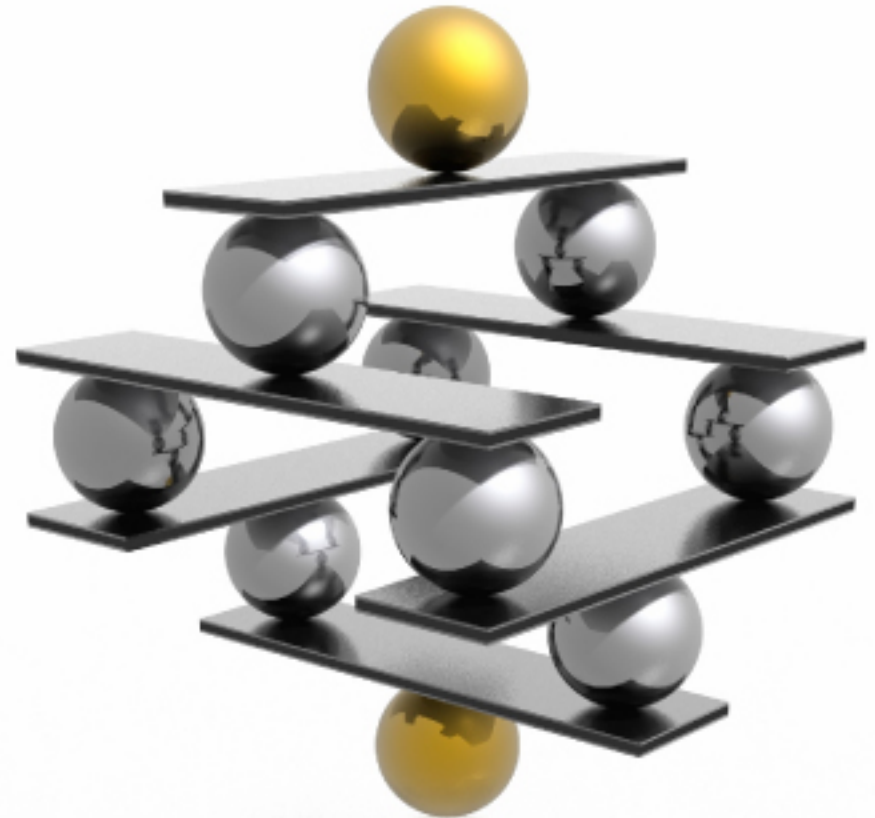


AON Hewitt
January 1, 2012 Renewal Review

January 1, 2012 Renewal Review

Newfoundland Power
November 24, 2011



Prepared by Aon Hewitt

Presentation to Newfoundland Power



Agenda



- Introduction
- Executive Summary
- Renewal of Financial Agreements
- Renewal of Premium Rates
- Financial Statements
- Recommendations and Next Steps
- Appendices

Introduction

- Medavie Blue Cross #93489, issued October 1st, 2006
 - Life, Long Term Disability (LTD), Health, Dental, Spending Account
- AXA Assurances, issued October 1st, 2006
 - Basic Accidental Death & Dismemberment (AD&D), #6994365
 - Voluntary AD&D, #6994366
 - Optional Critical Illness, #9222968
- Number of participants*

| Group | Current Year | Last Year |
|------------------------------------|--------------|-----------|
| Actives | 650 | 663 |
| Retirees (incl. surviving spouses) | 629 | 610 |

*Source: Medavie Blue Cross

Executive Summary

- On a combined basis, the negotiated overall change to annual premium is a 3.2% decrease
 - Overall decrease the result of a decrease in Health rates
 - Increases to Life and LTD rates temper the overall premium reduction
- Aon Hewitt's negotiations on behalf of Newfoundland Power resulted in annual premium savings of approximately \$310,410 – not including the Dental Care premium
- Aon Hewitt recommends the following actions:
 - Accept the negotiated premium, except the Health rates
 - Maintain current Health rates to fund a Health Care Claims Fluctuation Reserve (CFR)

