
HALDIMAND COUNTY

Report HRD-05-2023 Employee Benefit Plan Renewals

For Consideration by Council in Committee on May 23, 2023



OBJECTIVE:

To approve the 2023 Employee Group Benefits insurance plan renewals for eligible Haldimand County employees, Volunteer Firefighters, Members of Council and retired employees.

RECOMMENDATIONS:

1. THAT Report HRD-05-2023 Employee Benefit Plan Renewals be received;
2. AND THAT Sun Life's monthly employee benefit plan renewal premium rates plus applicable taxes as outlined in Report HRD-05-2023 be approved effective July 1, 2023.

Prepared by: Heather Scott, Coordinator, HRMS/Benefits

Respectfully submitted: Megan Jamieson, Acting General Manager of Corporate & Social Services

Approved: Cathy Case, Acting Chief Administrative Officer

EXECUTIVE SUMMARY:

This report reflects the proposed 2023 renewal rates for Long Term Disability, Life, and Accidental Death and Dismemberment Insurance, as well as an informational rate update on the Extended Health Care and Dental benefits for eligible Haldimand County Council members, employees, retirees and volunteer firefighters. The level of benefits provided to each particular group are approved periodically 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. Based on the most recently available benefit experience and related demographics, the County negotiated renewal rates effective July 1, 2023. As a result of increased rates, staff anticipate a total shortfall of \$128,400 compared to the approved 2023 budget.

BACKGROUND:

Haldimand County provides group benefits for Extended Health Care (EHC), Dental Care, Life Insurance, Long Term Disability (LTD), and Accidental Death and Dismemberment (AD&D) for all eligible full-time employees, members of Council (excluding LTD), eligible retirees, and on-duty volunteer firefighters (Life and Accident & Sickness (A&S) only). The County also coordinates optional A&S insurance for volunteer firefighter who want to purchase off-duty benefit coverage, at their own expense. These benefits are an essential, valued portion of the overall employee compensation package and have evolved to assist employees stay healthy and productive.

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 and A&S. The AD&D Insurance is underwritten by iA Financial Group 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 ensure that we have the most accurate information to make informed decisions. The consultant provides specialized technical knowledge and expertise in these areas 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 seventh renewal period since the benefits contract was awarded in February 2016. The parties have the ability to renew our contract for a maximum of 2 more years before a public procurement process will be required. In light of the complexity of the health landscape and anticipated long term challenges such as delayed health treatment and increased mental health issues as a result of the pandemic, staff are preparing to go to market in 2023 with a Request for Proposal (RFP) for implementation of a new contract in 2024 or 2025.

ANALYSIS:

Annually, staff report to Council on the prior year's group benefits experience, market trends and expectations, and to seek authorization, where applicable, with respect to benefit renewal premiums. This can be a complex issue, particularly given the variety of benefits provided, the different ways to fund a benefits program and finding the right funding structure for an organization. The goal of establishing a funding structure is to balance affordability to the municipality with the appropriate level of risk, risk being an unexpected financial loss (i.e. a claim).

This report breaks down the information by benefit type and the financial arrangement used.

Non-Refund, Fully Pooled Benefits

With this underwriting method the insurance company takes all the risk and charges a rate per unit of coverage (for example \$0.30 per every unit of \$1,000 of coverage). The County's benefits plan history is pooled with other employer benefits plans within that insurer, meaning rates are established in accordance with the overall results of all of the clients participating in that insurer's pool. Premiums are paid into the insurer's pool and any claims are charged against the pool. This typically applies to benefits with low premiums and infrequent but comparatively high claim amounts. For Haldimand County, the following benefits are included in this underwriting arrangement:

- a. Accidental Death and Dismemberment*
- b. Volunteer Firefighters Accident and Sickness*
- c. Optional Employee Life Insurance – 100% employee paid*

Once the renewal rates are approved by Council, the premiums are paid for by the municipality, regardless of the actual number of claims processed or cost of the claims, meaning any shortfall or surplus remains with the insurer.

Premium rates for these benefits are adjusted periodically based on the insurer's "manual rate", which again, is based on the experience results of their entire pool, along with demographics of the particular group. In 2023, there are no proposed rate changes to these benefits.

