun Life for the Large Amount/Out-Of-Canada Pooling arrangement; and
- iii. The administration charges under the plan

Accessing EHC services (excluding drugs) were significantly reduced during the months March to June 2020 as a result of the COVID-19 pandemic, therefore it was difficult to determine if there were any unusual claiming trends. Reduced claim levels were expected for chiropractor, physiotherapy and massage therapy claims, while drug claims which represent the majority of EHC claims saw little impact by the pandemic.

For the period February 1, 2020 to January 31, 2021, the amount paid for aggregate extended health claims has increased by approximately 4% when compared to the previous policy year as shown in the chart below.



A breakdown of the 2020/2021 Extended Health Care claims, by claim type is provided below:



For Large Amount Pooling insurance, the County has an amount of \$50,000 for protection against the impact of unusually large extended health care claims. In the last year, \$28,092 in claims were removed

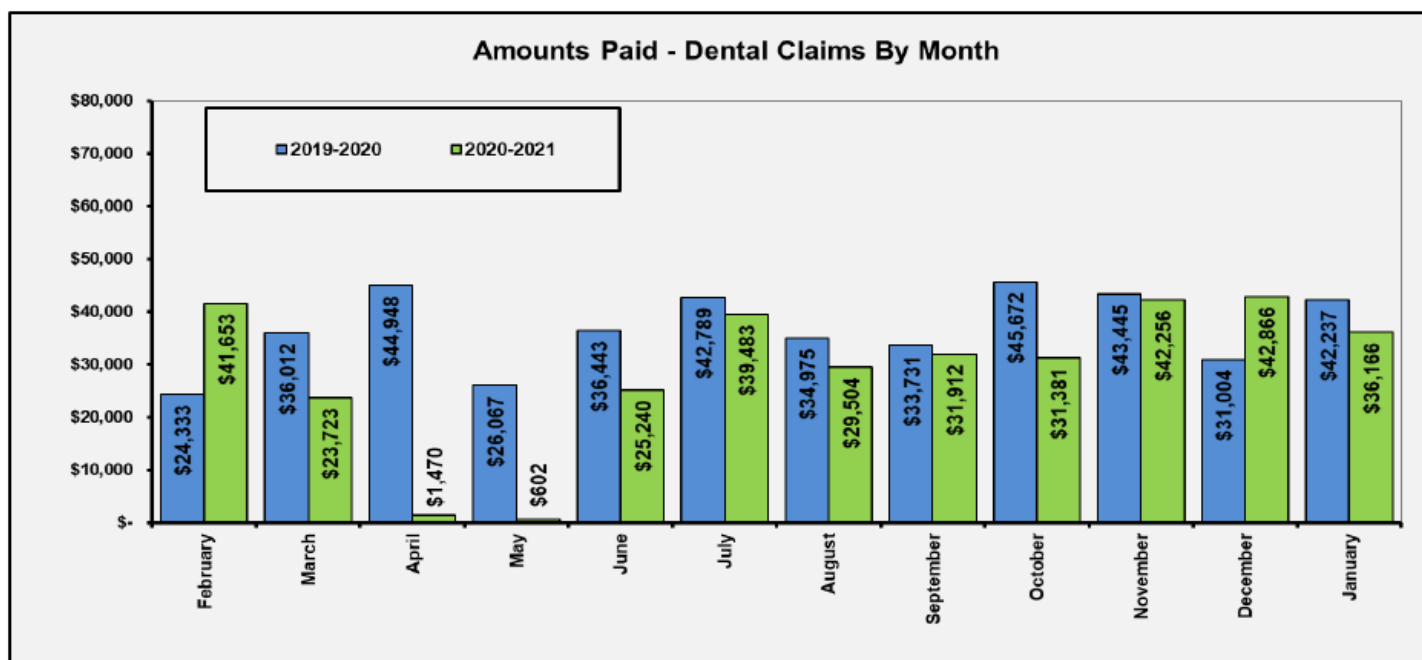
from the County's claims experience as a result of this pooling (see page 20 in Attachment 1 of the Closed Session Memorandum HRD-M01-2021 for details).