Renewal of Financial Agreements

- Underwriting basis

| Benefit | Underwriting Basis |
|---------------------------|---|
| Basic, Dependent Life | Refund accounting, 125% stop-loss pooling |
| Optional Life | Fully Insured |
| AD&D (Basic & Voluntary) | Fully Insured |
| Optional Critical Illness | Fully Insured |
| LTD | Fully Insured |
| Health Care | Refund accounting, \$25,000 ILAP |
| Dental Care | Fully Insured |

Renewal of Premium Rates

■ Aon Hewitt Rating Basis

- Basic & Dependent Life: 53% based on your group's experience, 47% based on current rate plus an adjustment for demographics*
 - If total claims exceed 125% of paid premium, then the amount of claims over 125% of premium is excluded from the financial statement and renewal rating
- Optional Life & Critical Illness: 100% based on insurer's experience
- AD&D (Basic & Voluntary): 100% based on insurer's experience
- LTD: 41% based on your group's experience, 59% based on current rate plus an adjustment for demographics*
- Health Care: 100% based on your group's experience, except for claims exceeding \$25,000 per insured per year which are removed from the financial statements and renewal rating
- Dental Care: 100% based on your group's experience

*Methodology differs from insurer.

... Renewal of Premium Rates

▪ Basic Life

- Carrier's proposal +7.9%
- We agree with the proposed rate action.
- Includes 10% margin for deficit recovery
- Comments
 - Aon Hewitt's analysis produced an 11.4% increase, including deficit recovery
 - 34 Basic Life death claims (does not include Dependent Life claims)
 - Average age increased from 49.9 years to 50.4 years
 - 1% increase in number of lives covered and volume of insurance

See Appendices C & D

▪ Dependent Life

- Carrier's proposal + 26.1%
- AonHewitt's negotiated results +20.0%
- Comments
 - Includes 10% margin for deficit recovery
 - Premium and claims, since inceptions, total \$126,229 and \$245,000, respectively
 - 25 Dependent Life claims this period (August 1, 2010 – Jul 31, 2011)

... Renewal of Premium Rates

- Basic and Dependent Life experience

| Period | Adjusted Premium | Experience-rated Claims |
|--|------------------|-------------------------|
| Oct 1, 2006 - Jul 31, 2007 | \$737,042 | \$539,065 |
| Aug 1, 2007 - Jul 31, 2008 | 895,847 | 347,000 |
| Aug 1, 2008 - Jul 31, 2009 | 914,790 | 595,000 |
| Aug 1, 2009 - Jul 31, 2010 | 945,336 | 545,000 |
| Aug 1, 2010 - Jul 31, 2011 | <u>955,174</u> | <u>363,000</u> |
| Total | \$4,448,189 | \$2,389,065 |
| Waiver of Premium Reserve | | 989,330 |
| Incurred But Not Reported (IBNR) Reserve | | <u>129,934</u> |
| Total | \$4,448,189 | \$3,508,329 |

... Renewal of Premium Rates

▪ LTD

- Carrier's proposal + 7.6%
- Aon Hewitt's negotiated result + 3.5%
- Comments

See Appendix E

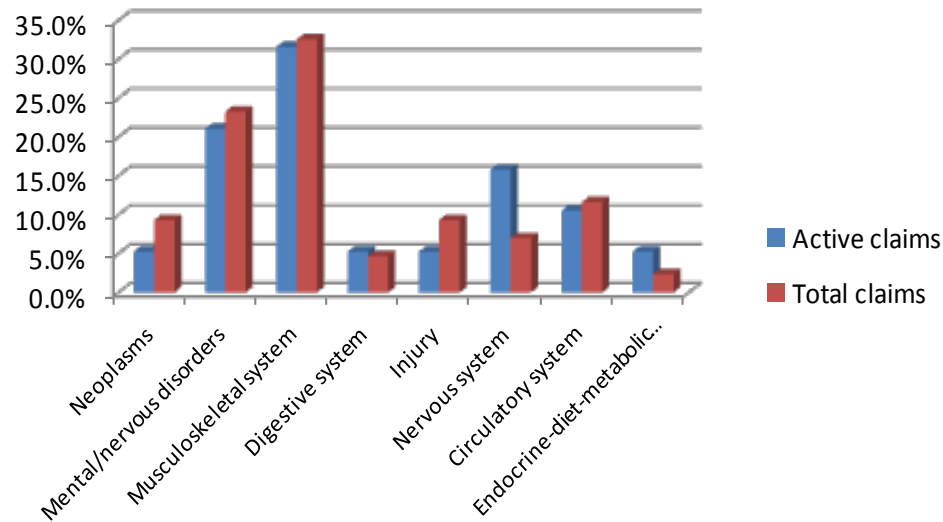
- As of Sept 26, 2011, there were 21 LTD claimants, compared to 11 claimants last year (91% increase in claimants)

