
HALDIMAND COUNTY

Report HRD-04-2022 Employee Benefit Plan Renewals 2022

For Consideration by Council in Committee on May 10, 2022



OBJECTIVE:

To approve the 2022 Employee Group Benefits insurance plan renewals for eligible Haldimand County employees, Volunteer Firefighters, Members of Council and retired employees.

RECOMMENDATIONS:

1. THAT Report HRD-04-2022 Employee Benefit Plan Renewals 2022 be received;
2. AND THAT Sun Life's monthly employee benefit plan renewal premium rates, plus applicable taxes, as outlined in Report HRD-04-2022 be approved effective July 1, 2022;
3. AND THAT staff report back with options related to benefits payment strategies and policy term changes prior to the 2023 renewal process.

Prepared by: Heather Scott, Coordinator, HRMS/Benefits

Reviewed by: Megan Jamieson, Director, 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 2022 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 Collective agreement ratification Council direction or other legislated and/or approved benefits changes. This report strictly deals with the annual plan premiums related to the current level of benefits already approved by Council.

The proposed 2022 renewal rates include increases to Basic Life (8%), Extended Health Care (10%) and Dental premiums (8.5%); and a reduction to LTD premiums (-8%). No increases will be required under the Accident & Sickness (A&S) Insurance policy for firefighters provided through Volunteer Firemen's Insurance Services (VFIS) of Canada and no increases will be required with Industrial Alliance Insurance and Financial Inc., Special Markets Solutions (IAF) for the current Accidental Death & Dismemberment (AD&D) insurance rates.

Compared to the benefits forecast presented in December 2021, the 2022/2023 renewal is reflecting a lower than expected increase overall. The forecast presented to Council in late 2021 predicted a total increase in premiums of 11% which would result in an anticipated annual increase of approximately \$306,000. Now that the County's consultant, People Corporation, has had sufficient time to perform their first extensive analysis of the renewal data, the overall negotiated increase is 5.5%. The change is primarily associated with an error in last year's LTD renewal rates and savings from lower negotiated Life rates. The total increase in annual premiums over the previous year's renewal equates to

approximately \$156,000 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 \$2,979,000.

In aggregate, the financially-accounted Extended Health and Dental Care benefits was in a deficit position of \$10,300 as of December 31, 2021. After transferring monies from the Claims Fluctuation Reserve (CFR) to offset the deficit, the CFR is 95% funded instead of being fully funded. As there was no additional surplus generated as of December 31, 2021, the County's Deposit Fund account remains at a balance of \$249,551.

The County's benefit consultant, People Corporation, has suggested that the County consider changes in the payment strategy related to the extended health and dental program and the policy term/renewal dates. Recommended changes have the potential for cost savings, transparency and control by the County, however each has pros and cons to consider. Staff will review these options in more detail, together with finance representatives and, if necessary, a report be brought back to Council with such considerations prior to the next renewal.

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 for eligible full time employees and Council members, while VFIS underwrites the A&S benefits for eligible volunteer firefighters.

The County utilizes the services of a benefits consultant, People Corporation, to assist 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 benefit changes and how they may impact the plan to make sure that we have the most accurate information to make informed decisions. The consultant provides specialized technical knowledge and expertise in this area which 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 sixth renewal period since the benefits contract was awarded in February 2016. The parties have the ability to renew our contract for a maximum of 3 more years before a public procurement process will be required.

ANALYSIS:

Proposed 2022 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 2022 PREMIUM IMPACT	Estimated Cost / (Saving) of Proposed
Accidental Death and Dismemberment	IAF	Employees and Council	March 1, 2022	No Change	\$0
On-Duty Accident and Sickness	VFIS of Canada	Volunteer Firefighters	July 1, 2022	No Change	\$0
Life Insurance	Sun Life	Eligible Employees, Council, Volunteer Firefighters and Retirees	July 1, 2022	+8.0%	\$17,700
Long Term Disability	Sun Life	Eligible Employees	July 1, 2022	-8%	(\$50,500)
Extended Health Care	Sun Life	Eligible Employees, Council and Retirees	July 1, 2022	+10%	\$141,700
Dental	Sun Life	Eligible Employees, Council and Retirees	July 1, 2022	+8.5%	\$47,100
Total Aggregate Proposed				5.5	156,000

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 rates remain unchanged effective July 1, 2022.

