Municipality Of Chatham-Kent

Corporate Services

Human Resources and Organizational Development

To: Mayor and Members of Council

From: Ashley Mann, MA., CHRL
Manager, Total Rewards

Date: April 26, 2021

Subject: Claims Fluctuation Reserve

Recommendations

It is recommended that:

1. A new "Claims Fluctuation Reserve" be created and transfer the 2020 Municipal benefit surplus in the amount of $774,465.28.

2. Future annual net cost avoidance received from the increased Pooling Point be transferred into the Claims Fluctuation Reserve in order to protect the Municipality against future impacts of large claims (estimated 2021 net cost avoidance of $257,250).

3. The Claims Fluctuation Reserve be reviewed in 2024 during the regular budget cycle to identify if funds can be re-invested to offset future increases.

Background

Manulife Financial is the underwriter of the group insurance program for the employees of the Municipality of Chatham-Kent (the 'Municipality'). There are three (3) underwriting arrangements that apply to the group insurance program with Manulife Financial (Manulife), which are as follows:

1. The Basic Life, Dependent Life and Long Term Disability Insurance are underwritten on a partially pooled, partially experience-rated, non-retention accounting basis. There is no annual financial accounting performed in relation to the Basic Life, Dependent Life or Long Term Disability Insurance.

2. The Optional Life Insurance and AD&D Insurance are underwritten on a fully-pooled non-retention accounting basis. Similar to the Life, Dependent Life and LTD Insurance, there is no annual financial accounting performed in relation to the Optional Life and AD&D Insurance.

3. The Extended Health Care and Dental benefits are underwritten on a fully experience rated, retention accounting arrangement. There is an annual accounting of the financial results under these benefits.

A marketing of the group benefits program for the Municipality was undertaken in 2018. Manulife was retained as the underwriter of the group benefits program. As part of their quote, Manulife Financial offered the following:

1. A 3-year premium rate guarantee for the Life and Dependent Life Insurance premium rates.

2. A 2-year premium rate guarantee for the Long Term Disability (LTD) insurance premium rates. Further, at the first and second renewals following expiration of the premium rate guarantee, Manulife Financial offered a renewal premium rate cap of 15%.

3. A 3-year guarantee for the expenses applicable to the retention-accounting underwritten Extended Health Care and Dental benefits.

The group benefits program renewed on January 1, 2021. In this regard, at the renewal, the premium rate guarantees for the Life and Dependent Life Insurance benefits are still in effect, however, the premium rate guarantee for the LTD insurance has expired. Therefore, the renewal on January 1, 2021 considered the following:

1. LTD premium rate cap of 15%.

2. The Extended Health Care and Dental premium rates.

3. The Large Amount Pooling charge.

Comments

The following benefits are combined for surpluses and deficits to determine the overall surplus/deficit position: Extended Health and Dental. A net surplus or deficit is determined at the end of each reporting period by the financial results of each refund accounted benefit. The net surplus or deficit is equal to:

paid premium – total claims charges – retention charges + interest credits/charges

Annually, any surplus arising from the operation of the plan will be applied to offset any accumulated refund accounted deficits. Any excess will be credited to the Claims Fluctuation Reserve (CFR) until the target level is attained any remainder will be held by Manulife in a deposit account. Funds in the deposit account are available for refund, upon request. In 2020, the Municipality had an overall surplus of $1,011,329.28 ($774,465.28 Municipal and $236,864 Public Utilities Commission).

In order to protect the Municipality against the impact of any unusual large claims, a Large Amount/Out-Of-Canada Pooling arrangement is provided through Manulife. Under the terms of this Pooling arrangement, all ManuAssist claims are pooled from the first dollar. All other claims incurred in Canada and outside Canada, which are in excess of $20,000 in a Financial Accounting year, are pooled. All claims which qualify under these Pooling arrangements are removed from the claims charged to the plan for both the purposes of the renewal calculations and the annual financial accounting, and are instead covered on a fully-pooled basis by Manulife Financial.

Manulife applies a Pooling Charge for the provision of this coverage. The cost for this coverage is not determined based on the actual claims experience for the Municipality, but instead on the overall performance of Manulife’s pool of this type of coverage. However, should the claims experience for a specific group be significantly higher than expected, Manulife would apply an increase to the pooling charge for that specific group, to offset the detrimental impact this would have on the overall pool’s performance.

During the past year, the Municipality had $284,195 in claims (for 21 claimants) qualify under the Large Amount Pooling arrangement. The claims were in excess of the $20,000 Pooling Point in a Financial Accounting year; therefore, the claims became fully pooled by Manulife and removed from the claims charged to the plan.

Manulife advised that at this renewal, they would be increasing the Pooling Charge from the current 15.64% of paid Extended Health Care non-pooled claims to 20.33% of Extended Health Care non-pooled claims (a 30% increase), citing a deterioration in Manulife’s pooled claims experience for Large Amount Pooling. Mosey & Mosey, our Benefit Consultants negotiated with Manulife to limit the increase applied to the Pooling Charge to a maximum of 20% at this renewal. Manulife agreed with Mosey’s position, and the Pooling Charge increased only to 18.77% of Extended Health Care non-pooled claims (a 20% increase). The increased Pooling Charge resulted in a cost increase of approximately $137,200 per year (based on the level of claims exhibited in the 2019-2020 Policy Year).

At the renewal, a request was made for a comparison of current and proposed Pooling Point charges for $30,000, $50,000 and $100,000. Based on the information provided, administration decided to transition from a $20,000 to a $50,000 Pooling Point for an estimated net cost avoidance of $257,250 in 2021. The intent is to transfer the annual net cost avoidance into the new Catastrophic Benefit Pooling Reserve in the event that the funds need to be accessed in the future. The option of moving to a $100,000 Pooling Point provides an opportunity for a higher net cost avoidance but comes with risks we have not yet been able to assess and makes it difficult to get approval from the benefit carrier to return to a lower Pooling Point amount if the experience is not favourable. Administration will be reviewing the trend of the $50,000 Pooling Point and reassess the limit following a 24-month period.

Areas of Strategic Focus and Critical Success Factors

The recommendations in this report support the following areas of strategic focus:

☐ Economic Prosperity:

Chatham-Kent is an innovative and thriving community with a diversified economy

☐ A Healthy and Safe Community:

Chatham-Kent is a healthy and safe community with sustainable population growth

☐ People and Culture:

Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community

☐ Environmental Sustainability:

Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendations in this report support the following critical success factors:

☒ Financial Sustainability:

The Corporation of the Municipality of Chatham-Kent is financially sustainable

☒ Open, Transparent and Effective Governance:

The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership

Consultation

Internal resource: Finance, Budget and Information Technology and Transformation

External resource: Mosey and Mosey Benefits Consultants

Financial Implications

The creation of the Claims Fluctuation Reserve will hold:

1. 2020 benefit surplus of $774,465.28 (confirmed)
2. Future annual net cost avoidance received from the increased Pooling Point (estimated 2021 net cost avoidance of $257,250)

The allocation of these funds will protect the Municipality from any large future budget increases due to any unusually large benefit claims.

Prepared by:	Reviewed by:
______________________________	______________________________
Ashley Mann, M.A., CHRL Manager, Total Rewards	Cathy Hoffman, MPA, CHRL General Manager, Corporate Services Chief Human Resource Officer

G:\HROD\Compensation & Benefits\Benefits\Financial Reports\Annual Financial Report\Report to Council, Claims Fluctuation Reserve, April 2021.docx