| Period | Adjusted Premium | Paid Claims |
|--|------------------|----------------|
| Oct 1, 2006 - Jul 31, 2007 | \$532,071 | \$35,864 |
| Aug 1, 2007 - Jul 31, 2008 | 658,577 | 130,974 |
| Aug 1, 2008 - Jul 31, 2009 | 694,004 | 184,269 |
| Aug 1, 2009 - Jul 31, 2010 | 739,916 | 226,821 |
| Aug 1, 2010 - Jul 31, 2011 | <u>762,074</u> | <u>456,929</u> |
| Total | \$3,386,642 | \$1,034,857 |
| Disabled Life Reserve (DLR) | | 1,838,942 |
| Incurred But Not Reported (IBNR) Reserve | | 274,347 |
| Total | \$3,386,642 | \$3,148,146 |

... Renewal of Premium Rates

- LTD – disability causes since inception

| Disability Cause | Active | Total | Average Days Disabled |
|------------------------------------|--------|-------|-----------------------|
| Neoplasms | 1 | 4 | 610 |
| Mental/nervous disorders | 4 | 10 | 738 |
| Musculoskeletal system | 6 | 14 | 464 |
| Digestive system | 1 | 2 | 678 |
| Injury | 1 | 4 | 416 |
| Nervous system | 3 | 3 | 709 |
| Circulatory system | 2 | 5 | 285 |
| Endocrine-diet-metabolic disorders | 1 | 1 | 380 |
| Total | 19 | 43 | 541 |



... Renewal of Premium Rates

- AD&D
 - Carrier's proposal +0.0%
 - Basic and Voluntary rates remain unchanged
 - No Basic AD&D claims in the last period
 - \$30,000 paid in Voluntary AD&D claims in the last period

... Renewal of Premium Rates

■ Health Care

| Experience results | 8/1/2010 to 7/31/2011 |
|--------------------|--------------------------|
| Paid premiums | 3,185,370 |
| Incurred claims | 2,590,197 |
| Incurred ratio | 81.3% |
| Target ratio | 87.0% |

See Appendices F & G

■ Carrier's proposal

- Experience-rated adjustment - 6.9%
- Deficit recovery +6.9%
- Total adjustment 0.0%

■ Aon Hewitt's negotiated result

- Experience-rated adjustment -8.0%

■ Comments

- No deficit recovery needed as plan was in surplus for the year, and with outstanding deposits (as of July 31, 2011), account will be in surplus (see Financial Statements on slide 15)
- Refer to DUR presentation for commentary on drug claims
- Trend used in analysis based on group's experience
 - 16-month trend = 7.8%
- Overall rate change will also apply to newly created retiree divisions/rates

... Renewal Premium Rates

- Dental Care

| Experience results | 8/1/2010 to 7/31/2011 |
|--------------------|--------------------------|
| Paid premiums | 104,552 |
| Incurred claims | 119,184 |
| Incurred ratio | 114.0% |
| Target ratio | 89.0% |

- Carrier's proposal + 10.6%
- Aon Hewitt agrees with the proposed increase.
- Comments
 - Our analysis resulted in a higher rate adjustment
 - 2 years' experience now used in the analysis to help smooth annual rating
 - Average annual claims cost per employee increased from \$629 to \$638, or 1.4%, this year

