

AON Hewitt
January 1, 2013 Renewal Review

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Newfoundland Power

November 15, 2012

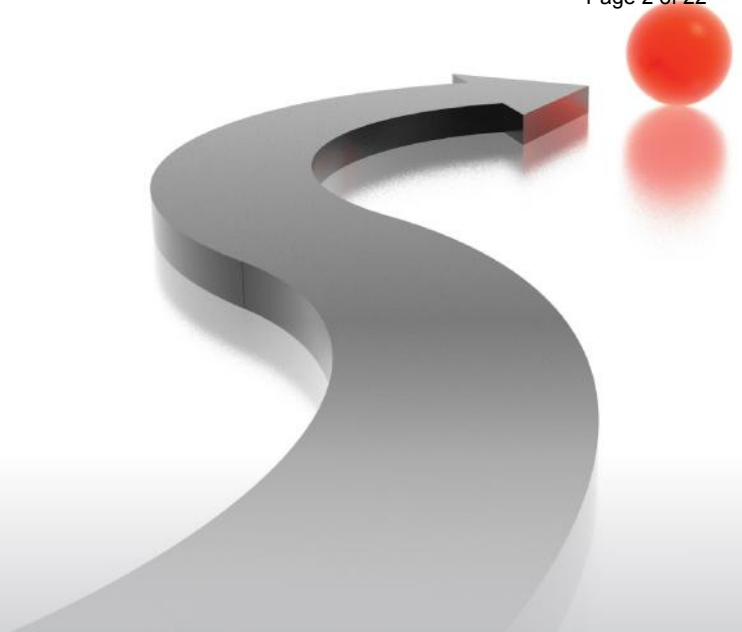


Prepared by Aon Hewitt

Presentation to Newfoundland Power

AON Hewitt

Agenda



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

Executive Summary

- On a combined basis, the negotiated overall change to annual premium is a 3.5% increase.
 - Life, LTD and Travel rates will be increasing, and Health rates will be decreasing.
 - There will be no change to the Dental Care rates.
- Aon Hewitt's negotiations on behalf of Newfoundland Power resulted in annual premium savings of approximately \$124,742
- Annual premium for the benefits plan will be increasing by approximately \$184,487.

Introduction

- Medavie Blue Cross #93489, issued October 1st, 2006
 - Life, Long Term Disability (LTD), Health, Dental, Spending Account
- SSQ Insurance Company, (formerly AXA Assurances), issued October 1st, 2006
 - Basic Accidental Death & Dismemberment (AD&D), #6994365
 - Voluntary AD&D, #6994366
 - Optional Critical Illness, #9222968
- Actions since last renewal
 - Decision to move forward with a market study in 2013
- Number of participants*

Group	2011 - 2012	2010 - 2011	2009 - 2010
Actives	665	650	663
Retirees (incl. surviving spouses)	655	629	610

*Source: Medavie Blue Cross

Underwriting Agreements

- Current underwriting in place is as follows:

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: 42% based on your group's experience, 58% 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 person per year which are removed from the financial statements and renewal rating
- Dental Care: 100% based on your group's experience

*Aon Hewitt methodology differs from insurer.

... Renewal of Premium Rates

Life

See Appendix C

Medavie Blue Cross Proposal	Basic	Dependent
Proposed base rate change	-8.3%	2.3%
<u>Proposed deficit recovery</u>	<u>30.0%</u>	<u>30.0%</u>
Total proposed rate change	19.2%	33.0%

– Comments

- Blue Cross' and Aon Hewitt's analysis both produced a rate decrease, excluding deficit recovery
- Blue Cross proposes deficit recovery over 3 years
- 6 Basic Life death claims paid this period for a total of \$484,000; 14 Dependent Life claims this period for a total of \$140,000 paid claims
- Average age decreased slightly from 54.0 to 53.95 years
- No percentage increase in the number of lives covered, but 1% increase in total volume

Aon Hewitt Negotiated Results	Basic	Dependent
Base rate change to current rate	-8.3%	1.7%
<u>Deficit recovery to current rate (over 4 years)</u>	<u>18.3%</u>	<u>18.3%</u>
Total proposed rate change to current rate	10.0%	20.0%

