



TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health

DATE: 2016 May 3

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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 described in Report No. 013-16FFC re: “Great-West Life Benefits – Renewal Rates”.*

### **Key Points**

- The group benefits contract with Great-West Life (GWL) expires April 30, 2016. Staff reviewed the renewal rates with Aon Hewitt and have been able to reduce the GWL proposed rate increases.
- As part of the renewal life insurance premiums would increase by 23.7%, and long-term disability premiums would increase by 10%.
- 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 7%.
- Overall the impact of the above rate and volume changes on average is 11.2% annually. For the 8 months of 2016 (May - December) that translates to roughly 7.5% (planned was 5.7%).
- Total expenditures for employer paid benefits are expected to match fairly closely to budget projections.

### **Background**

The Health Unit, with the assistance of Aon Hewitt (Aon), went through a Request For Proposal process in 2012 to ensure that group insurance rates were competitive. As a result the Health Unit changed its insurance carrier from Manulife to Great-West Life effective February 1<sup>st</sup>, 2013. This change resulted in significant savings for both 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 remained unchanged due to rate guarantees until April 30<sup>th</sup>, 2015. On May 1<sup>st</sup>, 2015, as a result of the end of the rate guarantees, life insurance rates increased 3%, AD&D rates remained unchanged, and LTD rates (employee paid) increased 7%.

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

As of May 1<sup>st</sup>, 2016, life insurance rates will increase by 23.7%, AD&D rates will remain unchanged, and LTD rates (employee paid) will increase by 10%. Great-West Life (GWL) had implemented significant discounts within their 2012 proposal (i.e. 23% discount for Life, 25% for LTD). Given the 2015 & 2016 negotiated rate increases ([Appendix A](#)), the 2016 rates are still below the pre-marketing rates of February 1, 2012. In addition to these rate changes, GWL will be increasing the pooling charges effective May 1, 2016 by approximately \$11,125 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. The ASO expense rates (cost to administer the ASO benefits) are remaining unchanged.

## 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 B](#), the 2015 total claims cost increased by 5.2% over the previous year. It is expected that this increase will continue for 2016 based on the increase in pooling costs, negotiated increase in vision care, and general increases in both health and dental costs.

For the May 1<sup>st</sup>, 2016 renewal period Aon had initially recommended a 17% increase in health, and 7% in dental premiums. After discussions with Aon, health unit staff plan to take a more aggressive approach and only plan for a 12% increase for health and 7% increase for dental benefits. Staff will monitor monthly claims experience and if required make a mid-renewal period increase if emerging claims and expenses exceed our planned monthly deposits.

## 2016 Budget Implications

Overall the expected increase over the renewal period is \$127,935 or 11.2%. For 2016, the 8-month increase would be \$85,290 or 7.5%. Incorporated into the 2016 operating budget was a \$70,300 increase or 5.7%. As can be seen in [Appendix B](#), in the first three months of 2016 there has been a favourable variance in the claims costs related to the premiums paid of \$24,347. Considering this positive variance and the aggressive position being taken on the ASO premiums we expect the amount budgeted for employer paid benefits will be sufficient for 2016.

## Conclusion

The Health Unit's contract with Great-West Life to provide group insurance expires April 30<sup>th</sup>, 2016. Health Unit staff, with the assistance of Aon, have negotiated renewal rates with GWL. As a result, life insurance premiums are increasing by 23.7% and long-term disability premiums by 10%. Over the past two years, the ASO benefits have experienced high month – to – month variability, however, the data shows a consistent upward pressure year over year. Therefore, it is also recommended that monthly deposits be increased to maintain expected increases in health claims costs of 12%, and dental claims costs of 7%. Overall benefit costs over the renewal period are expected to increase by 11.2% on average.

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



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