Table 1: Proposed 2023 Renewal Rate Changes, Non-Refund Fully Pooled Benefits

Benefit	Carrier	Group Covered	Renewal Date	Proposed 2023 Premium Impact	Estimated Cost / (Saving) Of Proposed
Accidental Death & Dismemberment	iA Financial Group	Employees and Council	Mar 1, 2023	No Change	\$0
On-Duty Accident & Sickness	VFIS of Canada	Volunteer Firefighters	Jul 1, 2023	No Change	\$0

Non-refund, Prospectively Rated Benefits

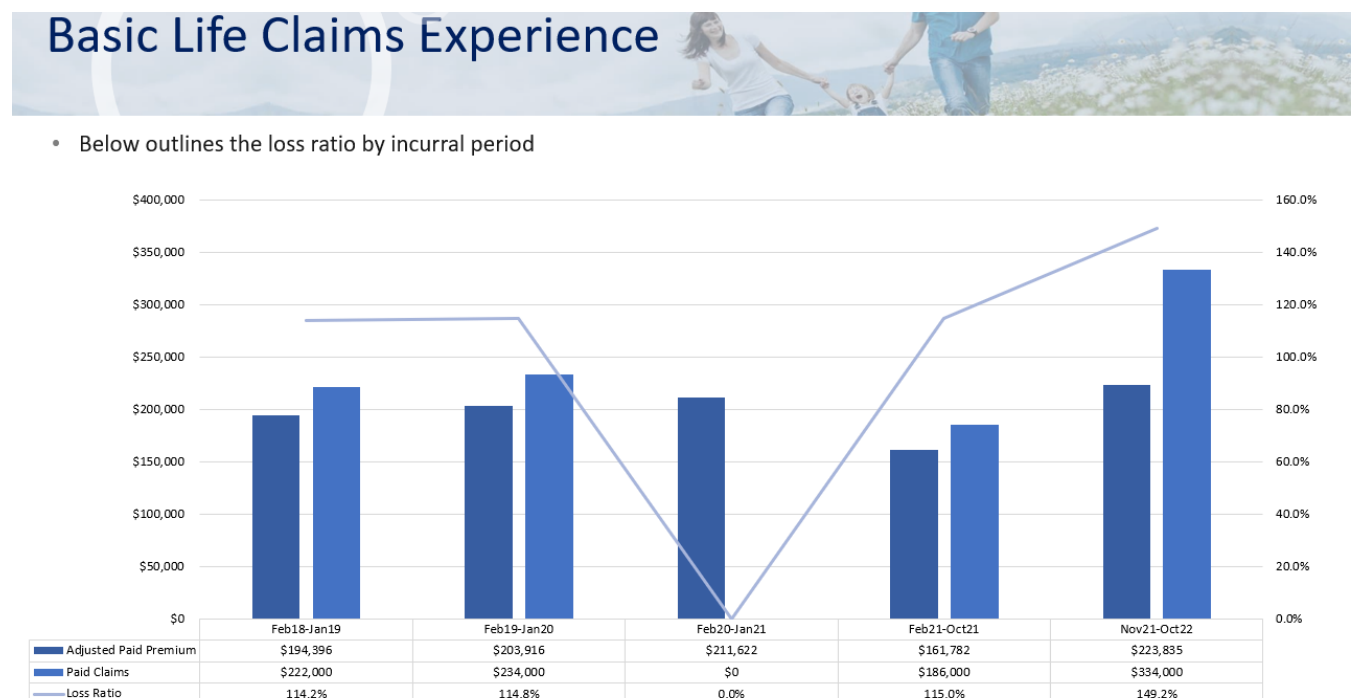
This underwriting methodology is very similar to the above, however, the renewal rates are based on a *combination* of the County's past historical claims experience and the insurer's manual rate. The combination depends on the credibility factor that is applied by the insurance carrier to the group's own experience. Other factors affect the renewal rates as well, such as the demographic changes of employees (age, male/female split etc.), trend factors and inflation factors which are all used to arrive at a negotiated renewal rate.

The County offers two benefits under this methodology:

- Basic Life Insurance: credibility factor used for this renewal was 32.2%.*

Sun Life used a 5 year period (February 1, 2018 to October 31, 2022) of claims experience (Graph 1) to analyze and calculate their renewal. The total paid Life Insurance claims for this period was \$840,000 for seven claimants (included in this amount was \$334,000 for two life claims that occurred in this most recent 12 months period ending October 31, 2022). Sun Life initially proposed a rate increase of 16%, however, our benefits consultant secured a renewal increase of 9%.

