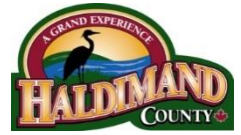

HALDIMAND COUNTY

Report CS-HR-04-2018 Employee Benefit Plan Renewals 2018

For Consideration by Council in Committee on May 15, 2018



OBJECTIVE:

To approve the 2018 Employee Group Benefits insurance plan renewals for eligible Haldimand County employees, Volunteer Firefighters, Members of Council and retired employees.

RECOMMENDATIONS:

1. THAT Report CS-HR-04-2018 Employee Benefit Plan Renewals 2018 be received;
2. AND THAT Sun Life's monthly employee benefit plan renewal premium rates, plus applicable taxes, as identified as "Negotiated Renewal Premium Rates" in Attachment #1 to Report CS-HR-04-2018, be approved effective July 1, 2018;
3. AND THAT the required amount be withdrawn from the surplus funds held in the Sun Life Deposit Fund in order to receive the applicable Ontario Retail Sales Tax rebate for the 2014 policy year, with the refunded amount to be transferred to the Employee Benefits Reserve Fund.

Prepared by: Heather Scott, Coordinator Benefit Services

Reviewed by: Lynda Tanner, Temporary Manager Human Resources

Respectfully submitted: Karen General, CPA, CGA, General Manager of Corporate Services

Approved: Donald G. Boyle, Chief Administrative Officer

EXECUTIVE SUMMARY:

This report reflects the proposed 2018 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 Group Benefits Program for the Corporation Of Haldimand County is underwritten by Sun Life Assurance Company Of Canada, with the exception of the Accidental Death & Dismemberment Insurance (AD&D). The AD&D Insurance is underwritten by Industrial Alliance Insurance and Financial Services Inc. Special Markets Solutions (SMS) for eligible full time employees and Council members, while VFIS of Canada underwrites the AD&D benefits for eligible volunteer firefighters.

On an overall basis, the Sun Life July 1, 2018 renewal action results in a reduction in annual premiums of 0.8% (approximately \$18,800), bringing the total annualized cost of Extended Health Care, Dental, LTD and Life insurance to \$2,268,200. Notably, a 20% increase in LTD premiums has been offset by a 7% decrease in Extended Health premiums and a 2% decrease in Dental premiums, while Life Insurance rates have been held at last year's rates as the last year of a rate freeze. Neither insurer is proposing any change to the AD&D insurance rates for Council members, employees or volunteer firefighters.

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 \$56,215 has been transferred to the County's deposit account, bringing the balance as of December 31, 2017, to \$244,610. 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 \$4,500 for the 2014 policy year, the County must withdraw approximately \$62,000 from the deposit account held by Sun Life prior to December 31, 2018. This refunded amount is recommended to be transferred to the County's Employee Benefits Reserve Fund.

BACKGROUND:

Through Report CS-HR-02-2016, staff presented the results of a Request for Proposal (RFP) related to Employee group benefits, including Extended Health Care and Dental Insurance, Life Insurance, Long Term Disability Insurance and Accidental Death and Dismemberment Insurance. As a result of the RFP, a contract for employee group benefits with Sun Life was approved by Council in February 2016, with the premium rates effective July 1, 2016 as follows:

- decrease of -19.4% for Life Insurance, with a rate guarantee until July 2019
- decrease of -9.6% for Long Term Disability Insurance, with a rate guarantee until July 2018
- no change to Extended Health Care or Dental Insurance.

In addition to group benefits provided through Sun Life for all eligible full-time employees, Haldimand County provides Accidental Death and Dismemberment (AD&D) insurance for active Haldimand County Council members and employees, including on-duty volunteer firefighters; as well, the County coordinates optional AD&D insurance for off-duty volunteer firefighters, at their own expense.

This report reflects the second renewal period since the 2015 RFP contract was awarded. Report CS-HR-05-2017 presented the 2017/18 renewal rates which reflected a substantial increase in extended health care rates, while dental plan rates decreased. This 2018/19 renewal is reflecting further decreases in dental rates, as well as a decrease in extended health rates, offset by a substantial increase in Long Term Disability Insurance following the two year rate freeze.

