

Canada Life Contract Extension

Presented To:	City Council
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Meeting Date:	November 8, 2022
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Type:	Managers' Reports
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Recommended by:	General Manager of Corporate Services
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Report Summary

This report provides an update on the details of the Canada Life benefits contract extension. The City of Greater Sudbury will be exercising the one-time 5-year extension as outlined in Request for Proposal (RFP) CPS20-17 and extend the existing contract with Canada Life for the period of January 1, 2023 to December 31, 2027.

Resolution

THAT the City of Greater Sudbury directs the Manager of Compensation and Benefits to enter a 5-year contract extension with Canada Life, as outlined in the report entitled "Canada Life Contract Extension", from the General Manager of Corporate Services, presented at the City Council meeting on November 8, 2022.

Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to operational matters and has no direct connection to the Community Energy and Emissions Plan.

Financial Implications

The estimated benefit contract costs (currently under negotiation) are expected to be within the draft 2023 Budget that will be tabled in January 2023.

If the negotiated benefit costs are different from the budget, they will form part of the corporate year end position for 2023 and then reflected in the 2024 Budget.

Background

In June 2017, in response to an RFP (CPS20-17), Council approved the award of the contract to Canada Life for the provision of Group Benefits for employees as recommended in the report entitled "Award of Contract

for Group Benefits” dated June 27, 2017. The Group Benefits include Extended Health, Dental, Short-Term Disability, Long-Term Disability and Life Insurance Benefits. The award included a 5-year contract that covered the period of January 1, 2018, to December 31, 2022, with the option for a one-time 5-year extension for the period of January 1, 2023, to December 31, 2027.

Group benefits are a key component of total compensation for employees. They are an important reflection of our employee value proposition and are personally important to employees of all ages and their family members. The fact that employee benefits are 100% employer paid is a key feature in the City’s attraction and retention of municipal employees. The City’s turnover rate was 7.1% in 2001, which is normatively high across industries but lower than our Municipal Benchmarking Network of Canada partners which averaged 8.4%. Benefit levels and efficient benefits administration are important to employees.

Analysis

The following points summarize the rationale for the recommendation to extend the contract with our benefits provider Canada Life for a 5-year period as outlined in RFP CPS20-17:

- Although the City’s benefit plan has not been marketed in the last 5 years, staff ensures we obtain competitive rates with an annual negotiations with Canada Life for renewal rates and expense charges. Mercer performs extensive analysis of trends and actual costs that are representative of the City’s experience as well as comparison with data related to other insurers and clients of similar size and complexity to negotiate the best possible rate. As a result of the analysis and successful negotiations by Mercer, the City has consistently been able to generate reasonable renewal rates each year.
- Historically, larger employers do not market their employee benefit plans more frequently than every 7 to 10 years. Our benefit consultant, Mercer, advises they have some clients who have not marketed their plans for even longer periods. One of the main reasons is the process of moving a large benefit plan is very time consuming and complex for the employer. Prior to entering into the first five year contract with Great West Life (now Canada Life), the City’s benefit provider had been unchanged since amalgamation in 2001.
- Canada Life is a leading Canadian health and life insurer and serves the financial security needs of more than 30,000 employers and 12 million people across Canada. The team assigned to the City of Greater Sudbury offers a great deal of expertise and experience working within the municipal sector and other levels of government. Canada Life offers a holistic approach to disability management and is built on the fundamental principal of providing the right support at the right time.
- Continuity for short term and long-term disability insurance is critical for employee experience with the benefits provider. When an employer changes benefits providers, there is a significant amount of work involved in establishing work-flow and clear processes for the payment of benefits and important processes such as early and safe return to work and rehabilitation. Utilization rates for short term disability are in the 12-13% range which is high compared to other Canada Life clients.
- Although the premium rates for 2023 will not be finalized until after this extension has been approved, the City has received very favorable rates over the last five (5) years based on our benefit plan experience and Mercer’s negotiations with Canada Life.
- The average annual rate increases for the period of 2018 to 2022 is 3.8% as outlined in the enclosed summary (Appendix A).
- As part of the preliminary discussions between Mercer and Canada Life, Canada Life has agreed to the following expense and pooling charges, should the contract be extended for an additional 5-year term.
 - General Administration – Canada Life is proposing the same General Administration charge for 2023-2027 that was in place for 2018-2022.