Basic Life

The Life Insurance benefit is underwritten on a fully insured, non-refund basis. The premium rates for renewal of the Life benefits are based on a combination of the County's experience rate and Sun Life's manual rate.

Normally, a 5 year period (60 months) is used for analyzing past experience; however, as a result of the change from a 90 day to a 180 day renewal period for People Corporation analysis, Sun Life used the most recent 57 months of claims experience when calculating their renewal. The total paid Life Insurance claims for the 57 month period of February 1, 2017 to October 31, 2021 was \$748,000 for five claimants (included in this amount was \$186,000 for two life claims that occurred in this most recent 9 month period ending October 31, 2021). The 57 month incurred loss ratio was 100.8%.

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 57 month period. 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. As of October 31, 2021, there were 4 waiver of premium claims within this 57 month renewal analysis period totalling \$99,661 in reserves with a face value of \$535,000 in life insurance. The County had a total of 8 open active Waiver of Premium claims as of October 31, 2021.
4. Demographic Factor – An industry calculated demographic factor, looking at the risk of the County's employee population – comparing age, sex, and volume of insurance for eligible employees to the prior year – is applied. After the above is taken into consideration (30.4% credibility applied to the experience), the balance of the renewal calculation (69.6%) is based on Sun Life's manual rate (average industry rate) that applies to the premium and represents the non-credible portion of the premium calculation.

While Sun Life proposed an increase of +18% to the Life rates, People Corporation was able to negotiate the increase down to +8%. This rate reduction was achieved by People Corporation's analysis which demonstrated that the County's demographic risk actually decreased by -2.8% with increased life volumes in the lower age bands, some reductions in the higher age bands and a shift in the male/female demographic compared to Sun Life's estimate.

Overall, the 8% increase to the Life Insurance premiums rates at the renewal on July 1, 2022 will equate to a total increase of approximately \$17,700 for the renewal period.

Long Term Disability

The Long Term Disability (LTD) Insurance benefit is underwritten on a fully insured, non-refund account basis. The County's claims experience under the LTD Insurance benefit is a factor that is considered in the renewal calculations – known as the credible portion of the rate. The balance of the renewal calculation is based on the demographics (age, sex and volume of insurance) of the insured employees as well as the "manual rate" that applies to the group and represents the non-credible portion of the analysis.

For the same reasons as Life Insurance, Sun Life used the most recent 57 months of claims experience for the LTD Insurance benefit renewal calculations, with a renewal period of February 1, 2017 to October 31, 2021.

There were 8 individuals receiving Long Term disability benefit payments as of October 31, 2021, with payments totalling \$973,350. Four of these individuals became totally disabled prior to February 1, 2017, and in this regard, the amount of their benefit payments are not considered in the renewal calculations. The other four individuals who became disabled after February 1, 2017 fall into this 57 month renewal calculation period and received LTD payments totalling \$158,028.

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 to age 65. As of October 31, 2021, the

8 active LTD claims had reserves totalling \$1,838,240; which includes \$735,302 relative to the 4 claimants within the analysis period.

Disability incidence has been increasing year over year across the entire insurance industry in Canada and specifically in Sun Life's block of business for the past 5 years. Sun Life's data suggests that mental health issues are the strongest driver of the increase in disability claims incidence, and this is expected to continue due to the pandemic. These types of LTD claims 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 in the upcoming year.

Sun Life's original proposal indicated a 1% overall increase, which included a significant increase to the Claims Incidence Adjustment factor.

