



September 18, 2020

Mr. Derek Hanson
President, CEMA
P.O. Box 47100
City Centre Post Office
Edmonton, Alberta
T5J 4N1

Dear Derek:

RE: 2019 Underwriting Results for the Employee Benefit Plans

The Human Resources Branch has completed its annual financial review of the Supplementary Health Care, Dental, Group Life Insurance and Dependent Life Insurance Plans. For your information, attached is a financial statement for each Plan that shows the 2019 experience and the financial position of the Plan as at December 31, 2019.

Underwriting Results

The annual experience for 2019 was not favorable. All the Plans including the Supplementary Health Care Plan, Dental Plan, Group Life Insurance Plan and the Dependent Life Insurance Plan experienced negative results as expenses exceeded income. The Supplemental Health Care Plan, Dental Plan and Dependent Life Insurance Plan will see a premium increase. The Group Life Insurance Plan's premium rate will remain the same.

The premium changes will be reflected on employees' **October 20, 2020** pay advice. At the same time, changes will also be made to the premiums paid by the City. Premium information by Plan is provided below.

Supplementary Health Care

The 2019 annual experience was not favorable in that expenses exceeded income by \$100,435. The year ended with a fully funded Claims Fluctuation Reserve (CFR) but the year-end fund balance was in a deficit of \$189,304.

Overall, the 2019 supplemental health cost increased by almost 8.7% over the 2018 costs. The primary increase was prescription drugs of \$111,437 or 7.02%. One of the contributing factors of increased prescription drug costs is the increased expenses for high cost specialty drugs, most often biologic drugs. Two of the most highly used specialty drugs within Management and Out-of-Scope are Remicade and Humira, anti-inflammatory medication used to treat rheumatoid Arthritis, Crohn's and colitis. Another high cost medication, approved by Health Canada in 2018,

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used in treatment of metastatic prostate cancer was used in 2019. The cost of this medication is about \$38,000 per year.

Another contributing factor to the increase in prescription drugs is the use of high cost drugs to treat common chronic conditions such as diabetes and eczema and/or plaque psoriasis. In 2019, high cost medications used to treat skin conditions such as eczema and plaque psoriasis were highly utilized. One biologic medication used to treat eczema was approved by Health Canada in 2019 and used by the management group. The cost of this medication in year one is \$33,000 and \$31,700 in subsequent years. In contrast, the cost of current treatments for eczema ranges from \$100 to \$1,500 per year. Another example is the diabetic medication, Metformin, insulin used since 1957, which costs a few cents per treatment. New insulins that have come to market are hundreds of dollars per treatment.

Contributing to the overall increase in health expenses are an increase in physiotherapy costs (\$41,424 or 22.99%), chiropractic costs (\$18,808 or 11.63%) and psychologist costs (\$15,543 or 18.13%).

Future annual experience is projected to be negative primarily because of the increasing cost of prescription drugs. Based on the projected negative experience, a premium increase is required to ensure the CFR remains fully funded and sufficient funds are available to ensure the Plan remains financially viable.

Effective **September 27, 2020**, the bi-weekly rates will be as follows:

	Current			Increase Effective September 27, 2020		
	Employee (30%)	Employer (70%)	Total (100%)	Employee (30%)	Employer (70%)	Total (100%)
Single	\$11.60	\$27.08	\$38.68	\$12.76	\$29.79	\$42.55
Family	\$23.19	\$54.12	\$77.31	\$25.51	\$59.53	\$85.04

Dental

The Plan's 2019 annual experience was not favorable in that expenses exceeded income by \$389,325. The CFR was fully funded and the dental fund ended the year with a surplus of \$174,489.

Overall, dental costs experienced a \$124,890 or 5.32% increase over 2018 costs. The overall increase in dental costs can be primarily attributed to an 8.62% increase in usage in 2019. Preventative costs increased by \$57,201 or 7.44%, orthodontics by \$23,532 or 17.50%, oral and maxillofacial surgery by \$14,732 or 10.4% and diagnostic costs increased by \$15,271 or 3.65%.

Dental costs are anticipated to increase in 2020 as the dental fees increased by 4.4%. Future annual experience is projected to be negative primarily because of the increased dental fees and the anticipated increased usage. Based on the projected negative experience, a premium increase

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is required to ensure the CFR remains fully funded and sufficient funds are available to ensure the Plan remains financially viable.

Effective **September 27, 2020** the bi-weekly rates will remain as follows:

	Current			Increase Effective September 27, 2020		
	Employee (35%)	Employer (65%)	Total (100%)	Employee (35%)	Employer (65%)	Total (100%)
Single	\$9.20	\$17.10	\$26.30	\$9.43	\$17.53	\$26.96
Family	\$23.00	\$42.72	\$65.72	\$23.58	\$43.79	\$67.36

Group Life

The 2019 experience under the Plan was not favorable as expenses exceeded income by \$170,098. The fund balance at the end of the year was \$327,256. Over the past five years, the Plan has experienced an average of one death per year at approximately \$250,000 per claim.

The dollar magnitude of potential death claims is always a concern for a plan of relatively small size such as the Management Group Life Insurance Plan. The positive year end fund balance, the fully funded CFR and the past five years' experience are anticipated to be sufficient to offset any possible negative experience for the next year. For this reason, the current premium rate will remain the same.

Effective **September 27, 2020**, the bi-weekly rates will be as follows:

Current		No Change Effective September 27, 2020	
Employee (50%)	Employer (50%)	Employee (50%)	Employer (50%)
\$0.010	\$0.010	\$0.010	\$0.010

Dependent Life

The Plan's 2019 annual experience was unfavorable as expenses exceeded income by \$29,724. The year end fund balance experienced a deficit of \$38,034. The average annual number of death claims over the past ten years is approximately two with an average total claim payout of approximately \$12,500.

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Based on the past experience and the deficit year end fund balance, the current premium rate will increase.

Effective **September 27, 2020**, the bi-weekly rates will be as follows:

Current	Increase Effective September 27, 2020
Employee	Employee
\$0.50	\$1.00

Communication of Changes in the Premium Rate

The Human Resources Branch will communicate the premium changes to employees on **onecity**, the Benefits Changes page and the CEMA home page.

Derek, please call me at 496-7858 if you wish to discuss the results of the financial review.

Yours truly,



Lorraine Wohland
Sr. Benefits Planner

Attachments

c: Noelle Devlin
Kent Sorochuk