



TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health

DATE: 2015 May 7

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## GREAT-WEST LIFE BENEFITS – RENEWAL RATES

### **Recommendation**

*It is recommended that the Finance & Facilities Committee review and make recommendation to the Board of Health to approve the renewal of the group insurance rates administered by Great-West Life as describe in Report No. 012-15FFC re Great-West Life Benefits – Renewal Rates.*

### **Key Points**

- The group benefits contract with Great-West Life expires April 30, 2015. Staff have reviewed the renewal rates with AON Hewitt and find the rate increase to be reasonable after considering market conditions.
- As part of the renewal, life insurance premiums would increase by 3%, and long-term disability premiums would increase by 7%.
- Administrative Services Only (ASO) benefits/claims (Health and Dental) are also expected to increase. Health benefit costs are expected to increase by 12%, and dental benefit costs by 8%
- Overall the impact on the above rate & volume changes on average is 10%. The 2015 budget planned for an increase of 4%, resulting in an unfavourable variance of approximately \$55,000 by year end.

### **Background**

In 2012 the Health Unit, with the assistance of AON Hewitt (AON), went through a Request for Proposals to ensure our group insurance rates were competitive. As a result the Health Unit changed its insurance carrier from Manulife to Great-West Life effective February 1, 2013. This change resulted in significant savings for both our employees and for the Health Unit. All costs related to the insured benefits (Life, Accidental Death & Dismemberment (AD&D), Long-Term Disability (LTD), Pooling and Administrative Services Only (ASO) expenses were reduced effective February 1<sup>st</sup>, 2013 and have remained unchanged due to rate guarantees that were negotiated. These rate guarantees expire April 30<sup>th</sup>, 2015.

### **New Insured Benefit Rates (Life, AD&D, LTD, Pooling Insurance, ASO Expenses)**

As of May 1<sup>st</sup>, 2015, life insurance rates will increase by 3%, AD&D rates will remain unchanged, and LTD rates (employee paid) will increase by 7%. Although Great-West Life (GWL) had implemented significant discounts within their 2012 proposal (i.e. 23% discount for Life, 25% for LTD), GWL's proposed increases in the renewal rates represent fair adjustments. GWL will be increasing the pooling charges effective May 1, 2015 by about \$7,000 for the renewal year. In regards to the increase in pooling insurance charges, AON has confirmed that pooling charges have been increasing significantly throughout the insurance industry and rates are typically not negotiable. Lastly, ASO expenses (general administrative expenses and health/vision claims expenses) will also increase as they too are coming off a rate guarantee. The increase represents approximately \$6,000 for the renewal year. AON has benchmarked these expenses and has found that the new expense rates are still more than 10% lower than the market average.

## ASO Benefits (Health and Dental)

These benefits are funded based on actual claims utilization of benefits paid. The Health Unit sets a monthly deposit rate in advance to fund expected claims and expenses based on actual experience as well as AON's recommendation of emerging trends. As can be seen by the ASO benefits history attached as [Appendix A](#), the 2013 experience was very favorable and we therefore had a decrease in rates by 5% effective May1, 2014. In Contrast, the 2014 experience saw an upward trend in claims costs vs. premiums (premium deficit) especially in the latter half of last year which may be a direct result of the environmental factors (collective bargaining) as the increase in claims activity seemed to align with this period. Overall, health claims increased by 22% and dental claims by 4.4 % compared to 2013.

For the May 1<sup>st</sup>, 2015 renewal period AON had initially recommended the following increases; health - 20%, dental - 11.6%. After discussions with AON, Health Unit staff members plan to take a more aggressive approach and only plan for a 12% increase for health and 8% increase for dental benefits. Staff will monitor monthly claims experience very closely and if required make a mid-renewal period increase should emerging claims and expenses exceed our planned monthly deposits.

## 2015 Budget Implications

Incorporated into the 2015 operating budget was a \$44,405 increase in costs of employee benefits (or 4%). Considering the rate increases as well as the expected increases in the ASO benefits the Health Unit may experience a cost increase in the 10% or \$100,000 range instead. This would leave a budget shortfall in this category of approximately \$55,000 by the end of 2015.

## Conclusion

The Health Unit's contract with Great-West Life to provide group insurance expires April 30<sup>th</sup>, 2015. Health Unit staff along with AON have reviewed the proposed rate increases and have found them to be reasonable after considering market conditions. Life insurance premiums are increasing by 3% and Long-Term Disability premiums by 7%. Over the past two years, the ASO benefits have experienced high year – to – year variability, however, the data shows a consistent upward pressure since mid-2014. Therefore, it is also recommended that monthly deposit be increased to maintain expected increases in health claims costs of 12%, and dental claims costs of 8%. Overall benefit costs over the renewal period are expected to increase by 10% on average.

This report was prepared by Ms. Lisa Ellington, Payroll and Benefits Administrator, and Mr. John Millson, Director of Finance & Operations.



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