People Corporation sought more information on the Claims Incidence Adjustment factor and during their "year over year analysis" discovered an error in last year's renewal where the claims incidence factor had been applied incorrectly. Last year's LTD renewal should have been +12.8%, instead of +16.2%.

After negotiations, Sun Life agreed to a reduction to the LTD Insurance premium rates. Rather than the initially proposed 1% increase, the renegotiated LTD rates are 8%, representing a decrease which equates to an LTD premium decrease of approximately \$50,500 for the renewal period.

Extended Health Care

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

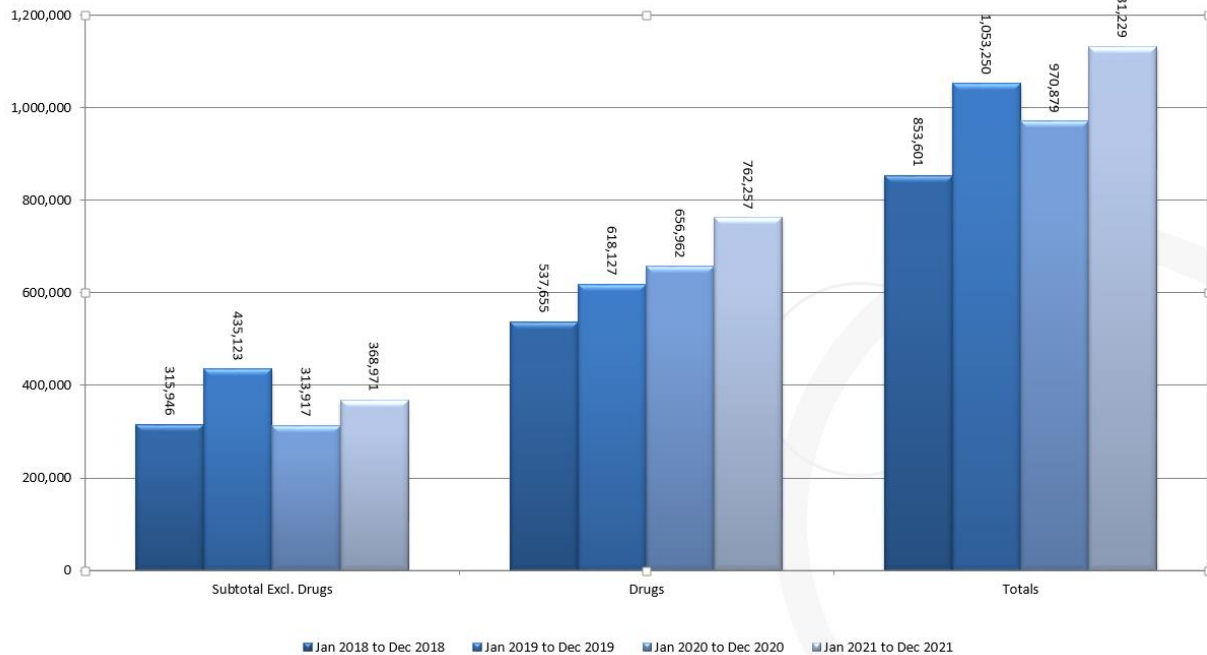
- i. The claims paid during the policy year;
- ii. The pooling charge assessed by Sun Life for the Large Amount/Out-Of-Canada Pooling arrangement; and
- iii. The administration charges under the plan

As a result of changing the renewal notice period from 90 days' notice to 180 days' notice, the most recent period of experience under review is the 9 month period February 1, 2021 to October 31, 2021.

For the renewal process, normally People Corporation would look at the County's current years' claims experience to determine the **trend factor** to be applied in the analysis, but as a result of the COVID-19 pandemic, normal claiming trends have been skewed. As such, People Corporation chose to analyze the past 2 years to have a broader perspective on the year over year trends.