ANALYSIS:

Proposed 2018 employee group benefits insurance premium rate changes, as recommended by the County's benefits consultant, Mosey & Mosey, 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 2018 PREMIUM IMPACT
Extended Health Care	Sun Life	Eligible Employees, Council and Retirees	July 1, 2018	-7.0%
Dental	Sun Life	Eligible Employees, Council and Retirees	July 1, 2018	-2.0%
Life Insurance	Sun Life	Eligible Employees, Council, Volunteer Firefighters and Retirees	July 1, 2019	No change (3 year rate guarantee to June 30, 2019, as per RFP)
Long Term Disability	Sun Life	Eligible Employees	July 1, 2018	+20%
Accidental Death and Dismemberment	Industrial Alliance Pacific (SMS)	Employees and Council	March 1, 2018	No Change
On-Duty Accidental Death and Dismemberment	VFIS of Canada	Volunteer Firefighters	July 1, 2018	No Change

At Council's direction, a complete copy of the Renewal Rate Report, prepared by Mosey & Mosey, is attached for reference in Attachment #1. The negotiated renewal rates identified in the attachment are based on the monthly premium rates for employees currently covered by the respective groups and include the applicable 8% retail sales tax. The total cost of each insurance plan can vary from these figures depending on the actual number of eligible employees in each group who are eligible for benefits on a monthly basis, as well as whether the individuals elect single or family coverage.

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

Accidental Death and Dismemberment (AD&D)

This insurance coverage is for current eligible employees and Members of Council. The Accidental Death and Dismemberment (AD&D) rates remain unchanged, effective March 1, 2018.

Volunteer Firefighters Accidental Death and Dismemberment

The County provides Accidental Death and Dismemberment (AD&D) insurance in the amount of \$100,000 for On Duty Coverage for the Volunteer Firefighters (VFF's). Also available is optional AD&D insurance in the amount of \$100,000 for Off Duty Coverage. The County pays 100% of the premium for On Duty Coverage for the approved complement of VFFs, whereas the optional Off Duty Coverage is paid for by those individual VFFs who elect to enroll. VFIS of Canada rates remain unchanged for the July 1, 2018 renewal.

Basic Life

As a result of the RFP process from 2015, the Life insurance rates are guaranteed until June 30, 2019.

Long Term Disability

As a result of the 2015 RFP, Sun Life offered a 2 year premium rate guarantee for the Long Term Disability Insurance premium rates, from July 1, 2016 to June 30, 2018. In this regard, the premium rate guarantee for the Long Term Disability Insurance benefit has expired, meaning that the premium rates for this benefit are subject to review at this renewal.

The Long Term Disability 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 Long Term Disability Insurance benefit and is considered in the renewal calculations. Then, a degree of credibility is applied to the claims experience; the balance of the renewal calculation is based on the demographics (age, sex and volume of insurance) of the insured employees. This 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 5 years of claims experience for the Long Term Disability Insurance benefit in their renewal calculations, with a renewal period based on February 1st to January 31st (see pages 9 to 12 in Attachment 1 for full details). During the 5 year time period of February 1, 2013 to January 31, 2018, there were 14 County employees who received Long Term Disability benefit payments totalling \$1,050,000. In addition to paid claims, Disabled Life Reserves impact premium requirements. These reserves are held for future claim payments for individuals who are disabled. The amount of the Disabled Life Reserves held in relation to claims incurred on or after February 1, 2013, is almost \$800,000.

Sun Life’s original renewal calculations indicated that a 31% increase was required in the 2018 LTD premium rates; however, Mosey and Mosey noticed that the adjusted premium for the period had been understated and that the calculation of the paid LTD claims was incorrect. When the calculations were corrected, it reflected a renewal increase of 25%. Mosey and Mosey went a step further and noted that one large LTD claim representing 54% of the total Disabled Life Reserves, incurred during the 2013-2014 policy year, would not be within the renewal analysis period for next year’s renewal. After discussions, Sun Life agreed to limit the LTD premium increase to 20%, as it would be more reflective of the premium level going forward, after this claim is no longer considered in the renewal analysis.