... Renewal of Premium Rates

Basic & Dependent Life Experience		
Period	Adjusted premium	Experience-rated claims
Aug 1, 2007 - Jul 31, 2008	975,345	347,000
Aug 1, 2008 - Jul 31, 2009	994,277	595,000
Aug 1, 2009 - Jul 31, 2010	1,028,287	545,000
Aug 1, 2010 - Jul 31, 2011	1,038,255	363,000
<u>Aug 1, 2011 - Jul 31, 2012</u>	<u>1,071,281</u>	<u>624,000</u>
Total	5,107,445	2,474,000
Waiver of premium reserve		1,369,574
IBNR reserve		160,692
Total	5,107,445	4,004,266

... Renewal of Premium Rates

- LTD

- Carrier's proposal + 25.6%
- Aon Hewitt's negotiated result + 17.3%
- Comments:
 - 24% increase in number of claimants from last year (21 to 26 claimants)
 - Different methodology between Aon Hewitt and Blue Cross

See Appendix D

Long Term Disability

Period	Adjusted premium	Paid claims
Aug 1, 2007 - Jul 31, 2008	681,307	130,974
Aug 1, 2008 - Jul 31, 2009	718,051	184,269
Aug 1, 2009 - Jul 31, 2010	765,431	226,821
Aug 1, 2010 - Jul 31, 2011	789,816	456,929
<u>Aug 1, 2011 - Jul 31, 2012</u>	<u>819,391</u>	<u>503,502</u>
Total	3,773,996	1,502,495
Disabled life reserves at Jul 31, 2012		
		3,003,247
IBNR reserve at Jul 31, 2012		
		307,272
Total	3,773,996	4,813,014

... Renewal of Premium Rates

- Health Care

Experience results	8/1/2011 to 7/31/2012
Adjusted premiums	3,791,607
Incurred claims	2,754,565
Incurred ratio	72.6%
Target ratio	89.0%

See Appendices B and F

- Carrier's proposal

- Experience-rated adjustment - 3.9%

- We agree with the carrier's proposal

- Comments

- No deficit recovery needed as plan was in surplus for the year, and continues to build on the surplus from last year to fund the claims fluctuation reserve (CFR) as per the financial agreement
- Trend used in analysis based on group's experience
 - 16-month trend = 4.5%
- Overall rate change will also apply to newly created retiree divisions/rates

- Travel rates

- Blue Cross proposed a 15.0% increase to travel rates reflecting the experience of the Blue Cross Travel pool – see Appendix B for monthly rates

... Renewal Premium Rates

- Dental Care

Experience results	8/1/2010 to 7/31/2011	8/1/2011 to 7/31/2012
Adjusted premium	122,725	153,229
Incurred claims	121,095	117,103
Incurred ratio	98.7%	76.4%
Target ratio	89.0%	89.0%

- Carrier's proposal + 0.0%
- Aon Hewitt agrees with the proposed rate action.
- 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 decreased from \$638 to \$592

... Renewal of Premium Rates

- AD&D and Critical Illness
 - Underwritten by SSQ
 - Deteriorating claims experience for both Basic and Voluntary AD&D plans

	Current	Proposed	Change %
Basic AD&D (per \$1,000)	\$ 0.0168	\$ 0.0270	60.7%
Voluntary AD&D			
-Single	\$ 0.022	\$ 0.030	36.4%
-Family	\$ 0.030	\$ 0.050	66.7%

- Critical Illness
 - No change to the current Critical Illness rates – see Appendix E for Critical Illness experience

Basic AD&D			
Period	Paid premium	Paid claims	Loss ratio
Oct 1, 2007 - Sep 30, 2008	35,884	-	0.0%
Oct 1, 2008 - Sep 30, 2009	36,619	162,225	443.0%
Oct 1, 2009 - Sep 30, 2010	37,582	-	0.0%
Oct 1, 2010 - Sep 30, 2011	34,425	187,225	543.9%
<u>Oct 1, 2011 - Sep 30, 2012</u>	<u>34,421</u>	<u>227,101</u>	<u>659.8%</u>
Total	178,931	576,551	322.2%

Voluntary AD&D			
Period	Paid premium	Paid claims	Loss ratio
Oct 1, 2007 - Sep 30, 2008	14,372	-	0.0%
Oct 1, 2008 - Sep 30, 2009	13,877	-	0.0%
Oct 1, 2009 - Sep 30, 2010	13,499	40	0.3%
Oct 1, 2010 - Sep 30, 2011	12,585	110,000	874.1%
<u>Oct 1, 2011 - Sep 30, 2012</u>	<u>11,763</u>	<u>100,200</u>	<u>851.8%</u>
Total	66,096	210,240	318.1%