Graph 1: Basic Life Claims Experience from February 2018 – October 2022

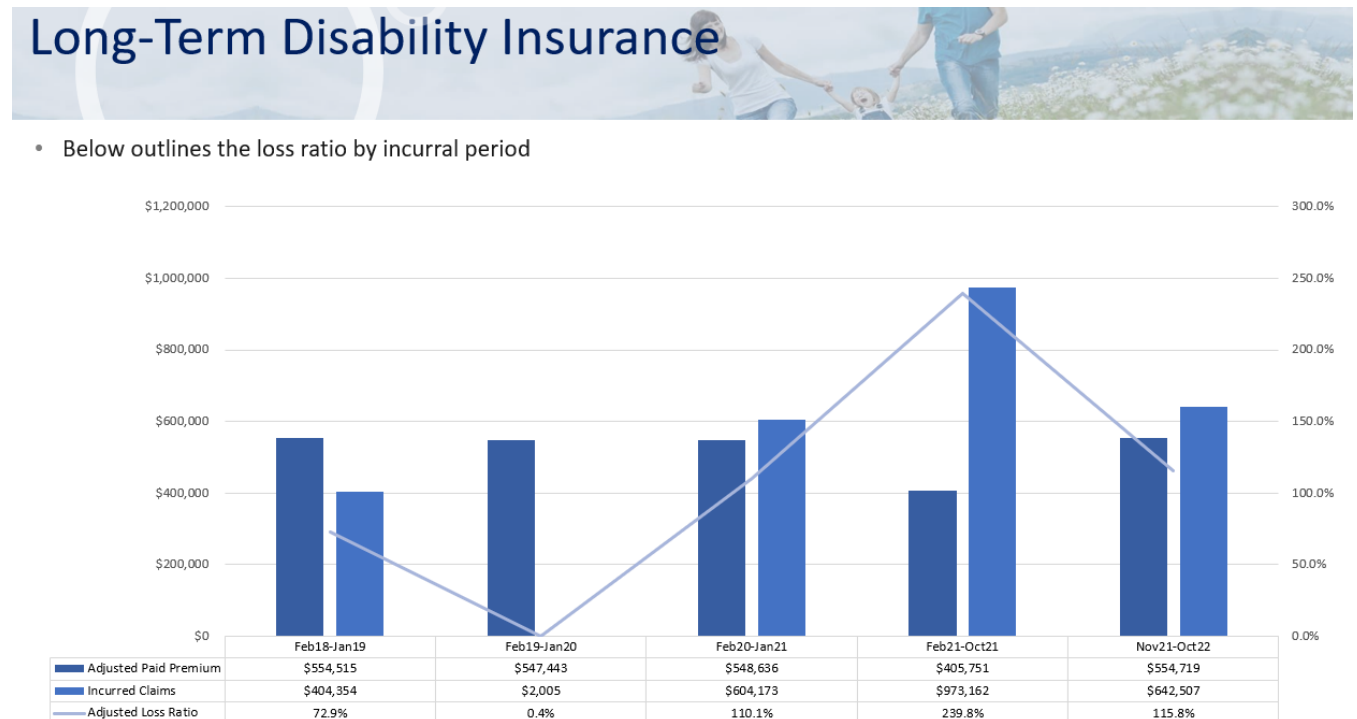


b. *Long Term Disability (LTD) Insurance: credibility factor used for this renewal was 42.1%*

Sun Life used the same 5 year period (February 1, 2018 – October 31, 2022) of claims experience (Graph 2) for the LTD insurance benefit renewal calculations. There were 7 individuals receiving LTD benefits within the analysis period. The total paid LTD claims for the period was \$547,767 and a total of \$1,727,479 in Disabled Life Reserves (DLR). The DLR impacts premiums and is held to fund future claim payments for the disabled individuals up to age 65.

Over the last 2 ½ years, the County’s LTD experience has deteriorated significantly, with claims and reserves increasing, which drove Sun Life to propose a rate increase of 39%. Through negotiations our benefits consultant was able to secure an increase of 20%.