Extended Health Care and Dental Renewal

Extended Health Care

The Extended Health Care benefits are provided through Sun Life on a fully experience-rated, retention accounting basis. Under this arrangement the renewal premium costs for these coverages are determined on the basis of the actual claims experience exhibited under the plan. 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 (note: the administration charges remain unchanged as Sun Life provided a 3 year rate guarantee which expires June 30, 2019).

The revised renewal calculations are outlined below to substantiate the 7% decrease in Extended Health Care premiums for the 2018/19 period:

Policy Review Period: February 1, 2017 to January 31, 2018

Extended Health Care

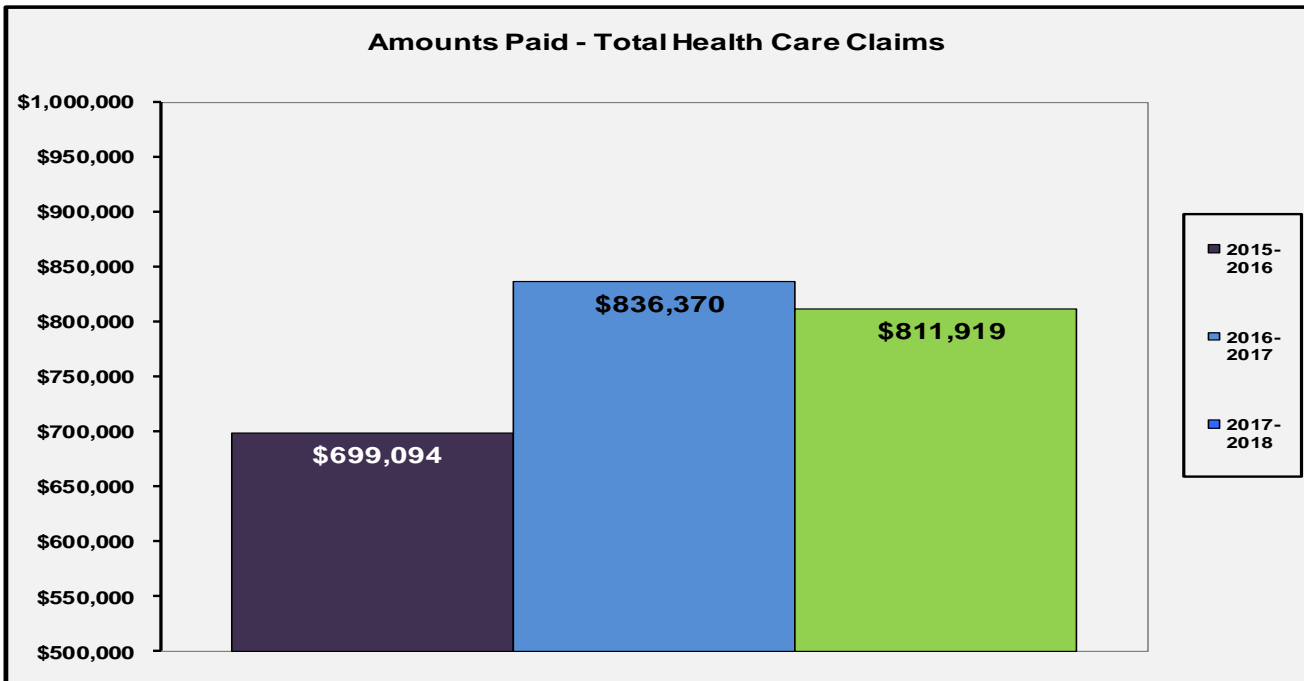
A	Paid Premium	\$	1,043,001
B	Adjusted Premium ¹		1,091,739
C	Pooling Charge ²		(56,786)
D	Non-Pooled Adjusted Premium (B+C)		1,034,953
E	Paid Claims		811,919
F	Pooling Credit ³		(692)
G	Non-Pooled Claims (E+F)	\$	811,227
H	Incurred Loss Ratio (G÷D)		78.4%
I	Trend ⁴		8.6%
J	Adjusted Loss Ratio (H x [1+I])		85.1%
K	Retention Factor (Target Loss Ratio) ⁵		91.80%
L	Required Premium Rate Adjustment ((J÷K)-1)		-7%

