



TO: Chair and Members of the Finance & Facilities Committee

FROM: Laura Di Cesare, Acting Chief Executive Officer

DATE: 2017 May 4

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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. 018-17FFC re: “Great-West Life Benefits – Renewal Rates.”*

### **Key Points**

- The group benefits contract with Great-West Life (GWL) is set to be renewed effective May 1, 2017. In April, staff reviewed the renewal rates with AON Hewitt, and have been able to reduce GWL’s proposed rate increases.
- As part of the renewal, the recommended life insurance premiums would increase by 4.3%, and long-term disability premiums would increase by 5.1%.
- Administrative Services Only (ASO) costs (health and dental) are expected to decrease as part of the renewal. Health benefit costs are expected to decrease by 2%, and dental benefit costs are expected to decrease by 4.0%.
- Overall, the impact on the above rate and volume changes on average is an annual reduction in costs of 1.3%. For the last eight months of 2017 (May–December), this translates to an overall decrease of approximately 0.9%. Middlesex-London Health Unit (MLHU) had budgeted for a 0.0% increase from the previous year.

### **Background**

In 2012, the MLHU, with the assistance of AON Hewitt (AON), went through a request-for-proposal process to ensure our group insurance rates were competitive. As a result, the MLHU changed its insurance carrier from Manulife to Great-West Life effective February 1, 2013, yielding significant savings for both our employees and the MLHU. All costs related to the insured benefits—Life, Accidental Death and Dismemberment (AD&D), Long-Term Disability (LTD), Pooling and Administrative Services Only (ASO)—were reduced effective February 1, 2013, and remained unchanged due to rate guarantees until April 30, 2015. The MLHU experienced an average increase of 10% in May 2015, and of 11.2% in May 2016. Considering these increases, the negotiated rates remained lower than the pre-marketing rates of 2012.

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

As of May 1, 2017, life insurance rates will increase by 4.3%, AD&D rates will remain unchanged and LTD rates (employee paid) will increase by 5.1%. Great-West Life (GWL) implemented significant discounts in their 2012 proposal (i.e., a 23% discount for Life and 25% for LTD); [Appendix A](#) provides a history of the negotiated rates since moving to GWL. The rates being recommended remain below the pre-marketing rates of February 1, 2012, for Life and AD&D. In the recommended rates, GWL will be increasing Pooling charges, effective May 1, 2017, by approximately \$17,000 for the renewal year. In regard to this increase, 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 ASO benefits) will remain 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 and AON's recommendation of emerging trends. As can be seen in the ASO benefits history attached as [Appendix B](#), the 2016 total claims cost decreased by 3.0% over the previous year. It is expected that the trend on claims cost will continue for 2017 based on the months January–March, and therefore the reduction in ASO premiums is warranted.

For the May 1, 2017 renewal period, AON is recommending a 2.0% reduction in health premiums and a 4.0% reduction in dental premiums. Staff will continue to monitor monthly claims closely and identify any potential variances as part of the quarterly financial updates.

## **2017 Budget Implications**

Overall, the expected reduction in premiums over the renewal period is \$26,424, or 2.0%. For 2017, given the 2016 experience, there was no planned increase in the budget for a rate change. However, the budget was increased to reflect a volume change (increased compensation amounts).

As can be seen in [Appendix B](#), in the first three months of 2017 there has been a favourable variance in the claims costs related to the premiums paid (\$24,565). Considering this positive variance and the experience of 2016, a premium reduction is warranted and may generate a modest surplus in 2017.

## **Conclusion**

The Health Unit's contract with Great-West Life to provide group insurance expires April 30, 2017. It is recommended that the MLHU enter into a revised contract with GWL, which will provide reduced premium rates for 2017.

This report was prepared by the Finance Team, Corporate Services Division.



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Acting Chief Executive Officer