... Renewal of Premium Rates

- Annual Global Impact

- 2.5% decrease to Health and Travel premium reflects net change in premium with decrease to Health rates and increase to Travel rates

	Current	Proposed by Carrier		Negotiated by Aon Hewitt		Change from current
	(\$)	(\$)	(%)	(\$)	(%)	(\$)
Basic Life	999,900	1,192,188	19.2	1,099,080	10.0	99,180
Dependent Life	44,256	58,860	33.0	53,107	20.0	8,851
AD&D Insurance	34,005	34,005	0.0	54,650	60.7	20,646
Long Term Disability	820,235	1,030,302	25.6	961,002	17.2	140,766
Health Care and Travel	3,411,213	3,303,482	(3.2)	3,326,256	(2.5)	(84,957)
Total annual premium	5,309,608	5,618,837	5.8	5,494,094	3.5	184,487
Dental Care	159,850	159,850	0.0	159,850	0.0	0

Impact of negotiations	Changes in premiums from	309,229	to	184,487
Change in premiums from current	% of premiums	3.5		
Reduction in premiums due to negotiations		\$ (124,742)		
	% of proposed premiums	(2.2)		

Financial Statements

- Life deficit continues to grow
- Health had a surplus for the year, with a \$473,146 estimated balance including outstanding deposits

Financial Statements Aug 1, 2011 to Jul 31, 2012	Basic & Dependent	
	Life	Health
Balance surplus/(deficit) as of Jul 31, 2011	(\$677,772)	(\$299,153)
Premiums received	\$1,107,808	\$3,620,735
Pooling charges	(\$68,684)	(\$29,819)
Paid claims	(\$624,000)	(\$2,635,401)
Pooled claims	\$0	\$12,702
Change in waiver of premium reserves	(\$480,689)	N/A
Change in IBNR reserves	(\$18,409)	(\$22,804)
Retention fees	(\$124,846)	(\$438,731)
Cash flow interest credit/(charge)	\$3,733	\$4,286
Current year surplus/(deficit)	(\$205,087)	\$510,968
Transfer from UDA	\$10,358	\$0
Interest on balance surplus/(deficit)	(\$24,338)	(\$11,043)
Interest on reserves	\$22,791	\$1,471
Subrogation credit	N/A	\$164
Balance Surplus/(Deficit) as of Jul 31, 2012	(\$874,048)	\$202,407
Estimated outstanding deposits	\$89,937	\$270,739
Estimated balance as of Jul 31, 2012	(\$784,111)	\$473,146

Recommendation and Next Steps

- We recommend that Newfoundland Power accepts the negotiated renewal ratings from Blue Cross.
- We recommend that Aon Hewitt continues discussion with SSQ regarding the proposed AD&D rates.
- Next steps include the following:
 - Communication to employees and retirees
 - Confirmation of rates to Aon Hewitt
 - Consideration of alternatives to be quoted in the upcoming market study – both in plan design and underwriting agreements
- Please refer to Appendix B for monthly premium rates

Appendices

- A. Aon Hewitt independent analysis process
- B. Renewal monthly rates
- C. Life demographics
- D. LTD demographics
- E. Voluntary Critical Illness experience
- F. Health care claims distribution