Notes:

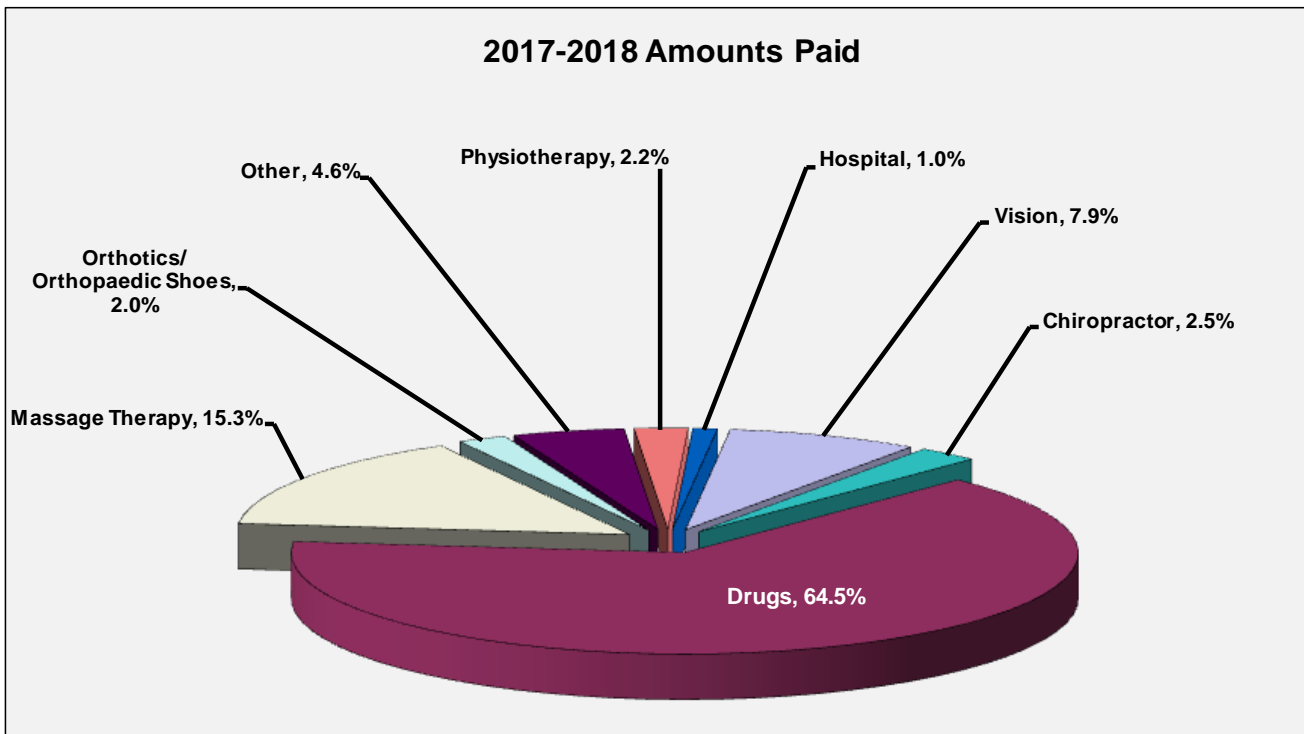
- 1 The premium rates for the Extended Health Care benefit increased by 12% at the renewal on July 1, 2017. The premiums paid for the period February 1, 2017 to June 30, 2017 have been adjusted to reflect the renewal premium rate increase.
- 2 The Pooling Charge is 7.0% of Extended Health Care Non-Pooled Claims.
- 3 There were \$692 in claims which qualified under the Out-Of-Canada and Large Amount Pooling arrangements. The Out-Of-Canada claims (pooled from the first dollar) were \$692 (2 claimants). There were no paid claims which exceeded the \$50,000 Large Amount Pooling point.
- 4 The annual inflation/utilization trend utilized is 6.0%. Industry standards range from 11.0% to 14.0% per annum. In accordance with industry standards, the inflationary/utilization trend has been adjusted to 8.6% to reflect the five month lag time from the end of the claims experience review period (January 31st) and the effective date of the renewal (July 1st). The inflationary/ utilization trend applied by all insurers results from the introduction and release new high cost medications and prescription drugs entering the marketplace, the expected increase in utilization due to an aging workforce, and the increased utilization of health services in general.
- 5 Target Loss Ratio determined based on Insurer Expenses of 8.2% of premium.

