

**CUPE LOCAL 4168
LONG TERM DISABILITY PLAN PROGRAM**

2022 LONG TERM DISABILITY PLAN PROGRAM RENEWAL

CANADIAN BENEFITS CONSULTING GROUP

JANUARY 2022



Financial Services Regulatory Authority of Ontario (FSRA) Compliant and Member in Good Standing

We are pleased to provide a Renewal Report for the period October 1, 2020 to September 30, 2021 in conjunction with the February 1, 2022 anniversary for the Long-Term Disability Plan underwritten by Industrial Alliance.

The report is divided into the following Sections:

Section I	Executive Summary
Section II	Factors Influencing Long-Term Disability Cost
Section III	Reserves
Section IV	Financial Experience
Section V	Renewal Rate Setting
Section VI	Conclusion & Comments

SECTION I – EXECUTIVE SUMMARY

Overall Renewal Rate Action

Long-Term Disability Plan

Industrial Alliance has proposed to maintain the current (blended) rates (Admin/Clerical: 0.77% of gross earnings; Tradespeople: 2.44% of gross earnings)

Total Cost

Example:

Admin/Clerical

A Member earning \$40,986.75 annually (bi-weekly (24 pays) - \$1,707.78)

Current Bi-Weekly Premium Contribution: @ 0.77% = \$13.15 + \$1.05 (8% Tax) = \$14.20

Proposed Bi-Weekly Premium Contribution: @ 0.77% = \$13.15 + \$1.05 (8% Tax) = \$14.20

Custodial / Tradespeople

A Member earning \$54,849.60 annually (bi-weekly (24 pays) - \$2,285.40)

Current Bi-Weekly Premium Contribution: @2.44% = \$55.76 + \$4.46 (8% Tax) = \$60.22

Proposed Bi-Weekly Premium Contribution: @2.44% = \$55.76 + \$4.46 (8% Tax) = \$60.22

SECTION II – FACTORS INFLUENCING LONG-TERM DISABILITY COST

For groups with 200 lives or more, an analysis of the results for the most recent 5 years is used to determine whether the current rates are sufficient to cover the expected claims and disabled life reserves. The conclusion drawn from that analysis are tempered by a credibility factor, which is determined by the number of plan members covered under that benefit, and by the number of disabled lives.

The larger the population, the more likely it is that past results are representative of future risk, and the more credible they can be considered. If we compare two situations with the same level of incurred claims, the one with the larger number of disabled lives will be considered more credible. This protects the plan costs from results worsened by the disability of one high-income plan member, a situation that is unlikely to reoccur.

If the results are not fully credible, the renewal adjustment is driven by any change in the population of the group. The following factors may be considered:

- Aging:
 - o The effect of aging in Long-Term Disability is much different than it is for Life.
 - o The impact after age 60 actually reduces the risk.
- Population change – Arrival of new Members or the departure of some Members since the previous year.
- Average weighted age – Assuming the older Members are also long term Members, salary adjustments would increase the average weighted age more rapidly than the average mathematical age.
- Gender – Typically men have a lower morbidity rate than women at any given age. The higher the male percentage of the group the lower the rate.
- Changes in interest rates – Long-Term interest rates are among the key factors in determining the required amounts of disabled lives reserves. Low interest rates have an adverse effect on reserves, and therefore on pricing of the benefit.
- Change in government plans such as Canada Pension Plan (CPP) – Whenever a Member becomes fully and permanently disabled, the Member may claim CPP disability benefits, which are offset from the monthly benefit of the plan. Therefore, any change that could impact the dollar amount to which a plan member would be entitled will have an impact on the cost of the group plan.

SECTION III – RESERVES

Incurred But Not Reported Claims Reserve (“IBNR”)

Insurance companies, in accordance with government regulation, must establish IBNR claim reserves. The monies are set aside in the event of policy termination and to provide for proper accounting of outstanding claims, incurred during one accounting period but payable in the future. Once a policy is terminated with an insurer, premium payments are no longer made. However, the insurer continues to be liable for any claims that were incurred prior to the termination date. The IBNR reserve covers these claims.