While drug claims, which represent the majority of EHC claims, saw little impact by the pandemic, the other extended health claims have fluctuated over the last 4 years as shown in the chart below:

Health Claims Amount Paid

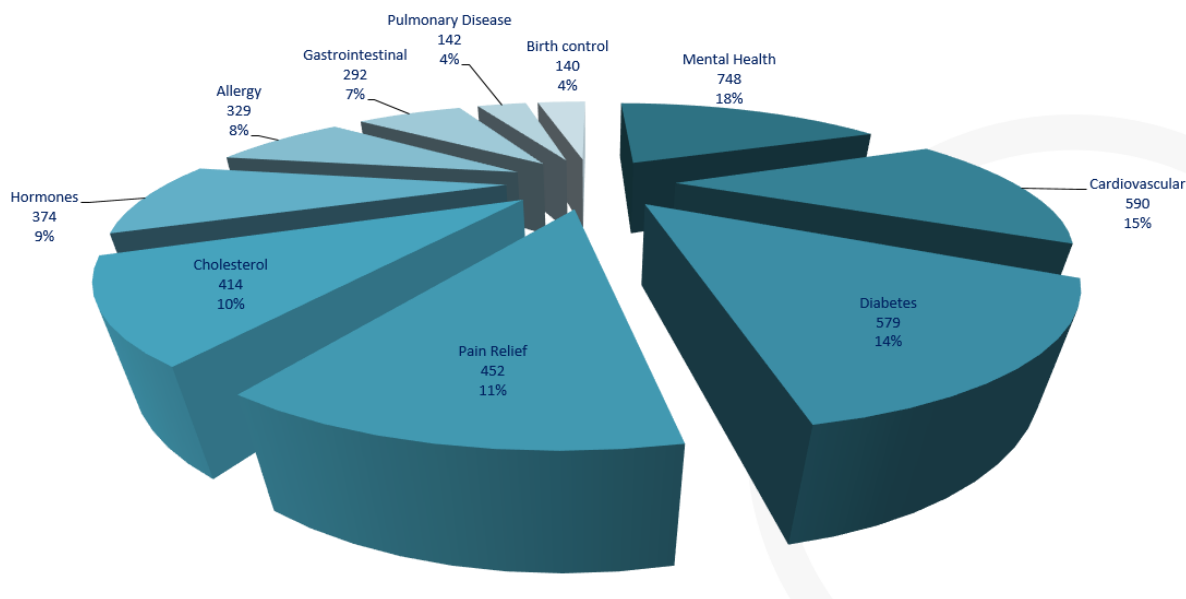


The continued impact of COVID-19 on health care costs will be felt by all group benefit plans across Canada. Benefit trends, such as an increased focus on mental health awareness and additional mental health supports through benefit programs and longer wait times for healthcare which could lead to late stage diagnosis, will all contribute to increased group benefit costs.

A breakdown of the County's 2021 drug claims, which shows the top 10 disease states, sorted by the total number of drug identification numbers (DIN's) is provided below. The County's top 3 disease states are currently mental health, cardiovascular and diabetes:

Top 10 Disease States by # DINs

Top 10 Disease State Classifications by # of Scripts



For Large Amount Pooling insurance, the County is protected from claims in excess of \$50,000 per employee and \$50,000 for all dependents combined, as well as Out of Country claims from first dollar. In the last year, \$53,773 in claims were removed from the County's claims experience as a result of this pooling. Currently the County pays a pooling charge of 7.99% (\$86,080 in 2021) and this charge is included within the extended health care premiums. Sun Life originally proposed to increase the pooling charge to 11.38% of all claims, which is an increase of 42.4% over last year. People Corporation was able to successfully negotiate a pooling charge of 8.43% which represents an increase of 5.5% (+\$4,740).

Based on the claims experience and large amount pooling, Sun Life originally proposed an increase of 13% for the Extended Health Care benefit premium; however, People Corporation negotiated a final increase of 10%, equating to a total increase of approximately \$141,700 for the renewal period.

