



SUBJECT: 2023 to 2024 Group Benefits Renewal

TO: Committee of the Whole

FROM: Human Resources Department

Report Number: HR-03-24

Wards Affected: All

Date to Committee: February 5, 2024

Date to Council: February 13, 2024

Recommendation:

Renew Sun Life as the provider for the City's group benefits plan including Extended Health, Dental, Long-Term Disability and Life insurance for the benefit year December 1, 2023 to November 30, 2024; and

Authorize the Acting Executive Director of Finance and Chief Financial Officer to reallocate the 2024 budget as outlined in the financial matters section of human resources department report HR-02-24 to offset the financial impact of the benefits renewal.

PURPOSE:

Vision to Focus Alignment:

Deliver good governance, stewardship, and customer-centric services through our group benefits plan.

Background and Discussion:

Sun Life is the insurance carrier that provides the City's group benefits plan which includes the following:

- Extended Health;
- Dental;
- Basic Life Insurance;
- Optional Life Insurance;
- Accidental Death & Dismemberment (AD&D) Insurance; and

- Long Term Disability (LTD).

The group benefit plan covers approximately 1,300 employees, retirees, dependents, and surviving dependents. Sun Life was awarded the group benefits contract in 2017 and had provided the city with rate guarantees on the Long-Term Disability premiums until November 30, 2020 and the Life Insurance premiums until November 30, 2021.

Strategy/process

Overall, Sun Life's position entering into this year's renewal was trending unfavorably due to several key indicators that were impacting the City's claims and experience. An overall increase of 31.2% was initially proposed by Sun Life. Through the negotiations process, our benefits consultants AON were able to reduce this overall increase to approximately 16.8%. AON's negotiations achieved an annual cost savings of \$1,351,200 over Sun Life's initial proposal. This year, a large percentage of these rate hikes can be attributed to a number of factors impacting our Extended Health and Dental plan. These factors include:

- Rising utilization rates on Extended Health and Dental – we are seeing more plan members use their benefits coverage than ever before.
- Costly biologic drugs – the City's plan includes several very expensive drugs such as Soliris (treats rare diseases) and Trikafta (treats Cystic Fibrosis) which has an impact on the City's claims and experience.
- Ontario Dental Association's (ODA) fee guide has increased above normative levels – typical year over year trending shows that the fee guide generally increases by approximately 3 to 4% each year. In 2022 the fee guide increased by 4.75% and in 2023 the fee guide increased by 8.50%, rates have consistently doubled since pre-pandemic times. This means the cost of various dental procedures and services that is submitted to the City's dental plan has increased.

The impact of these factors plays a significant role in driving benefit premium increases during the City's annual renewal. Extended Health sees a 20% increase in this year's premium cost. The rise of utilization combined with the expensive biologic drugs costs are the 2 factors driving this increase. Cost containment and mitigation strategies are actively being explored with our benefits consultants at AON to improve our overall trend for this benefit.

Dental benefits also see a 20% increase in this year's premium cost and rising utilization of our plan members. Increased utilization is still being attributed to the fact that many plan members stopped routine dental services during the pandemic years, which resulted in costly dental procedures as we start to swing back to pre-pandemic dental visit levels. External factors such as the fee hikes in the Ontario Dental fee guide also contributes to this year's premium increase.

Long Term Disability (LTD) and Basic Life Insurance trends in a different direction. We are starting to see premiums normalize based on City of Burlington's claims experience. Sun Life's initial proposal stated a 23% increase to the LTD premium, and the final negotiated outcome ended with a 10% increase. This figure is normative in comparison to similar organizations in the market based on AON's book of business. Additionally, Basic Life Insurance, trends favourably, Sun life proposed a decrease of approximately 11.2%, AON was able to negotiate this further and the final outcome ended with a decrease of 20.1% to the Basic Life insurance premium. These outcomes produced a combined cost savings of approximately \$225,500 which will offset some of the increases towards the City's benefits plan.

In conclusion, for the benefit year of December 1, 2023, to November 30, 2024, the City's benefit consultant AON, is recommending the following changes to group benefit premiums:

- Health 20%
- Dental 20%
- LTD 10%
- Life Insurance -20.1%

Financial Matters:

The overall increase to premiums results in an annual increase of \$1,573,300. This value reflects all members covered under the plan including those funded outside of the City's operating budget such as some of our Local Board partners and the POA Court.