For Large Amount Pooling insurance, the County has an amount of \$50,000 for protection against the impact of large extended health care claims. In the last year, \$692 (item F in above chart) in claims were removed from the claims experience as a result of this pooling (see page 14 – 15 in Attachment 1 for details). Also, effective January 1, 2018, Sun Life has increased the pooling charge from 6.34% to 7% (item C in above chart) which will result in an annual premium increase of approximately \$5,400. Sun Life was unwilling to reduce this charge as it relates to all clients in the pooling group.

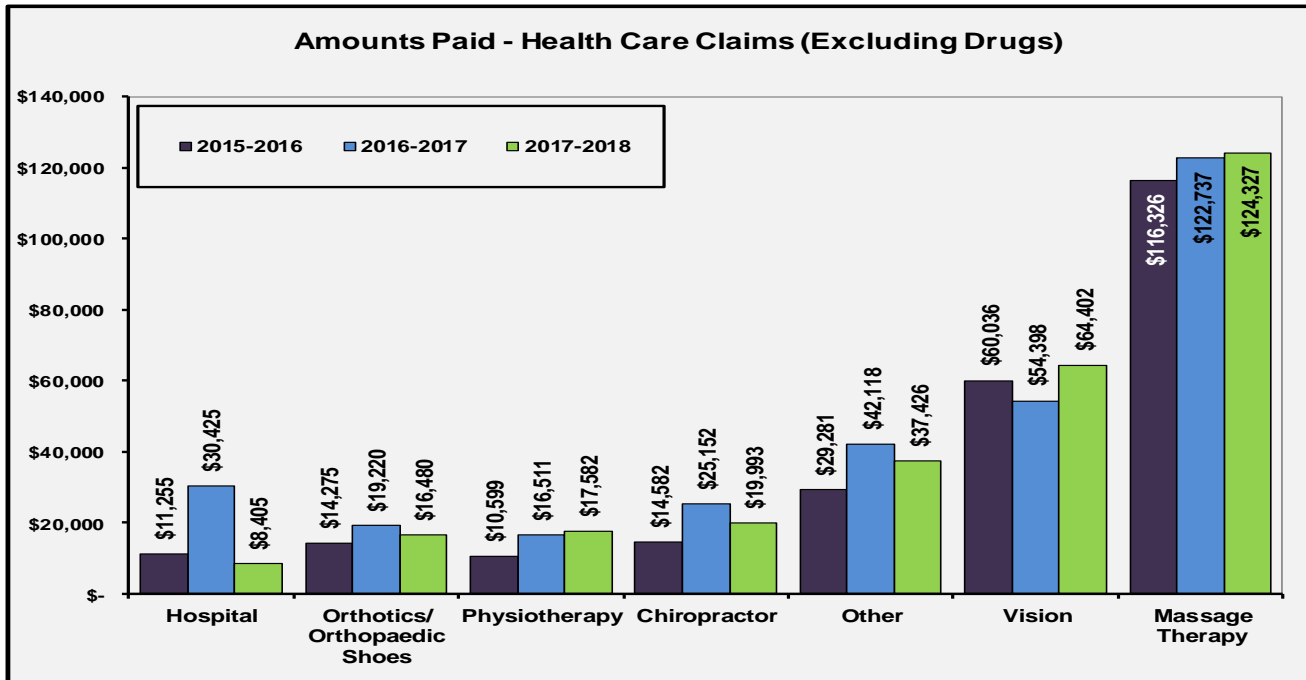
For the period February 1, 2017 to January 31, 2018, the amount paid for extended health claims has decreased by 3% when compared to the previous policy year as shown in the chart below.