Based on the information above, Sun Life originally proposed an increase of 4% for the Extended Health Care premium; however, Mosey & Mosey's analysis, using a four year average annual trend in their calculations, indicated that the current premium is sufficient and sustainable for the renewal period. Sun Life agreed with Mosey & Mosey's position, therefore the premium rate will remain unchanged at the renewal on July 1, 2021.

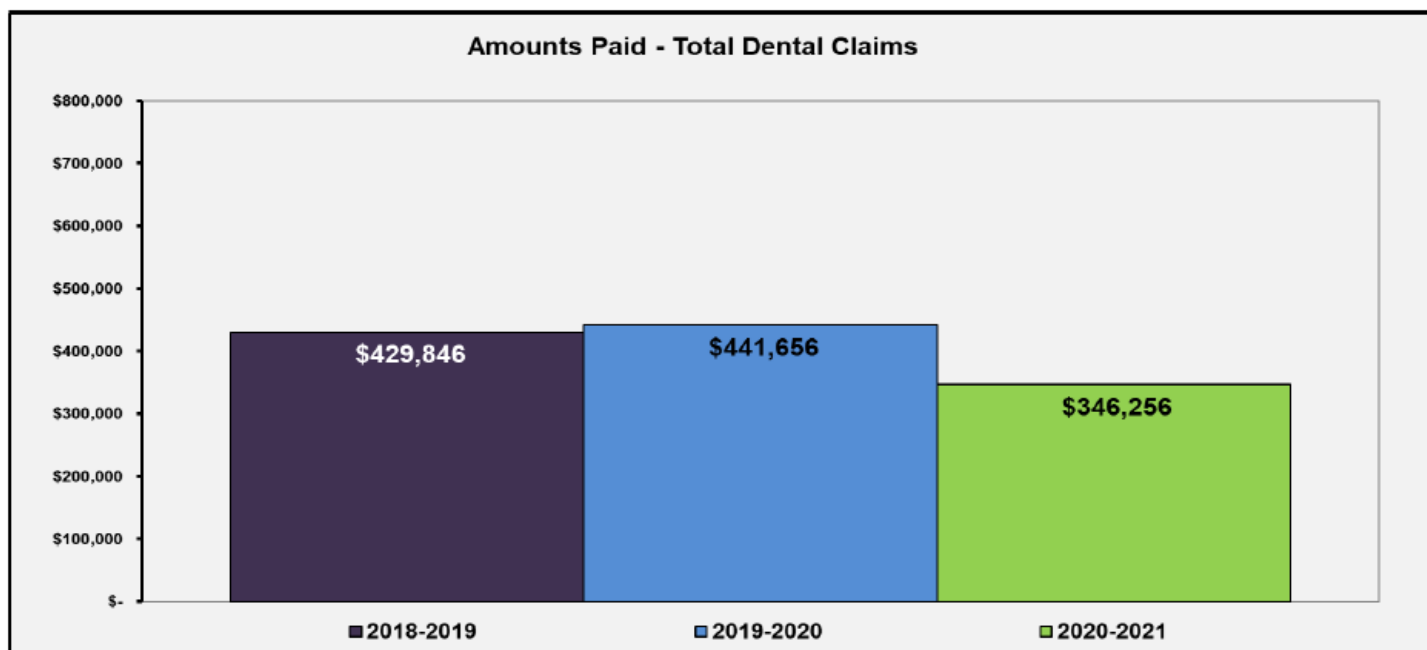
Dental

The Dental benefits are provided through Sun Life and are determined solely on the County's experience rating. Like Extended Health Care, the objective in determining the renewal premium rates is to ensure that the premiums generated during the policy year are sufficient to fund the claim costs and related administrative charges.

The aggregate Dental claims experience for Haldimand County reduced by approximately 22% in the 2020-2021 Policy Year, when compared to the claims level exhibited in the 2019-2020 Policy Year. This follows an increase of approximately 3% in the 2019-2020 Policy Year. It should be noted that Dental claims were significantly impacted by the COVID-19 pandemic, with substantially reduced claiming levels during the months March to June 2020. Below is a month-by-month comparison of paid claims in the 2020-2021 Policy Year in comparison with those in the 2019-2020 Policy Year.