Dental

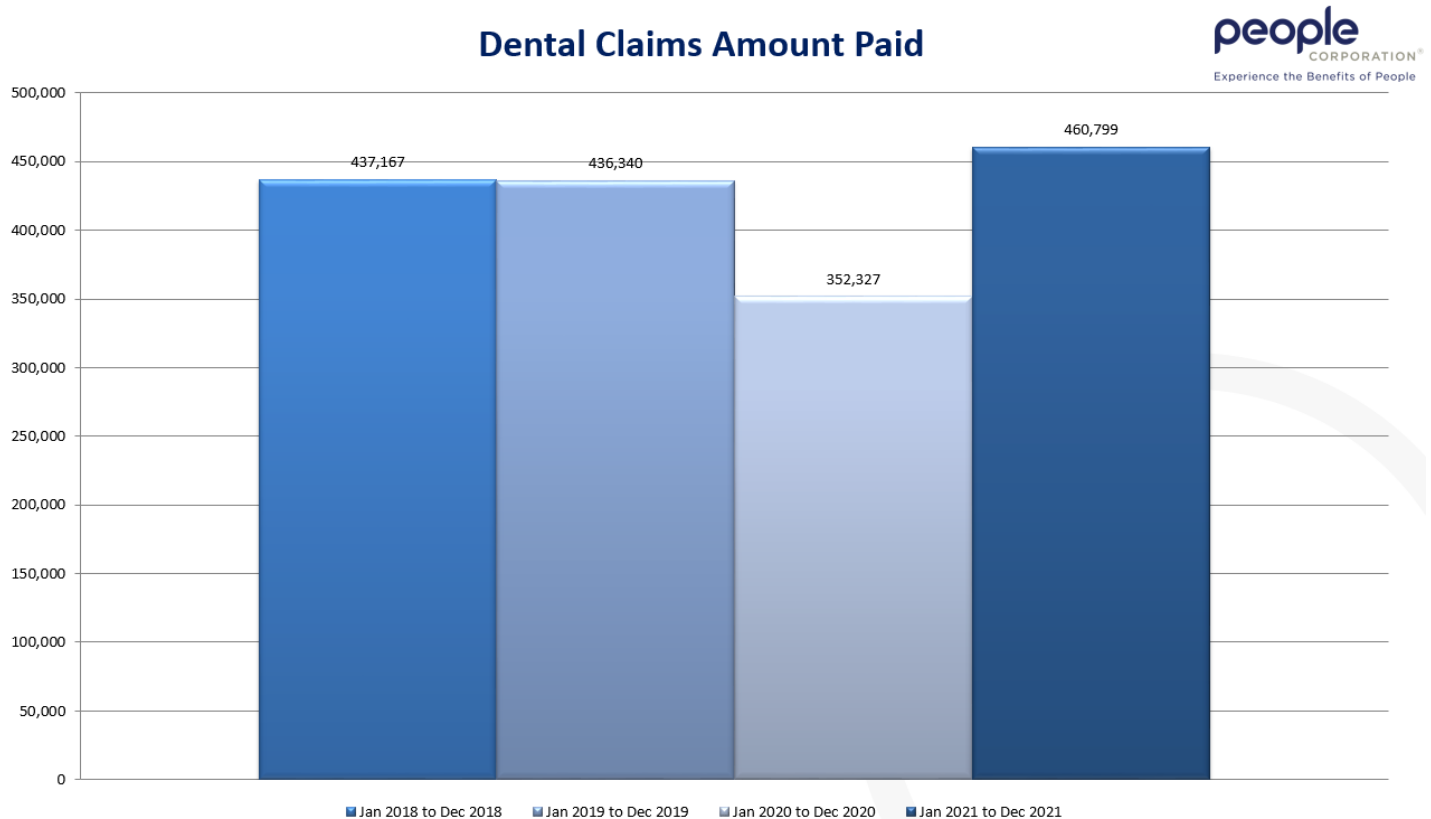
Dental benefits are provided through Sun Life and are determined solely based on the County's experience. Like Extended Health Care, the objective in determining the renewal premium rate is to ensure that the premiums generated during the policy year are sufficient to fund the claim costs and related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