A breakdown of the 2017/18 Extended Health Care claims, by claim type, is provided below.



The following chart provides a breakdown of amounts paid for health claims (excluding drugs which account for almost 2/3's of the expense as shown above) over the past three review periods.



Dental

The Dental benefits are provided through Sun Life on a fully experience-rated, retention accounting basis. Under this arrangement, the renewal premium costs for these coverages are determined on the basis of the actual claims experience exhibited under the plan. The revised renewal calculations are outlined below to substantiate the 2% decrease in Dental premiums:

Policy Review Period: February 1, 2017 to January 31, 2018

Dental

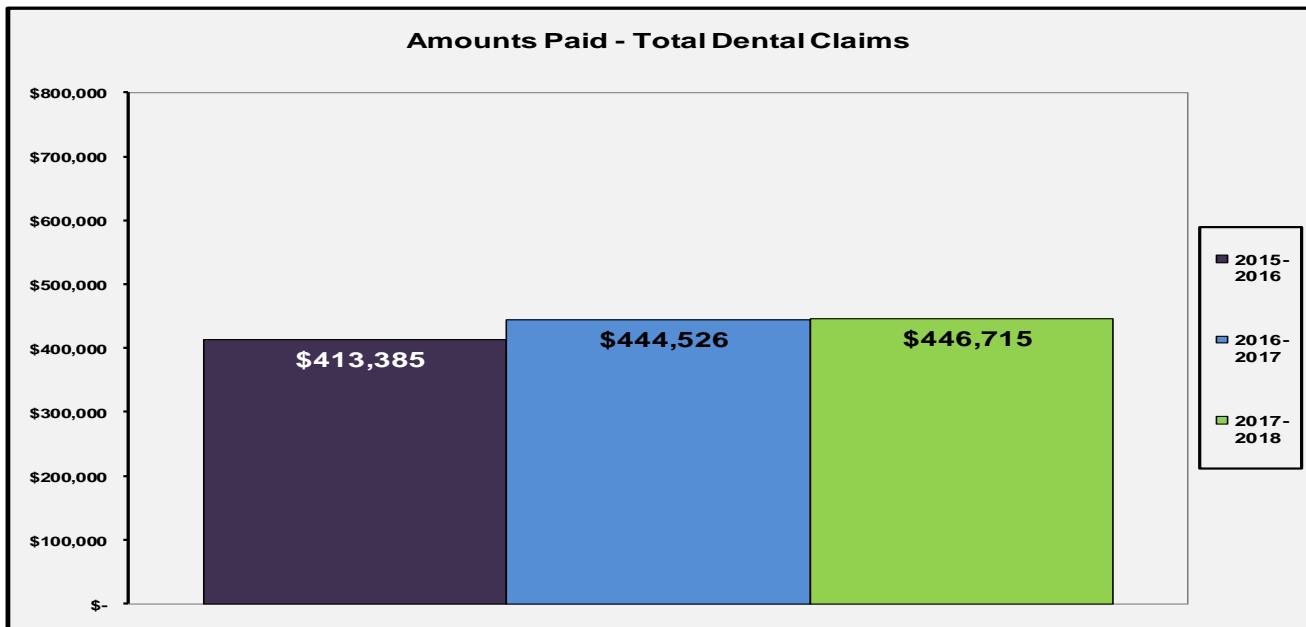
A	Paid Premium	\$	500,736
B	Adjusted Premium ¹		534,723
C	Paid/Incurred Claims	\$	446,715
D	Incurred Loss Ratio (C÷B)		83.5%
E	Trend ²		7.9%
F	Adjusted Loss Ratio (D × [1+E])		90.1%
G	Retention Factor (Target Loss Ratio) ³		91.80%
H	Required Premium Rate Adjustment ((F÷G)-1)		-2%

Notes:

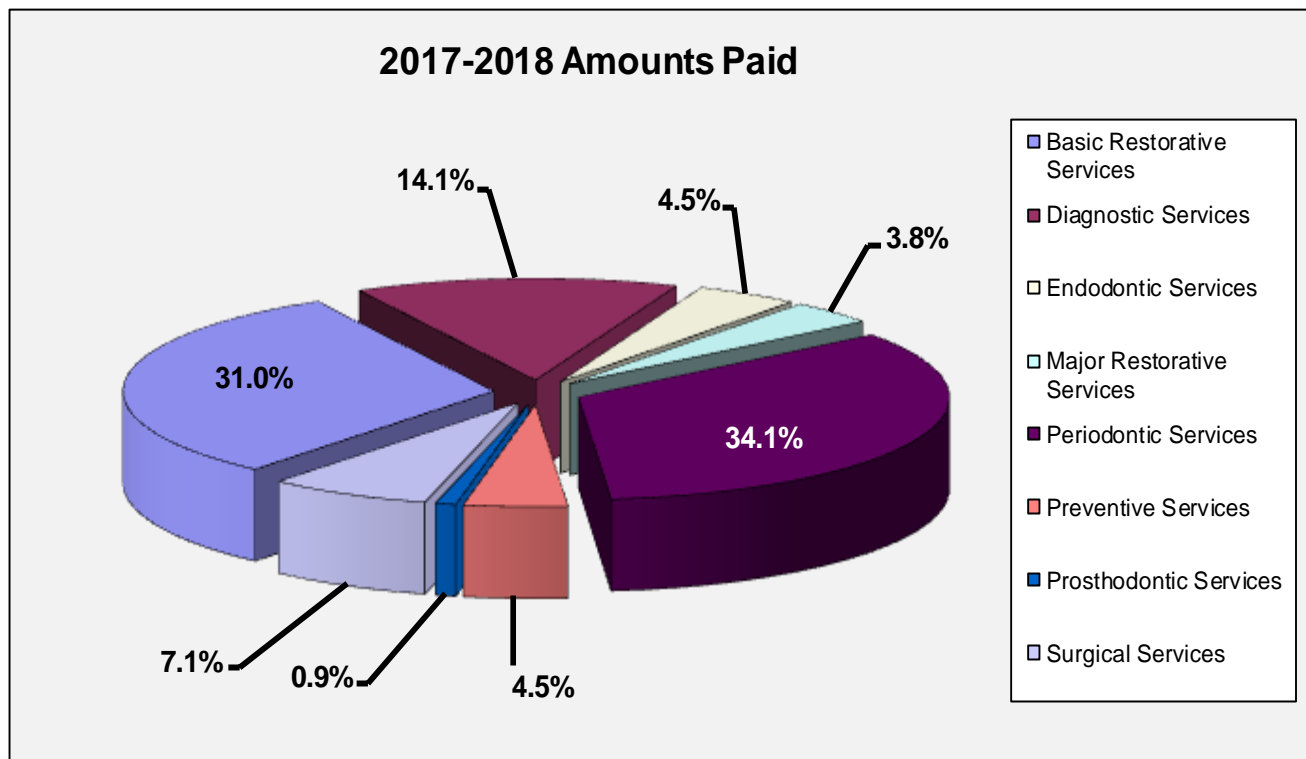
- 1 The premium rates for the Dental benefit increased by 18% at the renewal on July 1, 2017. The premiums paid for the period February 1, 2017 to June 30, 2017 have been adjusted to reflect the renewal premium rate increase.
- 2 An annual utilization trend (inclusive of the Ontario Dental Association (ODA) fee guide adjustment) of 5.5% has been applied to reflect the expected increase in claims from one year to the next. Industry standards range from 5% to 7% per annum. The utilization trend has been adjusted to 7.9% to reflect the five month lag time from the end of the claims experience review period (January 31st) and the effective date of the renewal (July 1st).
- 3 Target Loss Ratio determined based on Insurer Expenses of 8.2% of premium.