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

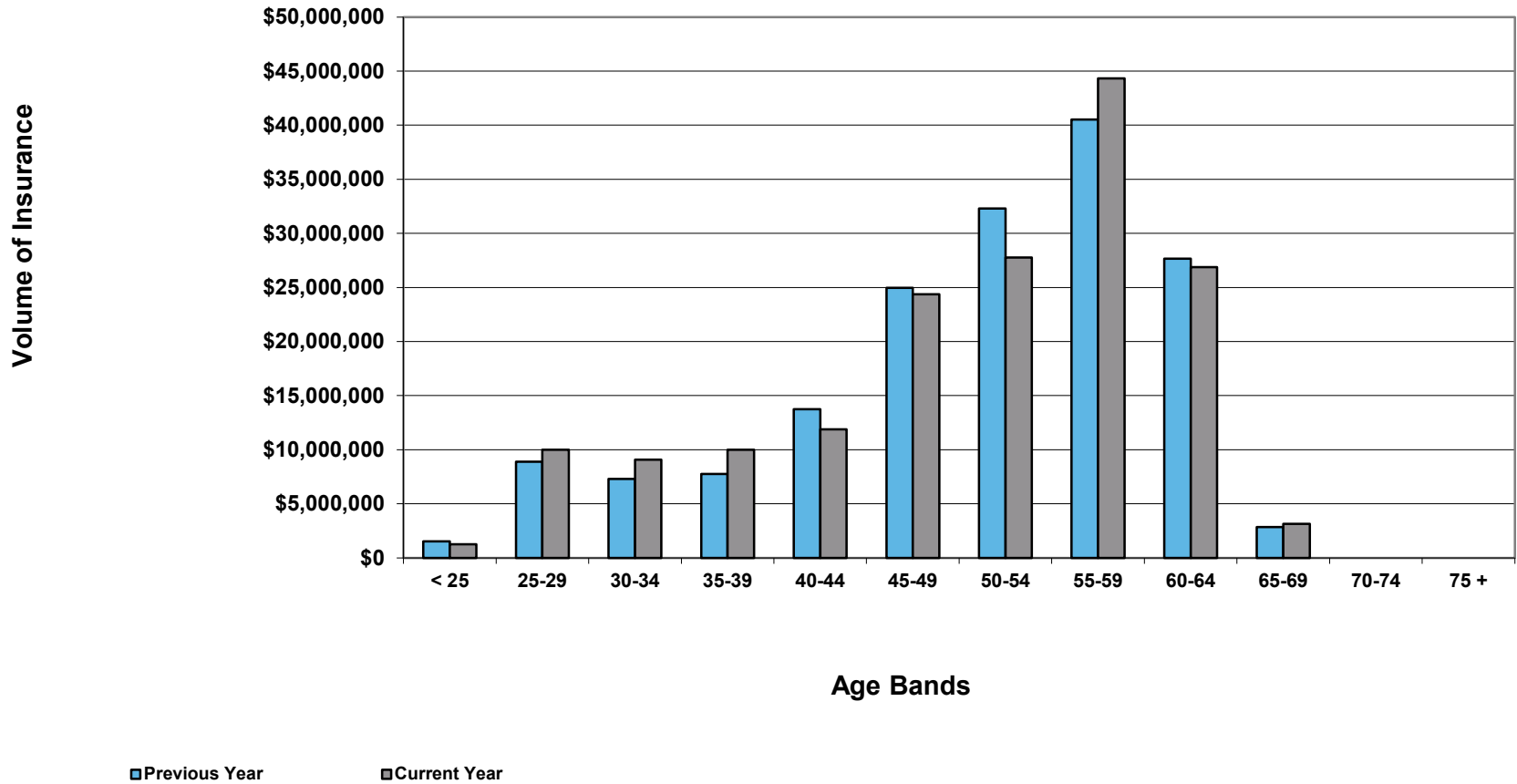
Appendix B: Monthly Renewal Rates

Benefits	Before 1/1/2013	As of 1/1/2013
	(\$)	(\$)
Basic Life Insurance (per \$1,000 of insurance)	0.494	0.543
Dependent Life Insurance AD&D (per \$1000 of insurance)	4.000	4.800
Long-Term Disability (per \$100 of monthly benefits)	0.0168	0.0270
Short-Term Disability (per \$10 of weekly benefits)	3.030	3.550
Health Care <i>Actives</i>		
- Single	84.43	81.14
- Family	284.34	273.25
<i>Retirees under age 65</i>		
- Single	84.43	81.14
- Family	284.34	273.25
<i>Retirees over age 65</i>		
- Single	124.56	119.70
- Family	246.28	236.68

Benefits	As of 1/1/2013
	(\$)
Travel <i>Actives</i>	
- Single	3.89
- Family	7.78
<i>Retirees under age 65</i>	
- Single	3.89
- Family	7.78
<i>Retirees over age 65</i>	
- Single	7.89
- Family	15.78
Dental Care	
- Single	38.31
- Family	89.73