... Renewal of Premium Rates

- Annual global impact

| | Current | Proposed by Carrier | | Negotiated by Aon | | Change from current |
|-----------------------------|------------------|---------------------|------------|-------------------|--------------|---------------------|
| | (\$) | (\$) | (%) | (\$) | (%) | (\$) |
| Basic Life | 920,476 | 992,827 | 7.9 | 992,827 | 7.9 | 72,352 |
| Dependent Life | 37,163 | 46,872 | 26.1 | 44,640 | 20.1 | 7,477 |
| AD&D Insurance | 33,764 | 33,764 | 0.0 | 33,764 | 0.0 | 0 |
| Long Term Disability | 780,872 | 840,590 | 7.6 | 807,798 | 3.4 | 26,927 |
| Health Care and Travel | 3,573,102 | 3,573,102 | 0.0 | 3,297,716 | (7.7) | (275,386) |
| Total annual premium | 5,345,376 | 5,487,155 | 2.7 | 5,176,745 | (3.2) | (168,631) |
| Dental Care | 126,770 | 140,201 | 10.6 | 140,215 | 10.6 | 13,444 |

Financial Statements

- Life continues to run a deficit, but Health plan now in a surplus position, based on estimated outstanding deposits.

| Financial Statements | | |
|---|-----------------------------------|--------------------|
| Aug 1, 2010 to Jul 31, 2011 | Basic & Dependent Life | Health |
| Balance surplus/(deficit) as of Jul 31, 2010 | (\$569,960) | (\$446,935) |
| Premiums received | \$899,673 | \$3,300,700 |
| Pooling charges | (\$60,757) | (\$144,112) |
| Net premiums | \$838,916 | \$3,156,588 |
| Paid claims | \$363,000 | \$2,620,628 |
| Pooled claims | \$0 | (\$17,677) |
| Change in waiver of premium reserves | \$403,585 | N/A |
| Change in IBNR reserves | \$73,032 | \$3,246 |
| Total Incurred Claims | \$839,617 | \$2,606,197 |
| Retention fees | \$106,128 | \$393,059 |
| Interest credits/(charge) | (\$983) | (\$9,776) |
| Current year surplus/(deficit) | (\$107,812) | \$147,556 |
| Transfer from UDA | \$0 | \$0 |
| Balance Surplus/(Deficit) as of Jul 31, 2011 | (\$677,772) | (\$299,379) |
| Estimated outstanding deposits | \$168,178 | \$560,189 |
| Estimated balance as of Jul 31, 2011 | (\$509,594) | \$260,810 |

... Financial Statements

- Unrestricted Deposit Account (UDA)
 - \$280 in interest earned throughout year

| Financial Statements | |
|-----------------------------|--------------|
| Aug 1, 2010 to Jul 31, 2011 | UDA |
| Balance as of Jul 31, 2010 | \$10,180 |
| Interest credits | <u>\$280</u> |
| Balance as of Jul 31, 2011 | \$10,460 |

Recommendations and Next Steps

- We recommend the following for Newfoundland Power:
 - Accept the negotiated renewal conditions
 - Maintain current health rates and allow any resulting surplus to fund the Claims Fluctuation Reserve (CFR), as per the financial agreement with Medavie Blue Cross.
- Next steps include the following:
 - Communication to employees
 - Confirmation of rates to Medavie Blue Cross
- Monthly premium rates are presented in Appendix B

Appendices

- A. Aon Hewitt independent analysis process
- B. Renewal monthly rates
- C. Life demographics
- D. Life premiums & claims by category of employee
- E. LTD demographics
- F. Health care claims distribution
- G. Health premiums and claims by category of employee

Appendix A: Aon Hewitt Independent Analysis Process

- Validation of demographics
 - Consistency of demographics with prior year
 - Calculation of average ages and volumes (Life and LTD)
 - Calculation of the impact on rates of the demographic changes
- Validation of data
 - Experience data: premiums and claims
 - Open disability claims
- Validation of calculation items
 - Adjusted premiums
 - Manual rate changes
 - Waiver and Disabled reserves
 - IBNR reserves
 - Pooling charges
 - Credibility factors
- Validation of competitiveness
 - Renewal methodology
 - Expenses/pooling charges
 - Financial arrangements
 - Trend factors
- Negotiation

