

**College Compensation and
Appointments Council**

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**Conseil de la rémunération
et des nominations dans
les collèges**

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2004-D-4

MEMORANDUM TO: Presidents,
Colleges of Applied Arts and Technology

copy: Directors. Human Resources

FROM: Ian L. McArdle
Executive Director
College Compensation and Appointments Council

DATE: October 22, 2004

**SUBJECT: GROUP INSURANCE BENEFITS - PREMIUM RATE ADJUSTMENTS
ACADEMIC, SUPPORT AND ADMINISTRATIVE STAFF GROUPS**

This is to inform you that the Academic and Support Staff Joint Insurance Committees and the OCASA Insurance Subcommittee have completed with the assistance of a benefits consultant, their review of the premium rate adjustments. The proposed adjustments have been approved by the Council on the recommendation of the Joint Insurance Committees, the Human Resources Management Steering Committee, and the Human Resources Committee of the Council, and are effective February 1, 2005.

The premium rates for Critical Illness Insurance for Academic and Administrative employees will be communicated to you under separate cover.

In addition to the premium rates referenced in Appendix A attached, the appropriate Retail Sales Tax (8% for Ontario residents, 9% for residents of Quebec) must also be remitted to Sun Life. Please ensure the premium adjustments are processed and included in your premium remittance to Sun Life effective February 1, 2005.

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Please ensure the new premium rates are communicated to all employees and retirees. To assist you in answering questions from employees, information has been provided in Appendix B.

If you have any questions regarding the above, please contact:

Mary Hofweller (416) 325-2909

or

Stephen Lee Kam (416) 325-2910

A handwritten signature in black ink that reads "Ian L. McArdle". The signature is written in a cursive style with a large, looping initial "I".

Ian L. McArdle

Executive Director, College Compensation and Appointments Council

copy: John Farrell, Chair

Don Sinclair, Associate Director

APPENDIX B

As in previous years we have provided the following information to assist you in answering questions from employees and retirees about the premium rate adjustments.

1. How premium Rates are Established

a) CAAT's Experience

- except for the retirees' plans and the Accidental Death and Dismemberment Insurance, the premium rates are based on CAAT's own claims experience and not on Sun Life's book of business. The plans are large and well established, therefore experience is not pooled with other plans, which is to the advantage of the college plans.
- for each premium dollar paid, \$0.94 cents goes towards the payment of the actual claims, \$0.02 cents is a government tax and must be remitted by law. The remaining \$0.04 cents is the amount paid to Sun Life to adjudicate and pay claims in accordance with the Group Insurance Contracts for each employee group.

b) Total Cost of Paid Claims

- claims are paid out of the premiums remitted monthly by the Employer. If the plan pays out more in claims than the premium dollars received, then monies are taken from the deposit account for that particular benefit. If there are insufficient funds in that account, the plan is in a deficit. If money is "borrowed" from Sun Life, the deficit and the interest applied have to be repaid to Sun Life from monies received as premiums. Given the nature of the underwriting arrangements with Sun Life, if such a situation occurs the deficit can be amortized over time.
- this is why it is imperative that the Employer remits the premiums and premium statements in a timely fashion. Premiums are due the first of the month for the current month. However, Sun Life will continue to pay claims until the end of the month, if premiums are not received by that time. The Employer has until the 15th of month to forward premiums to Sun Life before incurring a penalty. For example: premiums are due December 1 for the month of December and must be remitted to Sun Life by December 15, otherwise, Sun Life will bill the employer an amount equal to interest of Prime plus 2% (calculated from the 16th to the date the premium is received by Sun Life) along with an administration charge)
- in some instances, the experience may be more positive than what was anticipated, and a surplus results. When this happens, a full or partial premium holiday may be implemented as is the case with the Employee Pay-All Life Plan.

2. Factors that Impact the Premium Rates:

a) **Benefit Plan Design**

- The level of coverage, cost-sharing arrangements, etc., have an impact on the premium.

b) **Claims Trend**

- Despite the decrease in the number of employees (resulting in less premiums being paid) there is no reduction in plan utilization. For example, in 1995, for Extended Health, the average annual claims payment per employee was \$652. In 2001, this figure increased to \$996 per employee and by 2003, it had reached \$1,277 per employee.
- Introduction of new and more costly drugs in the marketplace.

c) **Cost Shifting**

- Over the past few years, both governments and other regulatory bodies have shifted the responsibility for certain benefits and associated costs to private plans.
- The Colleges' Extended Health Care Plans pay for all prescription drugs approved by Health Canada and given a Drug Identification Number (DIN).

d) **Demographics**

- As the average age of employees increases, the number and types of claims also increases, especially for drugs and hospital expenses.

e) **Benefit Volatility**

- The claim size (actual dollars) and the number of high dollar claims will affect the Plan. For example, in one month, the plan paid out \$82,000 for a claim submitted from an employee hospitalized in the USA.
- Inflationary costs associated with products and services covered by the plans. For example, Dental claims costs are controlled by the Ontario Dental Association (ODA) fee schedule. There are established maximums for expenses within the Dental Plans which cap the liability under the plans per insured person annually.
- In 1995, the average annual dental payment per employee was \$666; in 2003 it was \$1,129. Normally, the ODA increases average 3% per year. However, the Dental Association has unbundled their services, which has increased costs for Dental Care by 9% to 15% annually over the last 4 years.
- There are no maximums, with the exception of paramedical service expenses, and out-of-Canada physicians services, in the Extended Health Care Plans.
- The provincial government has removed legislation that controlled the pharmacist's mark-up costs for drugs and dispensing fees.

3. The Process for Establishing the Premium Rates

- The Academic and Support Staff Joint Insurance Committees and the OCASA Insurance Subcommittee are responsible for reviewing the financial status of the Group Insurance Benefit plans and making recommendations regarding the premium rates for the Group Insurance Plans.
- The Contract Year for Group Insurance Benefits Contracts is February 1 to January 31. The formal review process occurs annually, in the Fall. This review consists of the following:
 - Sun Life forwards, to each member of the Joint Insurance Committees, their recommendations regarding the next policy year premium rates, in writing, by line of benefit.
 - The Council reviews the information provided by Sun Life and engages the services of a benefits consultant for an independent assessment and analysis of Sun Life's recommendations.
 - On receipt of the analysis from the consultant, the Council's staff, in conjunction with Management members of Joint Insurance Committees, prepares its recommendations.
 - Discussion and final joint recommendations for consideration by the Council are determined at the respective JIC meetings.
 - The analysis contains assumptions of the expected claims activity in the coming year, taking into consideration actual financial statistics over the past contract year(s).
 - Premium rate recommendations are reviewed by the Human Resources Management Steering Committee (HRMSC), and subsequently the Human Resources Committee (HRC) of the Council.
 - Following the final resolution by the Council, a memorandum (directive) is sent to the colleges advising of the adjusted premium rates and their effective date (usually February 1)
 - The Employer is responsible for informing employees and retirees of the rate adjustments and ensuring that the appropriate premiums are remitted to Sun Life.
 - The Employer is also required to collect the appropriate provincial tax (8% in Ontario and 9% in Quebec) from employees and retirees who reside in those provinces, when premiums are paid. These provincial taxes do not apply to non-residents of Ontario or Quebec.