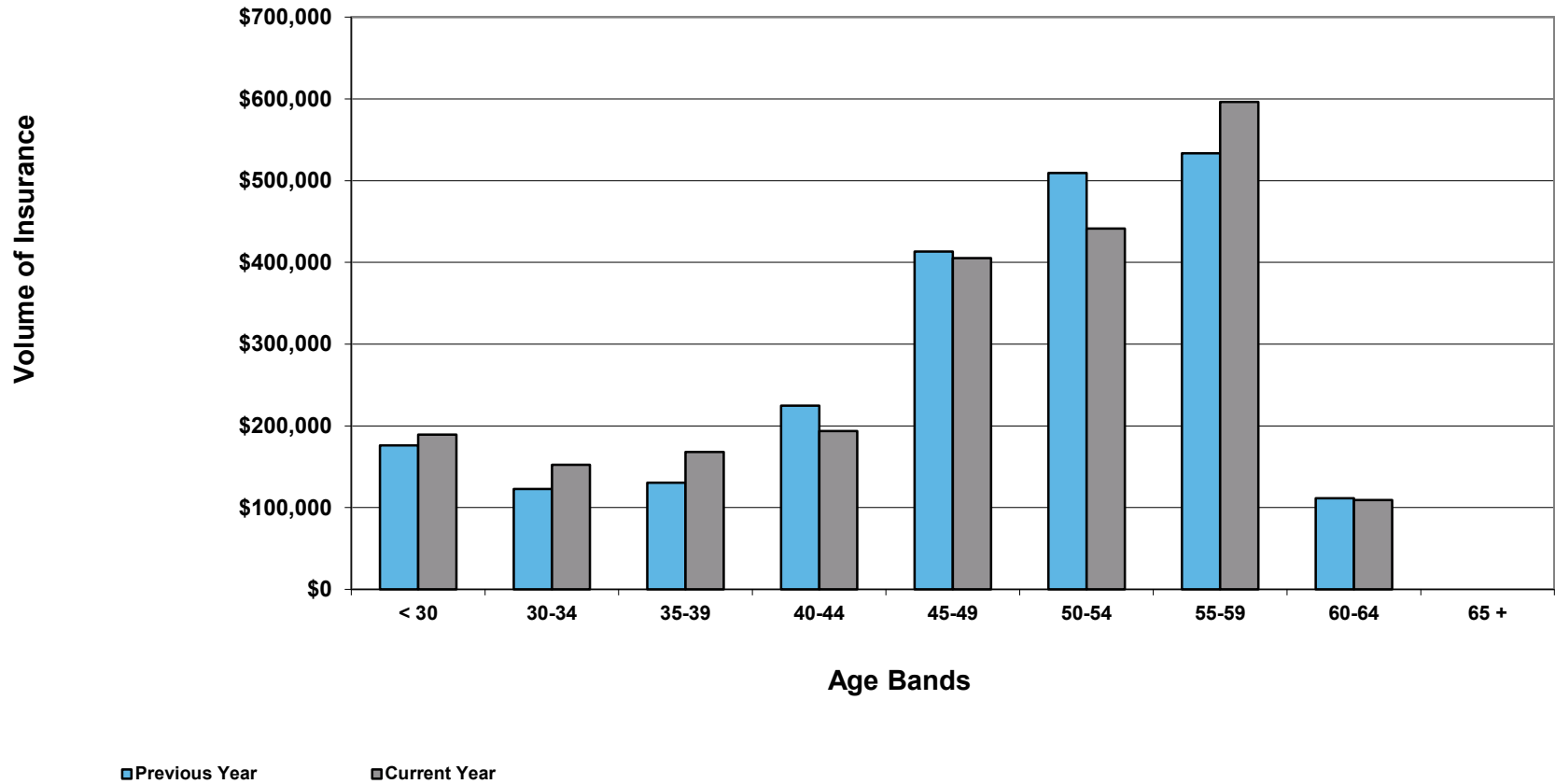
Appendix C: Life Demographics

Life Demographics



Appendix D: LTD Demographics

LTD Demographics



Appendix E: Voluntary Critical Illness Experience

Voluntary Critical Illness			
Period	Paid premium	Paid claims	Loss ratio
Oct 1, 2007 - Sep 30, 2008	6,641	10,909	164.3%
Oct 1, 2008 - Sep 30, 2009	7,209	-	0.0%
Oct 1, 2009 - Sep 30, 2010	7,598	170	2.2%
Oct 1, 2010 - Sep 30, 2011	8,286	10,000	120.7%
<u>Oct 1, 2011 - Sep 30, 2012</u>	<u>8,861</u>	<u>-</u>	<u>0.0%</u>
Total	38,595	21,079	54.6%

Appendix F: Health Claims Distribution

- Health claims distribution has remained constant for the past 3 years