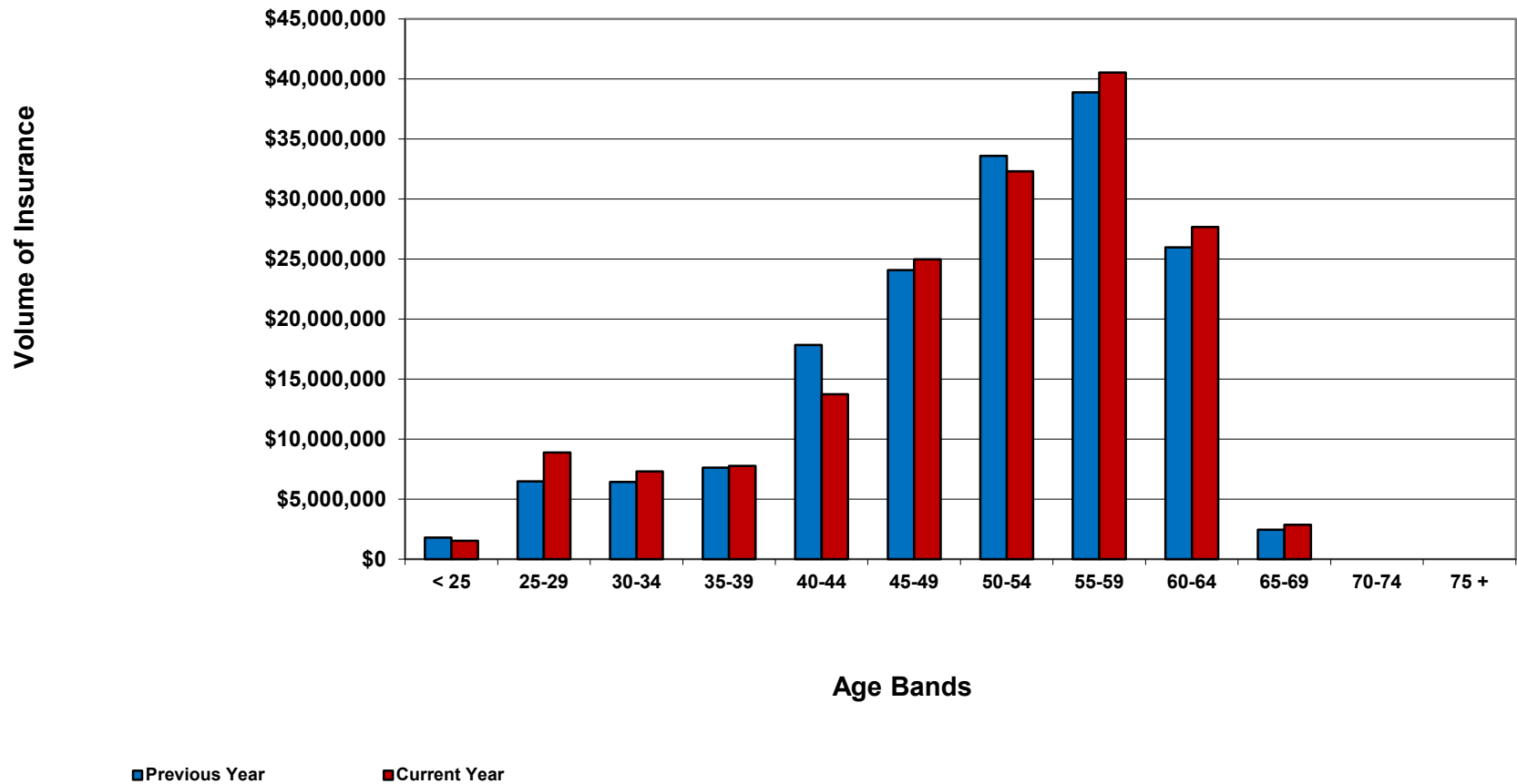
Appendix B: Renewal Monthly Rates*

| Benefits | Before 1/1/2012 | As of 1/1/2012 |
|---|--------------------|-------------------|
| | (\$) | (\$) |
| Basic Life Insurance (per \$1,000 of insurance) | 0.458 | 0.494 |
| Dependent Life Insurance AD&D (per \$1000 of insurance) | 3.330 | 4.000 |
| Long-Term Disability (per \$100 of monthly benefits) | 0.0168 | 0.0168 |
| Health Care | 2.929 | 3.030 |
| <i>Actives</i> | | |
| - Single | 87.95 | 80.91 |
| - Family | 296.19 | 272.49 |
| <i>Retirees under age 65</i> | | |
| - Single | 87.95 | 80.91 |
| - Family | 296.19 | 272.49 |
| <i>Retirees over age 65</i> | | |
| - Single | 129.75 | 119.37 |
| - Family | 256.54 | 236.02 |
| Travel | | |
| <i>Actives</i> | | |
| - Single | 3.89 | 3.89 |
| - Family | 7.78 | 7.78 |
| <i>Retirees under age 65</i> | | |
| - Single | 3.89 | 3.89 |
| - Family | 7.78 | 7.78 |
| <i>Retirees over age 65</i> | | |
| - Single | 7.89 | 7.89 |
| - Family | 15.78 | 15.78 |
| Dental Care | | |
| - Single | 31.32 | 34.64 |
| - Family | 73.35 | 81.13 |

*Upon final decision of the Health rate, a complete rate confirmation will be sent to Newfoundland Power.