A comparison of the total amount of Dental claims paid in 2020-2021 Policy Year and in the two preceding Policy Years is provided below:



Sun Life originally indicated that no change was required during the renewal; however, Mosey & Mosey's analysis, using a four year average, indicated that a premium rate reduction of 4% was warranted. After review, Sun Life agreed to Mosey & Mosey's reduction.

The renewal calculations are outlined on page 24 in Attachment 1 of Closed Session Memorandum HRD-M01-2021 to substantiate the 4% decrease in Dental premiums. This equates to a total decrease of approximately \$22,700 on an annual basis.

2020 Financial Results

Given that the Extended Health Care and Dental benefits are based fully on claims experience, there is an annual accounting and reconciliation of the financial results related to these benefits.

For the 2020 policy year, in aggregate, the Extended Health Care and Dental benefits operated in a surplus position, generating a surplus of \$262,122. The surplus is first used to top up any shortfall in the Sun Life Claims Fluctuation Reserve (CFR), with the balance transferred to the Sun Life Deposit Fund.

The required level for the CFR is 15% of the current annualized premium, being \$265,645 for the 2021 policy year. The balance of Haldimand County's CFR was \$252,324 and therefore, \$13,321 of the 2020 policy year surplus has been transferred to the CFR to bring it to the fully-funded level. The remainder of the 2020 policy year surplus, \$248,801, has been transferred to the Deposit Fund held by Sun Life, bringing the total as at December 31, 2020 to \$458,408.34. Haldimand County may seek a refund of the surplus funds held by Sun Life. Historically, the Deposit Fund has been maintained at about one month's premiums, which is equivalent to approximately \$230,000.

In order to be eligible for a refund of the Ontario Retail Sales Tax (RST), which has been previously paid on the related surplus premiums, Haldimand must request a refund from the Sun Life Deposit Fund within four years of the end of the applicable policy year. For the policy year ending December 31, 2018, Haldimand has a potential RST credit of \$12,024.96 which expires on December 31, 2022. For the policy year ending December 31, 2019, Haldimand has a potential RST credit of \$4,292.77 which expires on December 31, 2023. In order to secure these RST refunds of 16,317.73, Haldimand County must withdraw \$208,859.69 from the Sun Life Deposit Fund prior to December 31, 2022 and December 31, 2023. Staff recommends this action be taken and that the refunded amounts be deposited into the Employee Benefits Reserve Fund.

Retention/Administration Charges

The Retention under the Extended Health Care and Dental plan represent Sun Life's administration charges, commissions and taxes associated with the plan. Increases have already been applied to the plan effective January 1, 2021. The Retention is comprised of four types of charges (General Administration, Claims Administration, Risk and Profit Charges) as well as consultant commissions and premium taxes. The impact of each to the Retention charge for 2021 is as follows:

- **General Administration Charges:** The charges assessed by Sun Life for the provision of all services required to operate the plan other than the actual payment of claims. This includes the preparation of employee booklets and contracts and billing administration. The following table depicts the annual charges since 2015. In 2016 when the RFP was awarded to Sun Life, the contract stipulated that the first three years would not see a general administration fee increase. Sun Life proposed increasing the charge to 3.40%, however Mosey & Mosey was able to negotiate to a lower charge of 2.95%.

Year	General Administration Charge (% of Paid Premiums)
2015	3.1
2016	2
2017	2
2018	2
2019	2.2
2020	2.75
2021	2.95

- **Claims Administration Charges:** The changes assessed by Sun Life for the adjudication and payment of claims under the plan are determined by Sun Life on the basis of a percentage of the paid claims. See chart below for increases:

Administration Charge		Basis	Refund Accounted Benefit Fees & Renewal		
			Current Fees	Negotiated Renewal Charge	
				Renewal Charge	Change
Claims Administration Charges					
	Drug Care	Percentage of Incurred Claims (Drug Card)	3.65%	4.10%	12.33%
	Electronic Submission / Electronic Reimbursement	Percentage of Incurred Claims (Electronic)	3.38%	3.80%	12.43%
	Paper Submission / Electronic Reimbursement	Percentage of Incurred Claims (Mixed)	3.56%	4.00%	12.36%
	Paper Submission / Paper Reimbursement	Percentage of Incurred Claims (Paper)	3.96%	4.45%	12.37%
	Dental Care	Percentage of Incurred Claims	3.65%	4.10%	12.33%
Risk Charge		Percentage of Premium	0.00%	0.00%	N/C
Profit Charge		Percentage of Premium	0.55%	0.55%	N/C

