HALDIMAND COUNTY

Memorandum HRD-M01-2022 Accounting of Extended Health & Dental Benefits

For Consideration by Council in Committee on November 1, 2022

To: Mayor Hewitt and Members of Council

From: Megan Jamieson, Director, Human Resources

Haldimand County provides a variety of group benefits to eligible full-time employees, members of Council, certain retirees and volunteer firefighters. Details on these benefits, eligibility, costs and projections are reported annually to Council, typically in May each year, as part of the July 1st renewal process. Earlier this year, via Report HRD-04-2022, Council approved the current benefit renewal rates and were advised of two program-based changes that staff have been considering, and would be reporting back on.

The purpose of this memo is to advise Council that staff will be implementing these two administrative changes in the coming years, and as a result the renewal process and timelines will change. Both changes are based on recommendations from the County's benefit Consultant, People Corporation, and after review by Human Resources and Finance staff, are fully supported for the reasons outlined.

a) Change in the method in which premiums are paid by the County (Extended Healthcare and Dental only)

Unlike a benefits plan that is underwritten on a fully insured, non-refund basis where the risk lies solely with the insurer, the County's Extended Health Care (EHC) and Dental benefits plan is based on an experience rated "refund accounting" basis. This means that premiums are paid monthly (based on established rates considerate of the County's own experience), followed by an annual accounting and reconciliation of the financial results to determine if the County is in a surplus or deficit. When there is a surplus, the County can seek a refund or transfer to a Deposit fund held by the insurer, whereas when there is a deficit, the County owes the additional funds.

Refund Accounting is considered to be a shared risk. The initial impact of any influx in claims is born by the insurer, but ultimately, the plan sponsor (Haldimand) is responsible for those costs. To administer, the County is required to fund a Claims Fluctuation Reserve (CFR), held by the benefits provider, at an amount equal to 15% of the current annualized premiums ($269,255 in 2022). When a deficit occurs, the amount required to cover the shortfall is drawn from the CFR.

Effective January 1, 2023, the County will be moving away from Refund Accounting to a third payment option known as "Administrative Services Only" (ASO). This move will eliminate the need for annual negotiation/renewal of EHC and Dental rates which serve as estimates for cost. Instead, actual expenses will be paid by the County in live time, for a more straight forward and transparent accounting of expenses.

Essentially, this represents a fully self-insured model that may require a bit more administration in-house in exchange for direct financial savings and opportunities for better financial accounting. Cost savings, using 2022 rates is estimated at $25,000 per year, primarily as a result of reduced profit charge (from current 0.55% to ASO rate of 0.30%).

Other significant costing notes:

- General Administrative Fees will now be based on a % incurred claims (up to pooling limits) rather than % of set premium;
- Risk Charge will continue to be at 0% due to Terminal Deficit Hold Harmless agreement in place between Sun Life and Haldimand County;
- Rather than funding the CFR, prescribed by Sun Life, Haldimand County will pay costs directly. This will be achieved through a deposit fund float, estimated at $200,000, and administered through a self-identified monthly budget expense.

As this change in process will eliminate the CFR, it is important to note that the County does have a healthy Employee Benefits Reserve Fund (2021 unaudited balance of approximately $2.7 million) that can be utilized for fluctuations in claims on an annual basis.

In reviewing People Corporations' municipal clients, 12 of 17 (71%) fund on an ASO basis, reinforcing this recommendation as the preferred model, particularly for a municipality of our size.

It is important to reiterate that this change to ASO reduces the administration costs to the lowest possible expenses available by only paying for claims, pooling charges and associated expenses by the provider and thus eliminates any annual negotiation and/or approval of EHC and Dental renewal rates. Council will continue to see annual renewals for Pooing Charge, Claims handling/administrative expenses, Life insurance, Long Term Disability (LTD) and Accidental Death & Dismemberment (AD&D) benefits, which are fully insured and subject to premium negotiations. Likewise, changes to benefit levels and/or service enhancements will continue to require Council approval, typically through collective bargaining or market change processes.

b) Change in the benefits renewal date from July 1st to January 1st of each year

The County's fiscal year is January 1st to December 31st, whereas the renewal period for group benefits is July 1st to June 30th. The main benefit of a July 1st renewal date was to deter from competing priorities at the end of a calendar year within the HR Division (i.e. processing of T4's and other year-end work), however, the preparation for renewal at year end mirrors what is currently being done in HR for other budgets and thus the overall benefits outweigh any operational impact.

Changing the group benefit renewal period to mirror the County's fiscal year would:

- Eliminate duplicate analysis of experience for the purposes of establishing budget assumptions and renewal rates;
- Align known budget assumptions (rather than estimated) with actual costs for a more transparent, accurate, and easy to understand budget and variance reporting process;
- Provide a full year reconciliation period for fiscal accounting items such as Pooling charges, which allows for more efficient administration and cost accounting.

Based on the obvious advantages, staff support changing to a January 1st renewal period. Staff will be engaging a public procurement process for benefit provider(s) starting in summer 2023 and will transition to a January 1st renewal period as part of implementing a new contract with the successful bidder. At a minimum, this will mean that Council will review renewal rates for Life, LTD and AD&D benefits for renewal on July 1st, 2023. If our current provider, Sun Life, is the successful bidder, we will transition to a January 1st renewal in 2024, however, if the procurement process results in a new provider, it is likely they will establish new rates upon the start of their contract and move to a January 1st renewal in 2025.

REFERENCES:

None.

ATTACHMENTS:

None.