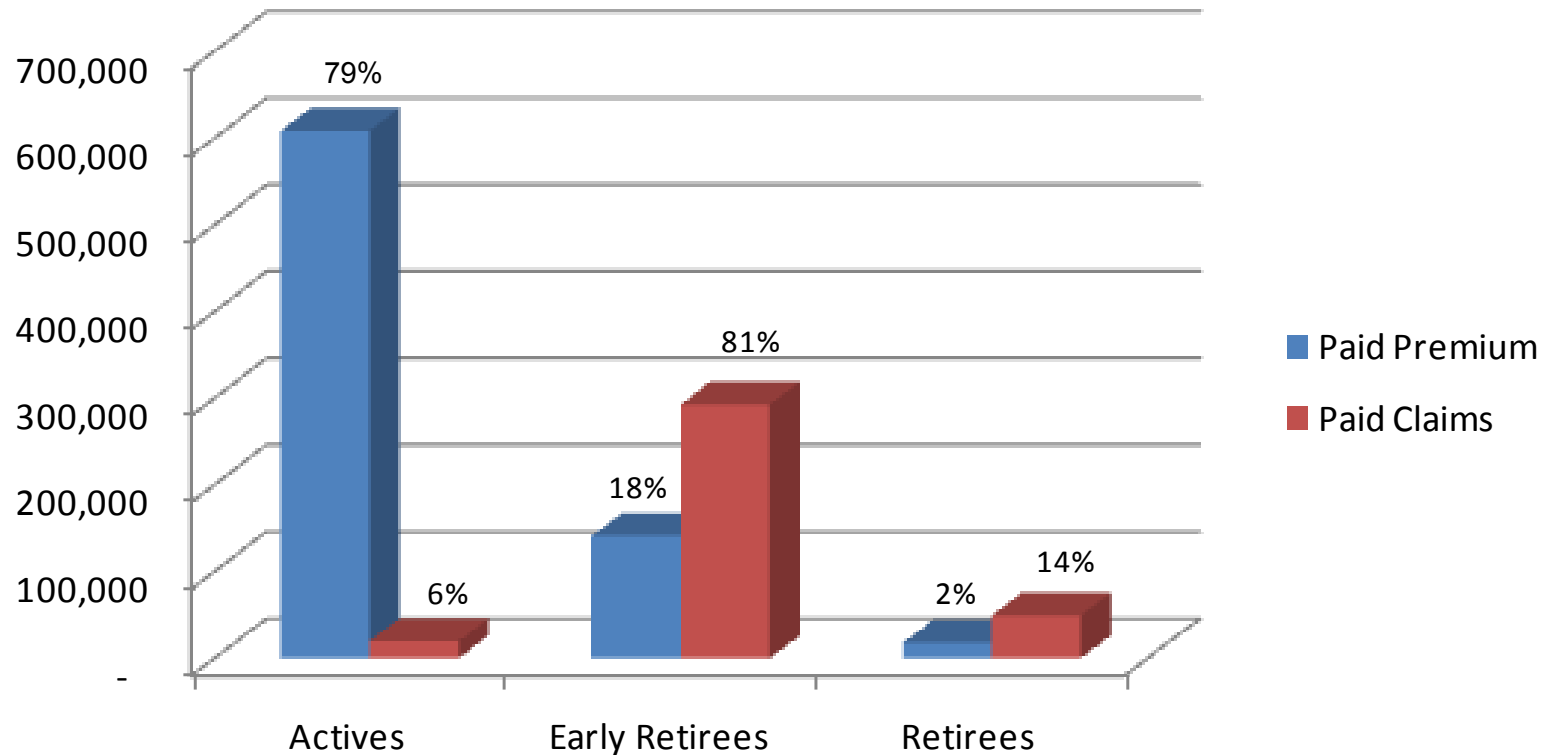
Appendix C: Life Demographics

Life Demographics