IBNR reserves are funded from premiums paid during the first year of a policy. They are then adjusted in subsequent years, based on changes in premium levels for Long-Term Disability. Each insurance company establishes its own formulae for calculating IBNR's.

Long-Term Disability Plan

Industrial Alliance has applied an IBNR adjustment of \$3,338 (from \$44,498 in 2020 to \$47,836 at September 30, 2021) for the current policy year period.

Disabled Life Reserves (“DLR”)

DLR reserves are held for approved Long Term Disability claims. These reserves are established using various actuarial tables and interest assumptions. They are estimates of the present value of future benefit payments.

At September 30, 2021 Industrial Alliance holds a total DLR of \$192,457 for two (2) open claims for a total monthly payment of \$2,294.

SECTION IV – FINANCIAL EXPERIENCE

Long-Term Disability Plan

I.A. Financial Group strives to use the most appropriate methodology to establish long-term disability (LTD) renewal rates and, therefore, adequately reflect the risk undertaken and ensure future rate stability.

For a long time, I.A. has been using an analysis where the credibility portion is based on past LTD experience by incurral year and the non-credible portion is based on the client's current rate plus any change in the group demographics. This methodology brings stability in the rates, encourages transparency and will remain at the core of how they calculate LTD renewal rates.

LTD risk assessment is complex, and it sometimes takes years before a trend emerges. After an in-depth analysis of past trends and the review of recognized industry studies, they observed an undeniable market-wide increase in LTD incidences over the past years. Simply put, the number of yearly LTD cases is on the rise and has been for a while.

As a result, effective immediately for all LTD renewals will reflect 5 years of incidence trends and going forward they will be able to present a more predictable model that should provide even greater accuracy and stability in future years.

Financial Experience:

	October 1, 2020 to September 30, 2021	October 1, 2016 to September 30, 2021
Paid Premiums:	\$143,509	\$776,914
Paid Claims:	\$41,377	\$88,598
IBNR (Sept 30/20)	\$3,338	\$47,836
DLR:	\$192,459	\$281,050
Incurred Claims (Paid Claims + Reserves):	\$237,174	\$417,484
Paid Premiums:	\$143,509	\$776,914
Incurred Loss Ratio (Incurred Claims / Premiums):	165.27%	53.74%
Demographic Change:	3.5%	3.5%
Expense Factor: (I.A. Administration & Claims / Service Fee / Premium Tax)	22.00%	22.00%
Total Loss Ratio (Including Expenses):	190.77%	79.24%
Target Loss Ratio:	78%	78%
Required Adjustment to Current Rate:	112.77%	1.24%

**SECTION V – RENEWAL RATE SETTING
(EFFECTIVE FEBRUARY 1, 2022)**

Plan Participation

At September 30, 2021 there were 306 lives insured down from 297 at October 1, 2020, resulting in a demographic change of 3.5%.

Long-Term Disability Plan

At September 30, 2021 there were two (2) open claims and no pending claims.

Following our review of Industrial Alliance's proposed renewal action, and based on the financial status of the Plan at September 30, 2021; we do support Industrial Alliance's proposed renewal action. However, due to the overall financial experience over the past five (5) years, we negotiated a rate guarantee of three (3) years for stabilization.

The current rates of 0.77% for the Admin/Clerical / 2.44% for the Custodial/Tradespeople will be maintained for the policy year periods to January 31, 2025.

Currently, the Administration/Clerical Unit Members are deducted an additional \$5.00 flat amount per pay. The total pooled deduction is evenly distributed as a credit to the Custodial/Trades Unit Members.

This calculation can be maintained during the policy year period of February 1, 2022 to January 31, 2025.

SECTION VI – CONCLUSION AND COMMENTS

Overall Renewal

We believe that the final proposed renewal rates proposed by Industrial Alliance are reasonable.

Overall Renewal

We assume you are satisfied with the services from Industrial Alliance.

Working on Your Behalf

Our objective is to get you the best value for your money and ensure that your interests are always protected.