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REPORT
Meeting Date: June 28, 2012
Regional Council

DATE: June 13, 2012

REPORT TITLE **SUN LIFE ASSURANCE BENEFITS PLAN RENEWAL AND NON UNION BENEFIT PLAN ADJUSTMENT – DOCUMENT NUMBER 2012-393N**

FROM: R. Kent Gillespie, Commissioner of Employee and Business Services

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RECOMMENDATION

That Document Number (2012-393N) for the renewal of the existing contract with Sun Life Assurance Company of Canada for a three year term, being an initial one year with options to renew for two additional one year periods based on satisfactory performance and pricing, be awarded on a direct negotiation basis for the annual amount of $24 million (excluding applicable taxes) for the period July 1, 2012 to June 30, 2013, in accordance with Purchasing By-law 63-2008;

And further, that authority be given to increase the Administrative Services Only (ASO) contract expenses as necessary to account for any actual expenditures arising from claims experience incurred during the year;

And further, that approval be granted to adjust non-union maternity/parental leave supplementary top-up to allow for 75 per cent of regular weekly earnings for a maximum of 15 weeks, to bring this benefit in line with comparable union benefits and those of Peel's comparator municipalities.

REPORT HIGHLIGHTS

- Sun Life has been the Region's benefits carrier since 1987.
- Major changes to the non-union benefits plans were brought in 2007 to contain future costs while remaining with Sun Life as provider.
- Past practice has been to bring the contract for benefits to Council every three years for renewal.
- Rates for administrative services fees and insured plan premiums paid to Sun Life are unchanged from the prior contract.
- Based upon expert advice, when weighing up the costs of going to market with the likely benefits in the long run, staff are not recommending that course of action.
- Service Agreement standards are being met by the provider resulting in acceptable service levels and high level of staff satisfaction supports the Region's direction to renew this contract.
- Adjustment to non-union maternity/parental leave supplementary top-up benefits is recommended to make it comparable to union benefits and those of Peel's comparator municipalities.

DISCUSSION

1. Background

The Regional Municipality of Peel has been insured for employee medical, dental and life insurance with Sun Life since 1987. The Region introduced major changes to non-union benefits in January 2007 after a comprehensive review to ensure competitiveness, and to incorporate cost containment features. At that time it was recommended to stay with the current benefit provider. Past practice has been to obtain Council approval for staff to renew the benefit plans on a three-year basis with annual negotiations for premiums and other rates each year. It is now time to report to Council on the next three-year cycle.

The benefit plans are of two types: Insured and Administrative Services Only (ASO). Premiums are paid for insured plans whereas under ASO plans the Region pays the benefit and contracts for the administration of the plan. Both types renew July 1st of each year. The insured plans are Life Insurance, Accidental Death and Dismemberment Insurance (AD&D); ASO plans cover Health\Dental Benefits for all staff and Short Term Disability (STD) for union staff.

The Region also arranges for group Long Term Disability insurance (LTD) and optional Life, optional AD&D and Critical Care Insurance. The premiums for these insured plans are paid for by employees and so do not represent a cost to the Region. Of particular note this year is the LTD premium increase, which is significant.

2. Findings

Between 2009 and 2011 the total cost of the benefit experience administered by Sun Life for the Region increased from $14.4M to $17.0M. The drivers for the $2.6M increase are as follows.

- $1.5M for a 10 per cent increase in employee enrolment from 2009 to 2011
- $1.1M for 7 per cent inflation from 2009 to 2011.

The inflation increase is low compared to industry standards and reflects the impact of cost containment measures introduced in the non-union benefit plan. The preceding amounts exclude employee paid LTD premiums.

In the past two years, staff have engaged independent consultants to review our plans and the proposed increases requested by Sun Life and to assist with the annual negotiation of each year's rate renewal. In each year substantial reductions from the initial proposals were obtained and there was independent confirmation that rates were reasonable given the market conditions and the Region's claims experience.

Again this year independent advice was sought and, other than the LTD costs, rates can be accommodated in the existing corporate budget estimate for benefits.

The estimated cost of renewal exclusive of taxes is $24 million. The annual renewal amount includes all amounts that are estimated to be remitted to Sun Life over the initial 12 month renewal period. Included in the $24M is $4.3 million in employee paid benefits for LTD premiums will be remitted to Sun Life by the Region but represent amounts that are deducted from the employees' pay and do not represent an expense for the Region.

Of the remaining $19.7 million in employer paid expenses only the ASO fees and Life Insurance premiums of $2.1 million are actually being negotiated with Sun Life. Overall these rates are unchanged from the existing contract. Increases in costs relate to actual health, dental and STD experience are influenced by the benefit plan design for the union and non-union plans. This experience is also impacted by the growth in staff claiming benefits and inflation. The following is a breakdown of these costs.

Employer Paid Benefits	
Health, Dental and STD experience	$17.6M
Administrative service (ASO) fees	1.1M
Life insurance premiums	1.0M
Total employer paid benefits	$19.7M
Employee Paid Benefits	
Long term disability (LTD) premiums	$4.3M
Total annual renewal amount	**$24M**

The following are the renewal negotiation highlights:

1. A reduction in the Group Life pooling charge of $95,000 (annual saving) by removing large amount pooling arrangement and maintaining aggregate stop-loss pooling only.