Again, normally People Corporation would look at the County's current years' claims experience to determine an annual trend factor, but the COVID-19 pandemic has skewed the normal trends. For example, the year over year per capita trend in 2021 was +32%, while the trend in 2020 over the prior year was -23%. This is reflective of many dental services being unavailable during the height of the pandemic in 2020 and the gradual return to offering emergency and routine services since that time. Averaging these years gives a trend factor of +5%. For comparison, the year 2019 per capita cost was compared to 2021 which resulted in a trend of +2.1%. People Corporation also factored in dental fee

guide increases, inflation and a small deficit in the dental plan which resulted in using a slightly more conservative annual trend factor of +6%.

It is important to note that, across the insurance industry there has been an increase of more costly dental expenses due to the number of people putting off routine dental cleanings and checkups. People Corporation does expect a stabilization of dental claims in the future; however, it is difficult to know when that will occur.

A comparison of the total amount of Dental claims paid in the 2021 policy year and in the three preceding policy years is provided below:



Sun Life originally proposed an increase of 7% for the dental care premium; however, based on People Corporation's analysis, an increase of +8.5% is more appropriate to ensure the County does not end up in a deficit position and owe expenses at reconciliation. Although it is not typical to request an even higher increase than proposed, this was done after a thorough review of 2022 Q1 data, which indicates the dental loss ratio is trending higher. The proposed rate mitigates a potential deficit situation whereby additional fees may be applicable. Should the trend not be realized, any excess is refunded to the County. A renewal rate of +8.5% equates to a total increase of approximately \$47,100 for the renewal period.

2021 Financial Results

Given that the Extended Health Care and Dental benefits are on a refund accounted basis, there is an annual accounting and reconciliation of the financial results related to these benefits. For the 2021 policy year, in aggregate, the Extended Health Care and Dental benefits operated in a deficit position, generating a deficit of \$10,252.

When a deficit occurs, the amount required to cover the shortfall is drawn from the Claims Fluctuation Reserve (CFR). This reserve is required to be maintained at a level equal to 15% of the current annualized premium, being \$269,255 for the 2022 policy year. After drawing from the reserve to cover the deficit of \$10,252, it leaves the CFR in a shortfall of \$12,667 as of January 1, 2022, which means

the CFR is at a 95% funded level. In prior years, the CFR would often be over funded resulting in the excess funds being transferred to the Sun Life Deposit Fund to make them available for the County to seek a refund of the surplus amount. That is not the case this year.

Normally the County has always maintained a fully funded CFR; however, People Corporation recommends not adjusting the EHC rate beyond +10% and the Dental rate beyond +8.5% as there is a chance that the claims could still be fluctuating due to the pandemic's impact. By using a slightly more conservative trend factor in the analysis, it could provide enough margin to replenish the CFR. If not, a similar review and recommendation will be provided as part of the 2023 renewal process to ensure that the CFR does not remain inadequately underfunded.

Refund Accounting Charges

The refund accounting charges under the Extended Health Care and Dental plan represent Sun Life's administration charges, commissions and taxes associated with the plan. This is comprised of four types of charges (General Administration, Claims Handling, Risk and Profit Charges), as well as consultant commissions and premium taxes. Sun Life had proposed an increase to the General Administration Charge of +15% or an additional \$8,100 annually. Overall, and to the County's satisfaction, People Corporation was able to negotiate no change to the General Administration Charge, as well as a reduction to the Claims Administration charges, resulting in a total expense reduction of approximately \$3,000 to these charges, from \$128,700 down to \$125,500. The adjustments have already been applied to the plan effective January 1, 2022. A brief description of each of the charges 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.
- **Claims Handling Charges:** The charges 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.
- **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 2021.

