



TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health / CEO

DATE: 2018 May 3

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## GREAT-WEST LIFE BENEFITS – RENEWAL RATES

### **Recommendation**

*It is recommended that the Finance & Facilities Committee review and recommend that the Board of Health approve the renewal of the group insurance rates administered by Great-West Life as described in Report No. 021-18FFC 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, 2018. In April staff reviewed the renewal rates with AON Hewitt, and have been able to reduce the GWL proposed rate increases.
- As part of the renewal, the recommended life insurance premiums would increase by 6.3%, dental premiums would increase by 4.0%, and health premiums would decrease by 2%.
- Overall, the impact on the above rate and volume changes, on average, is an increase in costs of 0.4%, or \$5,743 annually. For the eight months of 2018 (May–December), this translates to an overall increase of approximately 0.3%. The Health Unit had budgeted for a 0.0% increase from the previous year.

### **Background**

In 2012 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, MLHU changed its insurance carrier from Manulife to GWL, effective February 1, 2013. This change resulted in significant savings, both for our employees and for 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. Effective May 2015, MLHU experienced a 10% average increase, and, in May 2016, an average increase of 11.2%. Considering these increases, the negotiated rates remained lower than the pre-market rates of 2012.

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

As of May 1, 2018, life insurance rates will increase by 6.3%, and both AD&D and LTD rates (employee-paid) will remain unchanged. GWL had included significant discounts in their 2012 proposal (e.g., 23% discount for Life, 25% for LTD). [Appendix A](#) provides a history of the negotiated rates since MLHU’s move to GWL. The rates being recommended now slightly exceed the February 1, 2012 pre-marketing rates for Life and LTD. Incorporated in the recommended rates, GWL will be increasing the pooling charges, effective May 1, 2018, by approximately \$4,700 for the renewal year. In regard 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 (the cost of administering the ASO benefits) will remain unchanged, with the exception of the general administration expense, which is increasing by 0.1%.

## ASO Benefits (Health and Dental)

These benefits are funded based on actual claims utilization and benefits paid. The Health Unit sets a monthly deposit rate in advance to fund expected claims and expenses based on both actual experience and AON's recommendations in regard to emerging trends. As shown in the ASO benefits history attached as [Appendix B](#), the total claims cost for 2017 was 5.6% above the previous year. With the introduction of OHIP+, we would expect that in 2018 we will see a rate of increase slower than in 2017.

For the May 1, 2018 renewal period, AON recommends a 2.0% reduction in health premiums and a 4.0% increase in dental premiums. Staff will continue to monitor monthly claims closely, and, as part of the quarterly financial updates, identify potential variances.

## 2018 Budget Implications

Overall, the expected increase in premiums over the renewal period is \$5,743, or 0.4%. For 2018, given the 2017 experience, no increase to the budget was planned to account for a rate change; however, the budget was increased to reflect a volume change (increased compensation amounts).

As Appendix B shows, in the first three months of 2018 there has been a favourable variance in claims costs related to the premiums paid (\$22,426). Considering this positive variance and the experience of 2017, a premium reduction is warranted.

It is best practice to conduct a market review every five to seven years. Given that it has been five years since MLHU went to market, and given that the overall rates offered by GWL are now returning to the pre-market levels previously experienced in 2012, MLHU is in discussion with AON about returning to the market to assess whether our group insurance rates are competitive. Should this be the recommended course of action, MLHU would target the next renewal period commencing May 1, 2019.

## Conclusion

The Health Unit's contract with GWL to provide group insurance expires April 30, 2018. It is recommended that MLHU enter into a revised contract with GWL, which will result in an increase in premium rates of 0.4% for 2018.

This report prepared by the Finance Team, Healthy Organization Division.



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