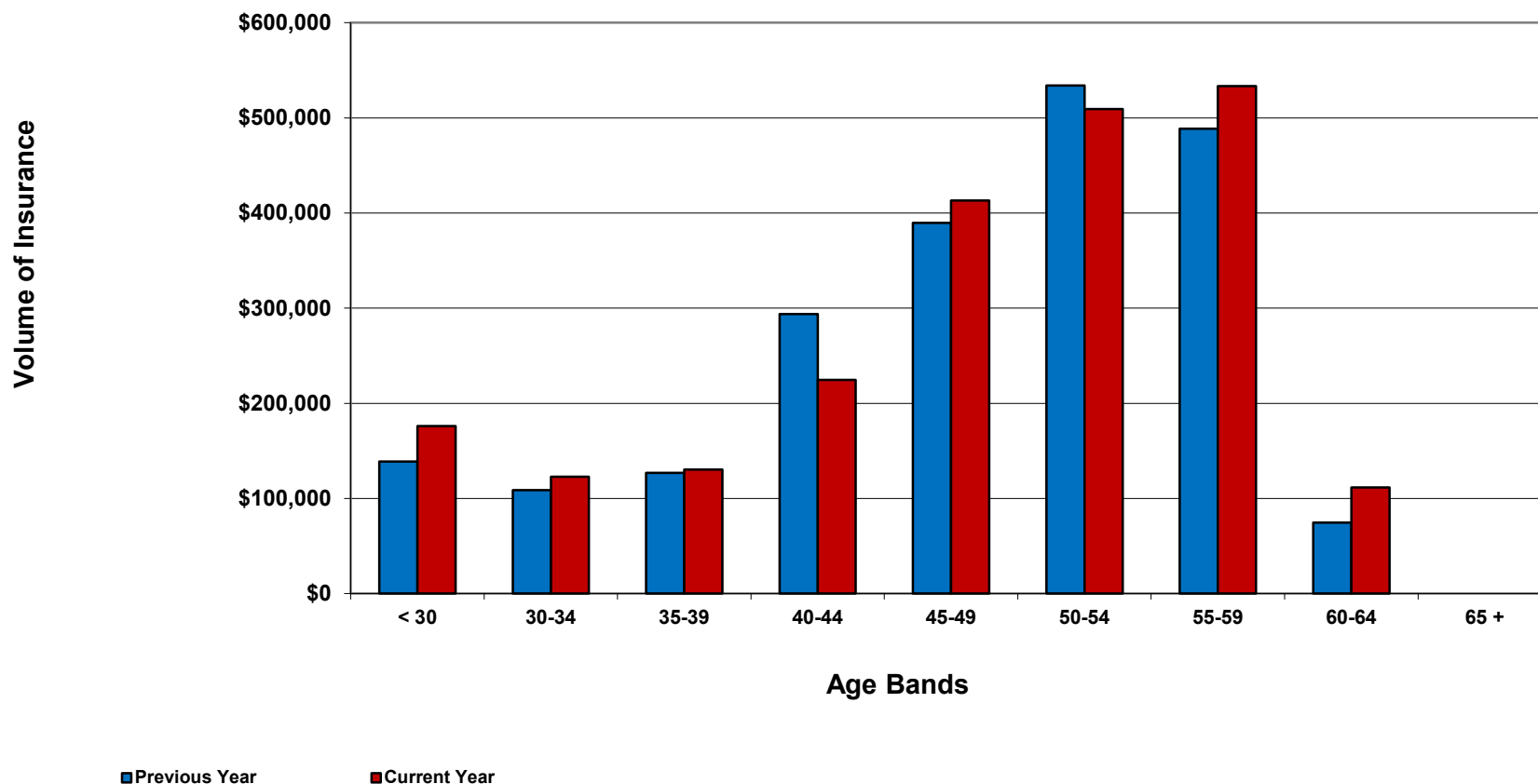
Appendix D: Life Premium and Claims by Category of Employee