Graph 2: Long-term Disability Claims Experience from February 2018 – October 2022



For both Life and LTD Insurance, the County relies on our Benefits Consultant to review the proposed rates and rationale submitted from the insurance carriers, perform their own analysis of the data and then negotiate on our behalf to reach the best “deal”. Ultimately, Council authorization is required to move forward with the best changes. Should Council not agree, there may be limited opportunity for further negotiation but it is likely that renewal would be challenging and the County could risk loss of service.

For Council consideration and authorization, the following Table 2 summarizes the proposed 2023 non-refund, prospectively rated group benefits premium rate changes, as recommended by the County’s benefits consultant. 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 provided by the various insurance plans, such as those approved through collective agreement negotiations/arbitration awards.

It is important to note that, as with the above methodology, this funding arrangement is non-refund therefore any shortfall or surplus remains with the insurer.

Table 2: July 2023 Proposed Life and LTD Renewal Rate Changes

Benefit	Carrier	Group Covered	Renewal Date	Proposed 2023 Premium Impact	Estimated Cost / (Saving) Of Proposed
Life Insurance	Sun Life	Eligible Employees, Council, Volunteer Firefighters and Retirees	July 1, 2023	9.0%	\$23,300
Long Term Disability	Sun Life	Eligible Employees	July 1, 2023	20.0%	\$127,300

Experience Rated Benefits with Administrative Services Only (ASO) Funding

Benefit plans that utilize the ASO funding arrangement are considered a “self-insured” solution for employers. The risk of claims costs lies primarily with the employer, up to the Large Amount Pooling (LAP) limit, which is further described below. In this case, all claims are still submitted to and administered by the insurer, who then invoices the full costs (plus applicable administration fees, commissions and taxes) to the municipality. At the end of the financial period the rates are reviewed and adjustments are made to the rates, when warranted, to ensure the estimated annual budget rates more accurately align with the actual claims for the upcoming year. If there is a deficit it must be paid in full, immediately. The County utilizes ASO for two benefit types:

- a. *Extended Health Care*
- b. *Dental Care*

Given the nature of ASO methodology, negotiation of premiums for these benefits is not required. However, for practicality, the County utilizes “fixed” monthly rates (from July 1 to June 30) to expense monthly costs and avoid ebbs and flows throughout the year. By using this arrangement it keeps the employee co-pay contributions (for dental coverage in two groups) set for a full 12 month period. This requires regular monthly monitoring of the “fixed” rates that are being used in comparison to the actual claims so that the County is always aware of whether the plan is in a surplus or deficit situation. Based on the experience over past 12 months, staff will be adjusting internal projected amounts, effective July 1, 2023, as follows:

- Extended Health Care: no change to rates
- Dental: 18% increase at an estimated annual cost increase of \$112,100

This year’s dental increase is higher than originally anticipated. In September 2022, the renewal projection prepared by our benefits consultant, forecasted that dental claims would likely need to increase by +8% based on data up to Aug. 2022. However during the renewal analysis that was completed earlier this year the benefits consultant used the most current experience data available (up to Dec. 2022) which showed that dental claims had jumped by an additional +8%. This upwards spike in usage along with the announcement that the Ontario 2023 Dental Fee guide increase was significantly higher than in previous years, led to an overall rate increase of 18%. The Ontario Dental Fee guide is set by the Ontario Dental Association. This adjustment should help ensure the plan does not run a significant deficit that the County would have to pay at the end of the financial period.

This is the first year for the County to utilize ASO funding for the EHC and Dental benefits. For the 2023 operating budget the EHC and Dental rates were kept at the July 1, 2022, rates, with 0% change to the rates. This approach was taken as a way for the County to monitor the first 12 full months of claims data under the ASO funding and see if a surplus or deficit was owing at the end of the 12 month period. However based on the unexpected jump in dental claims, it is prudent to adjust the dental rates now rather than incur a substantial deficit. Next year’s benefits renewal may be a bit different with the

undertaking of the upcoming RFP procurement process which includes an alignment of the benefits renewal date from July 1st to January 1st. This will eliminate the need for mid year analysis of the group benefits and provide the most efficient way for the benefit rates to be finalized in conjunction with the operating budget process.

Large Amount Pooling / Stop Loss

It is noted above that extended healthcare claims are paid by the employer (after the insurance company has processed the claims), up to a maximum amount per claim known as the “large amount pooling limit”. This limit provides an element of protection for potentially catastrophic claims (such as high drug claims or emergency travel claims). This arrangement means that Sun Life will “pool”:

- i) claims in excess of \$50,000 per employee,
- ii) \$50,000 per dependent unit (all dependents combined), and
- iii) all Out of Country claims from first dollar.