The aggregate Dental claims for Haldimand County increased by less than 1% in the 2017-2018 Policy Year, when compared to the claims level exhibited in the 2016-2017 Policy Year. This follows an increase of approximately 8% in the 2016-2017 Policy Year.

A comparison of the total amount of the Dental claims paid in the 2017-2018 Policy Year and in the two preceding Policy Years is provided below:



A breakdown of the 2017/18 Dental claims by claim type is provided below.



2017 Financial Results

The Extended Health Care and Dental benefits are underwritten on a fully experience rated, retention accounting arrangement. There is an annual accounting of the financial results related to these benefits.

In aggregate, the Extended Health Care and Dental benefits operated in a surplus position during the 2017 policy year, generating a surplus of about \$72,000. 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 for the 2018 policy year is \$228,349; therefore, \$15,800 of the 2017 policy year surplus has been transferred to the CFR to bring it to the fully-funded level. The remainder of the 2017 policy year surplus, \$56,215, has been transferred to the Deposit Fund held by Sun Life, bringing the total, as at December 31, 2017, to \$244,610. Haldimand County may seek refund of the surplus funds held by Sun Life; however, historically, we have maintained the Deposit Fund at about \$200,000, which is equivalent to one month's premiums.

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, 2014, Haldimand has a potential RST credit of \$4,458.36 which expires on December 31, 2018. In order to secure this RST refund (\$4,458.66), Haldimand County must withdraw \$62,352.51 from the Sun Life Deposit Account prior to December 31, 2018. Staff recommends this action be taken and that the refunded amounts be contributed to the Employee Benefits Reserve Fund.

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 decrease in premiums, on a combined basis, of approximately \$18,800 including tax, or a reduction of 0.8%. The proposed Sun Life renewal premiums equate to a total annualized expense of \$2,268,200, including tax, based on the current employee enrolment and plan coverage. In addition, other insurers are paid AD&D annual premiums of about \$26,000 (approximately \$10,000 for Council members and full-time employees; and \$16,000 for volunteer firefighters.)

The 2018 Tax-Supported and Rate-Supported Operating Budgets were prepared prior to the 2018 group benefit insurance renewal rates being finalized. Accordingly, they reflected estimated premium rate increases, effective July 1, 2018, thereby accounting for only six months' impact in the current calendar year. The budgeted increase in LTD, offset by expected decreases in Extended Health and Dental coverage, were estimated taking into account the carrier's projections from last fall, with some mitigation. Budgeted 2018 renewal rates, as compared to the proposed renewal rates, are shown below.

Benefit Type	Change in 2018 Budgeted Renewal Rates effective July 1, 2018 () indicates Decrease %	Change in Final Renewal Rates, effective July 1, 2018 %	Estimated 2018 Surplus/ (Deficit) \$
Extended Health Care	(5.0)	(7.0)	12,000
Dental	(3.0)	(2.0)	(2,900)
Long Term Disability	33.0	20.0	24,700

Benefit Type	Change in 2018 Budgeted Renewal Rates effective July 1, 2018 () indicates Decrease %	Change in Final Renewal Rates, effective July 1, 2018 %	Estimated 2018 Surplus/ (Deficit) \$
Life Insurance	0	0	0
AD&D	0	0	0
Total			33,800

As shown above, it is anticipated that the proposed insurance renewals will result in a net 2018 surplus of approximately \$33,800 based on the July 1st renewal date. This projected surplus is based on the budgeted staff complement included in the 2018 operating budgets and will fluctuate due to changes in actual eligible employees, changes in family status, staff vacancies or council approved staffing initiatives. Any remaining variance will form part of the overall corporate operating surplus/deficit for 2018. Should the actual experience data rise, warranting an increase to 2019 premium rates, the impact on next year's budget will be partially mitigated by the higher base budget from 2018.

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 \$1,922,500 as at December 31, 2017. Given the balance of the Employee Benefits Reserve Fund, the County is in 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 sick leave costs.

Upon receipt of the December 31, 2017, 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 2017 is approximately \$585,900.

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. Haldimand County Group Benefits Insurance Renewal Package, as at July 1, 2018, as prepared by Mosey and Mosey.