- August 1, 2010 – July 31, 2011
- Percentages are calculated based on total paid premium and paid claims for the policy during the period; percentages may not total 100% due to rounding.



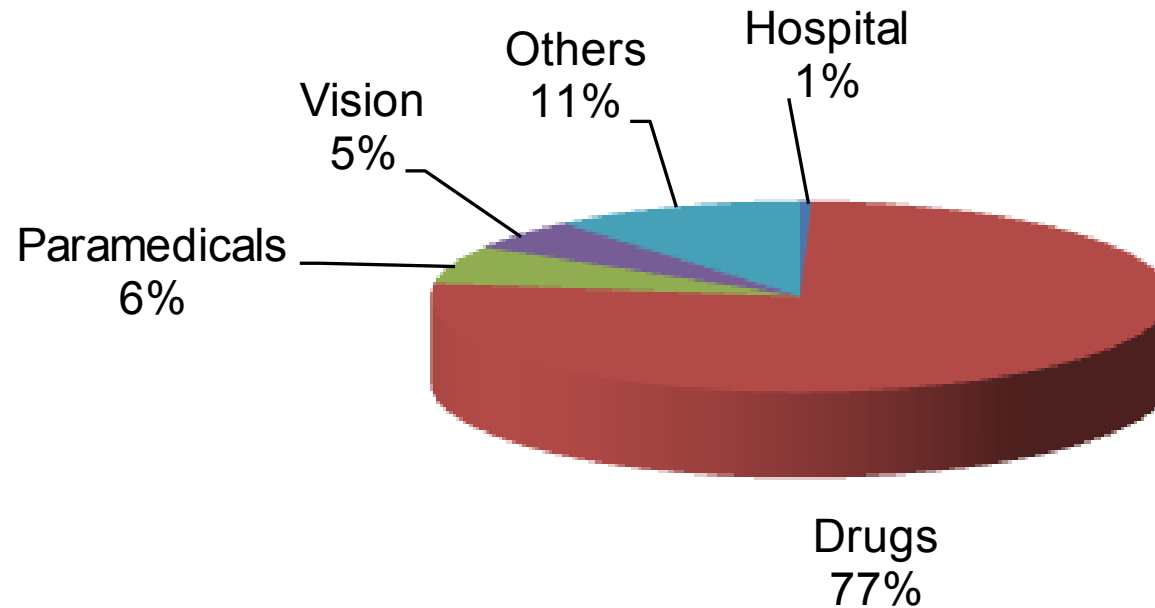
Appendix E: LTD Demographics

LTD Demographics



Appendix F: Health Care Claims Distribution

- Same distribution as last year's



Appendix G: Health Premium and Claims by Category of Employee

- August 1, 2010 – July 31, 2011
- Percentages are calculated based on total paid premium and paid claims for the policy during the period; percentages may not total 100% due to rounding.