Such pooled claims are then “removed” from the County’s experience and not considered when calculating experience for future rate changes; this ensures, renewal rates are not impacted by unusual or extraordinary claims.

In return for this protection, insurers will charge a premium, regardless of whether or not the protection has been used. In 2022 the County paid a total of \$99,100 for the LAP premium. Any claims over this \$50,000 dollar threshold or any Out of Country claims are removed from the claims experience before the renewal rates are calculated. In 2022 there were \$83,008 in pooled drug claims that were excluded from the experience data. This LAP charge is rolled into the EHC premium. The current charge is calculated as 8.43% of non-pooled EHC claims, and after negotiations by our benefits consultant the new pool charge will be 9.71% of non-pooled claims.

Claims Handling / Administrative Expenses.

Finally, while the EHC and Dental benefits are considered self-insured, Sun Life acts as the administrator of the plans, where the County relies on them to set up and ‘operate’ the plan in the manner that we require. This includes producing benefits booklets, adjudicating and paying claims and other administrative functions that occur with relation to a benefits plan. In return, the County pays Sun Life the following ASO expenses: General Administration Charge, Claims Administration Charge, and a Profit Charge. These are calculated based on the non-pooled claims that are paid within our plan and these expenses are also subject to change at each renewal. This year, Sun Life indicated the General Administration charge needed to increase to 3.19% from 2.95%. Negotiations by our benefits consultant resulted in no change to the General Administration charge.

FINANCIAL/LEGAL IMPLICATIONS:

The Sun Life renewal rates for eligible County employees, Council members, retirees and Volunteer Firefighters’ benefit coverages, as outlined in this report, will result in a net annualized increase in premiums, on a combined basis, of approximately \$262,800 including tax or an overall increase of 8.3%. The proposed Sun Life renewal premiums equate to a total annualized expense of \$3,402,600, including tax, based on the current employee enrolment and plan coverage. In addition, other insurers are paid AD&D annual premiums of about \$27,700 (approximately \$11,200 for Council members and full-time employees; and \$16,500 for volunteer firefighters).

The 2023 Tax-Supported and Rate-Supported Operating Budgets were prepared based on the renewal projection data up to August 2022. Accordingly, the assumptions did not account for any experience since August 2022 resulting in some discrepancies as outlined in Table 3.

Table 3: Budget Discrepancies from July 2023 to June 2024:

Benefit Type	2023 Budgeted Renewal Rates effective July 1, 2023	Actual Renewal Rates effective July 1, 2023	Estimated 2023 Surplus / (Deficit)
Extended Health Care	0%	0%	\$0
Dental	0%	18%	(\$112,100)
Long Term Disability	15%	20%	(\$31,800)
Life Insurance	15%	9%	\$15,500
AD&D	0%	0%	\$0
Total			(\$128,400)

As shown above, it is anticipated that the proposed insurance renewals will result in a net 2023 budget shortfall of approximately \$128,400 based on the July 1, 2023 renewal date.

This projected deficit is based on the current monthly premium costs / headcount. Actual expenses will fluctuate due to changes in actual eligible employees, changes in family status, staff vacancies or council-approved staffing initiatives. Corporately, the surplus or deficit for the 2023 tax supported budget will be contributed to or from the Contingency Reserve. Future inclusion of these changes in the 2024 Tax Supported Operating Budget will result in a levy increase, if experience rates remain high.

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 approximately \$2,757,000 as at December 31, 2022. Given the balance of the Employee Benefits Reserve Fund, the County is in an excellent position to offset any future benefit insurance cost increases. 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.

Due to the January 1, 2023, EHC and dental funding arrangement change from refund accounting to ASO a terminal accounting must be completed. This should be finalized by Sun Life in June 2023. Once the December 31, 2022 financial statements are received then staff will be able to analyze the internally held Post-Employment Benefits Reserve Fund (held for Haldimand County retirees). As of last year's review in May 2022, sufficient funds had been accrued in the reserve fund to cover the current benefit insurance premiums for the existing retirees. The unaudited balance as at the end of 2022 is approximately \$1,209,000.

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

REFERENCES:

None.

ATTACHMENTS:

1. July 1, 2023 Renewal Rate Illustration