



SUBJECT: 2018 to 2019 Group Health Benefit Renewal

TO: Committee of the Whole

FROM: Human Resources Department

Report Number: HR-01-19

Wards Affected: All

File Numbers: 330-02

Date to Committee: May 13, 2019

Date to Council: May 20, 2019

Recommendation:

Retain Sun Life as the provider of Major Medical, Dental, Long Term Disability and Life Insurance plans for the benefit year December 1, 2018 to November 30, 2019.

Purpose:

- An Engaging City
 - Good Governance
-

Background and Discussion:

In 2017 the City of Burlington marketed its employee group benefit plans which resulted in the group benefits moving to Sun Life effective December 1, 2017. Employee group benefits include the following:

- Medical;
- Dental;
- Life Insurance;
- Optional Life Insurance; and
- Long-Term Disability.

Our benefits plan covers 1,162 employees, retirees, and surviving dependents. As part of the implementation with the new carrier, the City made changes to the non-union benefit coverage. A balanced approach was taken when making these changes. Caps or restrictions were applied in addition to improved coverage in specific areas.

Since implementation of the new contract, Fire negotiated additional coverage in the areas of paramedical and psychology services with no off-setting limitations.

The three CUPE Locals did not negotiate benefit changes.

Calculating Health Premiums:

Health and Dental premiums were the only two benefits eligible for renewal this year. Typically, the premium rates for the Life Insurance and Long-Term Disability are also renewed on an annual basis, but we were able to negotiate with Sun Life a four year guarantee period for these rates during the marketing project.

Health premiums are based on our own claims experience incurred plus a health pooling charge. If the claims incurred plus the expenses charged by Sun Life to administer the program are greater than the premiums collected, premiums are increased and if they are less than premiums collected, a surplus is refunded to the City.

Several years ago, and in consideration for growing costs, the City implemented a common financial arrangement called Health Pooling Insurance. Our current Health Pooling limit is \$50,000. Therefore, any claims submitted, per person, per year which are more than \$50,000 are charged, not to the City's experience, but to the insurer's Health Insurance Pool. This coverage protects the City against extraordinary claims and for this coverage, the City pays a premium for this Health Pooling Insurance. The premium for the Health Pooling insurance is based on a combination of our experience and the standard rates applied by Sun Life.

Dental premiums are based on the City's experience and are also impacted by the annual increases to the Ontario Dental Association (ODA) fee guide.

Strategy/process

For the benefit year December 1, 2018 to November 30, 2019 Aon, the City's benefit consultant, negotiated a 10.2% overall increase to Health and Dental premiums or a total of \$635,616. This increase has been budgeted for in the 2019 operating budget. While recognizing this is a significantly higher than in previous years, Aon has recommended acceptance of the renewal.

The following drivers, when combined, account for the overall increase of 10.2% to Sun Life's premiums:

- 1) Health Care;
 - a. Cost of new drugs
 - b. Paramedical services;
 - c. Pooling Charges; and

2) Reserve Fund levels.

To examine specifically what is driving the renewal increase:

Driver: Cost of new drugs:

The drug formulary used by the City is described as an “open formulary”. That is, when new drugs are approved for sale within the province they are automatically added to our formulary. New types of drugs such as biologics are entering the market at a greater rate and at a much greater cost than the prescription drug therapies that they are replacing. The cost of biologic therapies can be upwards of hundreds of thousands of dollars per year per person. With an open formulary they are automatically added and covered by the City’s plan. Strategies such as pre-authorization (a process to ensure certain drugs are the most appropriate drug based on a review specific to the individual) have been implemented and provide a measure of rigor.

However rising drug costs mean rising health care premiums. For example, during 2018 four of the top most expensive prescription drug therapies paid under the City’s program were for biologic therapies, representing over 15% of total drugs claims. Although these therapies are driving the cost under the Health plan, viewed from a holistic perspective they may be keeping people at work and productive, and without the therapies these members might otherwise be on Long-Term disability.

Driver: Paramedical Coverage

While the non-union employees were provided additional psychology coverage effective December 1, 2018 it was also offset by restrictions to physiotherapy coverage. Fire negotiated an increase to the psychology benefit, however no offsets were provided. When the additional coverage was provided to Fire, Sun Life saw a spike in claims incurred which, when annualized, equated to a 900% per capita increase. Paramedical claims increased on an annualized basis by 9.2% for the Fire division after the new level of coverage was negotiated.

Driver: Pooling Charges

The pooling charges were increased as part of the 2018 renewal to 5% of paid claims. Aon has looked at similar pooling arrangements within their book of business and has advised that, while there was an increase, the rate provided is very competitive and likely the rate provided through the marketing was on the low side.

Driver: Reserve Fund

To assist in managing our benefits there are two reserve funds set up by Sun Life:

- 1) Incurred But Unreported Reserve; and

2) Claims Fluctuation Reserve.

The Incurred But Unreported Reserve (IBNR) fund is set up to manage claims that have been incurred by the employee but not yet reported or submitted to Sun Life. It is an estimate as to what the carrier will owe. The Claims Fluctuations Reserve (CFR) fund is intended to offset deficits which may arise from claims fluctuations thereby stabilizing premium levels from year to year.

Typically, the establishment of the IBNR occurs in conjunction with the first year; however, Sun Life is allowing the City to build this reserve over a two-year period. Without a fully funded CFR, the carrier adds an amount to our premium to ensure the fund is building towards the required level.

The final accounting has just been completed by Manulife, the City's former insurance carrier. Manulife will be releasing the unused balance of their reserve funds (i.e. their CFR and IBNR) as well as applicable Sales Tax Credits to the City. In turn, the City will transfer these funds to the Sun Life Claims Fluctuation Reserve which will put the City in a better position for the December 1, 2019 renewal.

Options considered

Finding a balance between providing wholistic coverage to employees while managing the cost associated with providing the coverage is at best difficult. With new drugs such as biologics entering the market, health benefit plans are at an even greater vulnerability from a cost management perspective. There are options being assessed currently and if it is determined that they will provide the balance from a cost/coverage perspective, they will be introduced to our plan. It should be noted that 49% of our workforce is unionized which means any plan changes will need to be negotiated.

Financial Matters:

Not applicable.

Total Financial Impact

The total financial impact over a twelve-month period is \$635,616.

Source of Funding

Funds have been budgeted in the 2019 Operating Budget.

Other Resource Impacts

Not applicable.

Conclusion:

The 10.2% increase negotiated with Sun Life is recommended and has been explained by the following drivers:

- 1) Health Care Changes
- 2) Pooling Charges;
- 3) Reserve Fund levels.

The IBNR and CFR will be funded for the December 1, 2019 renewal which will provide a better negotiating position with our carrier, Sun Life and cost mitigation options, as identified, will be explored for both Fire and non-union divisions.

Respectfully submitted,

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Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.