- **Risk Charge:** The charge assessed by Sun Life to account for their potential financial liability under the plan. As a result of the Terminal Deficit Hold Harmless agreement between Sun Life and Haldimand County, the County is responsible for paying Sun Life the amount of any deficit which may exist at the time of the plan termination. Therefore, as a result of this special agreement, the Risk Charge is 0.0% of paid premiums.
- **Profit Charge:** The amount of the Profit Charge under the Haldimand County plan is 2.48% of the paid premium under the plan. However, as a result of the Terminal Deficit Hold Harmless agreement between Sun Life and Haldimand County, a reduced Profit Charge of 0.55% of paid premiums is applicable. This represents no change from 2020.

In addition to the above charges, commissions are paid at a rate of 0.90% to Mosey & Mosey Benefit Plan Consultants as well as Premium Taxes of 2% that are required to be paid to the Government of Ontario in relation to all insurance premiums. This premium Tax is calculated based on the paid premiums under the plan and separate from the Ontario Retail Sales Tax, which is paid by Haldimand County.

All Retention/Administration Charges noted above are included in the proposed premium increases for Extended Health Care and Dental outlined in this report.

FINANCIAL/LEGAL IMPLICATIONS:

The Sun Life renewal rates for eligible County employees, Council members, retirees and Volunteer Firefighters' insured benefit coverages, as outlined in this report, will result in a net annualized increase in premiums, on a combined basis, of approximately \$66,100 including tax or an increase of 2.4%. The proposed Sun Life renewal premiums equate to a total annualized expense of \$2,771,000, including tax, based on the current employee enrolment and plan coverage. In addition, other insurers are paid AD&D annual premiums of about \$26,500 (approximately \$10,300 for Council members and full-time employees; and \$16,200 for volunteer firefighters).

The 2021 Tax-Supported and Rate-Supported Operating Budgets were prepared as outlined in Closed Session Memorandum HRD-M01-2020 in December 2020 based on a projection using the 8 month experience period ending September 30, 2020. Accordingly, the assumptions included did not account for the known experience since October 2020 resulting in the following discrepancies:

Benefit Type	2021 Budgeted Renewal Rates effective July 1, 2021 () indicates Decrease %	Actual Renewal Rates, effective July 1, 2021 %	Estimated 2021 Surplus/ (Deficit) \$
Extended Health Care	(9.0)	0.0	(61,970)
Dental	(2.0)	(4.0)	5,540
Long Term Disability	13.0	16.0	(8,850)
Life Insurance	7.0	2.0	5,300
AD&D	0.0	0.0	0.0
Total			(59,980)

As shown above, it is anticipated that the proposed insurance renewals will result in a net 2021 budget shortfall of approximately \$59,980 based on the July 1st renewal date. The difference is primarily related to a) the most recent claims experience for extended health care, being that the last four months of the policy year were significantly higher than the average monthly claims in the first 8 months and b)

a slightly higher than expected increase to the LTD premium rates. This projected shortfall is based on the budgeted staff complement included in the 2021 operating budgets and will fluctuate due to changes in actual eligible employees, changes in family status, staff vacancies or council-approved staffing initiatives. This deficit will be absorbed into the operating budget variance on a corporate basis and will be reported through the regular variance reporting process.

The County has an Employee Benefits Reserve Fund which can be used to partially offset significant increases in benefit premium costs, if required. The fund currently has an unaudited balance of approximately \$2,274,000 as at December 31, 2020. Given the balance of the Employee Benefits Reserve Fund, the County is in an excellent position to offset any future benefit insurance cost increases. In fact, a review of this Reserve Fund should be undertaken in future years to determine whether some of the monies should be used to help fund other employee benefit liabilities, such as workers' compensation or unfunded sick leave liability.

Upon receipt of the December 31, 2020 financial statements from Sun Life, staff analyzed the internally held Post Employment Benefits Reserve Fund (held for Haldimand County retirees). This review confirmed that sufficient funds have been accrued and held in this reserve fund to cover the current benefit insurance premiums for the existing retirees. The unaudited balance as at the end of 2020 is approximately \$1,133,000.

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

None