The 2024 city budget was prepared in advance of the finalization of the benefit premiums using assumptions for benefit increases. As a result of the higher than assumed benefit increases, the 2024 budget will require a further adjustment of \$1,428,000 to offset these costs. As the 2024 Budget is already adopted by Council, it is recommended that this increase be funded from a reallocation of existing approved budget funds outlined below. It should be noted that while staff is supportive of this reallocation, it does place additional pressure on the 2024 budget as known costs will need to be absorbed with an increased reliance on annual staff gapping savings and other potential year-end favourable variances that have not yet been realized. This approach increases risk and reduces financial flexibility, and it is expected that future budgets will need to be increased over time to accommodate items that have been reduced to cover this required expense.

Source of Funding

The additional impact to the 2024 Budget for the benefit increase is \$1,428,000.

It is recommended that this unforeseen adjustment be funded from a reallocation / reduction of the following items in the approved 2024 budget:

Item	Amount	Note
Reduction in annual provision to the Contingency Reserve Fund	\$450,000	1
Reduction in PT OMERS cost	\$420,000	2
Eliminate Performance Excellence Program	\$150,000	3
Reduction in provision to Tax Rate Stabilization Reserve Fund	\$408,000	4
Total	\$1,428,000	

Note 1 – Provision to Contingency Reserve Fund

The 2024 provision to the Contingency reserve fund is \$2.2 million and provides funding to cover unforeseen expenses and litigation matters. A review of this reserve fund was conducted including current balance, known commitments, and forecasted draws. Any reduction to the annual provision adds increased risk to long-term financial stability, however, the reduction (\$450,000) can be supported in the short-term provided that the value is phased back in annually over the next 3-5 years. This phased approach will be incorporated into the multi-year simulation and staff will continue to monitor this reserve fund closely. The 2024 provision to the Contingency reserve fund will be reduced to \$1.75 million.

Note 2 – Part Time OMERS costs

Funding of this item was initiated in the 2023 budget as a result of changes to the eligibility rules for this program. The value is based on an estimated uptake of the program by PT staff that are eligible as of January 1, 2023. Actual uptake can vary with each season as new part-time staffing are onboarded. With the reallocation of this budget (\$420,000), any actual costs in the short term will be offset by gapping dollars. Staff will recommend as part of the annual budget process that this item be phased back in over time and will be incorporated into the multi-year simulation.

Note 3 – Performance Excellence Program (PEP)

The PEP program was discontinued however the funding (\$150,000) was retained in the budget in anticipation of the launch of a revised employee rewards program. This work was initiated in 2019 but has been put on hold since COVID. Once finalized, the new program will be presented to Council for approval. Should the new program require ongoing financial support, it will need to be incorporated into a future budget.

Note 4 - Assessment Growth/ Tax Rate Stabilization Reserve Fund

The 2024 Budget was prepared and adopted using an estimated assessment growth impact of 0.75% as final figures from the Municipal Property Assessment Corporation (MPAC) were not yet finalized. Final Assessment growth numbers are now finalized and resulted in a total value of 1.02%. As part of the budget process the following recommendation was approved;

“Approve that any surplus or deficit resulting from a difference between the actual net assessment growth and the estimated 0.75% net assessment growth be transferred to/from the Tax Rate Stabilization Reserve Fund”.

The additional 0.27% of assessment growth results in a \$650,000 provision to the tax rate stabilization reserve fund and has changed the city’s approved tax levy from \$243,392,994 to \$244,042,994. This adjustment had no impact on the overall tax increase at 6.68% with the city portion of the tax increase at 4.99%. It is recommended that \$408,000 of this provision be allocated to fund the shortfall in employee benefit costs.

Conclusion:

It is recommended that the overall increase of 16.8% to the premiums for the City’s group benefits plan be approved and implemented effective December 1, 2023. The recommended budget reallocation will offset the additional cost of the benefit increase for 2024. Items removed or reduced as part of this reallocation will be phased back in as part of future budgets.

Respectfully submitted,

Laura Atanas

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and

Lori Jivan

Manager, Budgets & Policies

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.