The financial impact of each to the charges for 2022 is as follows:

Refund Accounting Expenses

General Admin	Current	Proposed	Negotiated	Basis
EHC	2.95%	3.40%	2.95%	% of premium
Dental	2.95%	3.40%	2.95%	% of premium
Claims Admin	Current	Proposed	Negotiated	Basis
EHC - Drug Card	4.10%	4.10%	3.90%	% of incurred claims
EHC - e-Claims	3.80%	3.80%	3.60%	% of incurred claims
EHC - Mixed	4.00%	4.00%	3.80%	% of incurred claims
EHC - Paper	4.45%	4.45%	4.25%	% of incurred claims
EHC Composite	4.04%	4.04%	3.84%	% of incurred claims
Dental	4.10%	4.10%	3.90%	% of incurred claims
Profit Charge	Current	Proposed	Negotiated	Basis
EHC	0.55%	0.55%	0.55%	% of premium
Dental	0.55%	0.55%	0.55%	% of premium
Total Expenses*	\$128,700	\$136,800	\$125,500	Negotiated Savings
\$ Difference from Current		\$8,100	-\$3,200	-\$11,300

*Based on 2021 premiums and incurred claims

In addition to the above charges, commissions are paid at a rate of 0.90% to People Corporation 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 Refund Accounting Charges noted above are included in the proposed premium increases for Extended Health Care and Dental outlined in this report.

Future Considerations

As noted, People Corporation was awarded the benefits consultant contract in 2021. At the time of award, they were asked to undertake a review of all aspects of the County's current Group Benefits Plan design with the carriers/insurer(s) including the insurance contracts, underwriting, financials, administration and communications and provide a written report of findings and recommendations. This included a review of the funding arrangements and where advisable, recommendations of alternative underwriting methods which would be financially beneficial to the County.

There were several recommendations that came forward as a result of the review. Some of these items have already been implemented such as changing the renewal notice period from 90 days to 180 days and correcting a previous service level change under the basic dental, whereas other benefit specific items will need to wait until collective bargaining allows.

People Corporation has also recommended two program-based changes that staff are currently looking into:

- a) A change in the method in which premiums are paid by the County.

Currently the method the County uses is similar to a payment plan method whereby the County is provided with a monthly payment to cover premiums based on estimates of actual claims paid. It is reconciled at year end. The other method is based on the philosophy of paying premiums based on claims as they occur, which means the monthly payment is not equalized; however, it eliminates the need for annual negotiations.

Staff will need time to further analyze the value of moving to a different method, with assistance from the Finance Division, to better understand the likely impact of potential change(s), including whether there are potential savings available. It is recommended that staff report back to Council with options before the next renewal period in 2023.

- b) A change in the benefits renewal date from July 1st to January 1st of each year.

Currently, the fiscal year is January 1st to December 31st for the EHC and Dental refund accounting arrangement. This annual accounting determines if a surplus or deficit exists. Whereas, the annual group benefit policies run from July 1st to June 30th. There are pros and cons for both of these options. Staff are recommending that these pros and cons be presented to Council at the same time as the premium payment method is brought forward to determine a beneficial go-forward approach.

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 \$156,000 including tax or an increase of 5.5%. The proposed Sun Life renewal premiums equate to a total annualized expense of \$2,979,000, including tax, based on the current employee enrolment and plan coverage. In addition, other insurers are paid AD&D annual premiums of about \$27,000 (approximately \$10,500 for Council members and full-time employees; and \$16,500 for volunteer firefighters).

The 2022 Tax-Supported and Rate-Supported Operating Budgets were prepared using current premium rates (July 1, 2021 renewal rates). Accordingly, the full anticipated annualized cost of \$156,000 is above what has been set aside for benefits costs in 2022. This projected deficit is based on the budgeted staff complement included in the 2022 operating budgets and will fluctuate due to changes in actual eligible employees, changes in family status, staff vacancies or council-approved staffing initiatives. Any surplus/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's Employee Benefits Reserve Fund, which has been used in the past to partially offset significant increases in benefit premium costs, currently has an unaudited balance of \$2,913,647.36 as at December 31, 2021. 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, 2021 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 2021 is approximately \$1,306,000.

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

None