- Claims Administration – Canada Life is proposing to maintain the same percentage for administration charges for 2023-2027 that were in place for 2018-2022. For administrative charges that are based on the dollar value of claims received, Canada Life will maintain the 2022 charges for 2023-2025 and CPI increases will be applied annually for 2026 and 2027.
- Profit – Canada will be waiving the profit charge for 2023-2025 and re-introduce the charge at 2022 levels for 2026-2027.
- Risk – Canada Life is proposing the same Risk charge for 2023-2027 that was in place for 2018-2022.
- Travel Assistance – Canada Life is proposing that the 2022 Travel Assistance charges be maintained for 2023-2027.
- Pooling Charges – Canada Life is proposing converting the 2022 pooling rate to a percentage of Health Premiums for 2023. The increases in Pooling Charges would then be capped at 25% for 2024 and 2025. No cap would apply for the 2026 and 2027 renewal. Pooling Charges are an important component of the Group Benefit plan as any claim above \$75,000 is not included in the City's experience calculation and is covered by the insurer. This means that any claims over \$75,000 do not have a negative impact on our benefit rates.

Although not recommended, if this extension is not approved, the City will need to leverage a one-time annual extension that is afforded under the existing contract which will allow staff sufficient time to go to market for Group Benefit coverage.

Resources Cited

July 11, 2017 – Request for Decision – Award of Contract for Group Benefits [filestream.ashx\(escribemeetings.com\)](filestream.ashx(escribemeetings.com))

Appendix A

Rate Change Summary - Active Employees & Retirees 2018 to 2022

	2018 % Change	2019 % Change	2020 % Change	2021 % Change	2022 % Change	5-Year Average
Active Employees:						
Extended Health	15.0%	0.0%	-7.2%	2.0%	0.0%	2.0%
Dental	10.0%	0.0%	2.0%	3.0%	0.0%	3.0%
Short-Term Disability	-5.0%	0.0%	13.6%	-8.0%	-10.0%	-1.9%
Group Life Insurance	-5.0%	0.0%	-6.5%	3.5%	0.0%	-1.6%
Long-Term Disability	-5.0%	0.0%	24.0%	30.0%	10.0%	11.8%
Pooling Charges & Admin Expenses	N/A	N/A	44.1%	12.0%	5.9%	12.4%
Cost - Prior to Negotiations	13,527,951	14,369,883	16,395,567	17,270,594	18,310,711	
Cost - After Negotiations	14,369,883	14,369,883	17,170,974	18,547,047	18,570,928	
Difference	841,932	0	775,407	1,276,453	260,217	
% Change	6.2%	0.0%	4.7%	7.4%	1.4%	3.9%
Retirees:						
Extended Health	15.0%	0.0%	-7.2%	2.0%	0.0%	2.0%
Dental	10.0%	0.0%	2.0%	3.0%	0.0%	3.0%
Group Life Insurance	-5.0%	0.0%	-6.3%	3.5%	0.0%	-1.6%
Pooling Charges & Admin Expenses	N/A	N/A	44.8%	12.0%	6.0%	12.6%
Cost - Prior to Negotiations	2,357,582	2,691,994	2,241,870	2,232,216	2,191,956	
Cost - After Negotiations	2,691,994	2,691,994	2,133,035	2,288,468	2,197,306	
Difference	334,412	0	(108,835)	56,252	5,350	
% Change	14.2%	0.0%	-4.9%	2.5%	0.2%	2.4%
Total Cost - Prior to Negotiations	15,885,533	17,061,877	18,637,437	19,502,810	20,502,667	
Total Cost - After Negotiations	17,061,877	17,061,877	19,304,009	20,835,515	20,768,234	
Difference	1,176,344	0	666,572	1,332,705	265,567	
% Change	7.4%	0.0%	3.6%	6.8%	1.3%	3.8%

Note:

- 1) Differences between the final negotiated premiums in a given year and the current premiums for the following year are due to in-year changes to benefit levels due to negotiations/approved changes, changes in headcounts and changes in volume due to salary increases.
- 2) As part of the original contract with Canada Life (formerly Great-West Life), premiums for 2019 were frozen at the 2018 levels. Cost information is not available as a renewal analysis wasn't prepared for January 1, 2019 however % change would have been 0%.
- 3) 2018 Extended Health increases includes pooling charges.