2. Improvements to Extended Health pooling charge resulting in an annual cost saving of $8,200.

3. No changes to premium rates for Optional Life, Accidental Death and Dismemberment (AD&D) and Optional Critical Care Illness coverage.

4. An increase to Basic Life premiums of 13 per cent ($103,000) resulting from an increased number of death claims. However, since this product is based on a refund accounting basis, if experience improves, then the Region experiences a surplus, which is returned to the Region.

5. Total expenses to the Region inclusive of insured plan premiums and ASO benefit administration charges remain unchanged since our last renewal.

The cost neutral situation has not been maintained with Long Term Disability (employee paid benefit). Although a much lager premium was initially requested and negotiations have reduced it, an increase of 38 per cent will be required. The effect of this on the average salary of $65,000 for non-union staff is to increase premiums from $1,030 annually to $1,422 annually. The driver is entirely due to claims experience as we have seen an increase in disability cases over the past three years.

The Region has an active Disability Management program that tries to return workers to the workplace as soon as possible including providing any needed accommodation. However, it is expected that in an aging workforce these claims will continue to persist. Staff will continue undertaking several initiatives to mitigate both the number and duration of absences related to disability. Mitigation efforts are focused on adjudication of claims, more effective case management, and creating a psychologically healthy workplace as well as physical health and safety programs.

3. Renewal with Sun Life

As indicated above, Sun Life has been the Region's benefits provider for many years. In the market for large comprehensive benefit plan providers there are essentially three large insurance companies that provide plans. At every renewal is it always important to determine if any significant gains can be made by going to the market through and Request for Proposal (RFP). To help with making this type of decision, staff retains independent experts to provide an analysis of the market and our plans to look for opportunities.

The main reason that staff has not recommended and Council has not directed an RFP in the past has been that the cost of the RFP process, and the cost of changing providers, has not outweighed the possible potential benefit reductions in the long run. An RFP of this type will require significant expert consulting work to prepare the scope and assist with evaluation as the proposals can be complex. As well, should a new provider be selected, there will be significant costs associated with a transition from one to the other as all Regional staff will have to be re-enrolled under the new plan and the transition of claims under both plans managed.

Through annual negotiations, benefit costs can be contained fairly well within the known market rates. Although an RFP may result in another provider bidding lower on an insured plan, rates are not fixed beyond one year or at most two years and losses due to claims experience will eventually be recovered in premium increases. As well, the large health and dental benefits are not insured and the Region only pays a fee for the administration of the benefit and assumes the risk on the benefit costs. Fee structures are comparable.

In addition, the benefit provider enters into a service standards agreement under which it is measured for accuracy and timeliness. In the case of Sun Life, supporting information demonstrates that it has been meeting both these standards.

Based upon the advice of expert consultants and weighing the costs of going to market against the likely outcome of any rate reductions, Staff are recommending the renewal of the existing arrangements with Sun Life Assurance Company of Canada effective July 1, 2012.

4. Adjustment to Non-union Maternity/Parental Supplementary Top-up Benefit

Currently non-union employees on an approved pregnancy or parental leave of absence are eligible to receive a supplementary top-up payment that was originally intended to ensure they receive 75% of their regular weekly earnings (including their Employment Insurance benefit - EI) for 15 weeks while they are away. However this intent was not properly implemented and the total weekly earnings were capped at the maximum EI insurable level. As a result, non-union maternity/parental supplementary top-up benefit is much lower than the top-up benefit provided to the Region's union employees who do get the top up to 75%. For example at the average salary of $65,000, under the union plan the employee would receive a top up of $7043 over the 15 weeks while the non-union staff would receive a top up of $2553 over the 15 weeks, a difference of $4490.

A maternity/parental top-up survey was conducted with our comparator municipalities (Brampton, Durham, Halton, Mississauga, Niagara, Ottawa, Waterloo and York). Our non-union plan is below average and at the low end and would still be modest even with the change. The estimated cost of the change is $250,000 annually.

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FINANCIAL IMPLICATIONS

The cost of the renewal for both union and non-union benefit plans with Sun Life is $24 million (inclusive of $4.3 million for LTD plan which is employee paid) and can be accommodated by the 2012 operating budget.

Due to lower than anticipated increases in health and dental benefit costs the benefit adjustments for maternity/parental leave top up can be absorbed in the 2012 budget.

CONCLUSION

Sun Life has been the Region's benefits carrier since 1987. Major changes to the non-union benefit plans were brought in 2007 to contain future costs while remaining with Sun Life as provider. Past practice has been to bring the contract for benefits to Council every three years for renewal. Rates for administrative services fees and insured plan premiums paid to Sun Life are unchanged from the prior contract. Based upon expert advice, when weighing up the costs of going to market with the likely benefits in the long run, staff are not recommending that course of action. Service Agreement standards are being met by the provider resulting in acceptable service levels and high level of staff satisfaction supports the Region's direction to renew this contract. Adjustment to non-union maternity/parental supplementary top-up benefit is recommended to make this benefit comparable to union benefits and those of Peel's comparator municipalities.

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