

AON Hewitt
Newfoundland Power Group Benefits Market Study
July 9, 2013

Newfoundland Power Group Benefits Market Study

Results Report



Prepared by Aon Hewitt

July 9, 2013

Presentation to Newfoundland Power



Agenda

Marketing process

Analysis of results

- Quantitative analysis
- Qualitative analysis

Recommendations

Next Steps

Appendices



Marketing Process

- Specifications were sent to carriers on April 26, 2013
- The specifications for proposals were based on the Company's existing plan
- Deadline for proposals was extended to June 3, 2013
- Specifications were sent to the following carriers:
 - Incumbents: Medavie Blue Cross and SSQ
 - ACE INA
 - Desjardins Financial Security (DFS)
 - Green Shield Canada
 - Great-West Life
 - Manulife Financial
 - Standard Life
 - Sun Life Financial
- All carriers submitted a proposal except for Great-West Life and ACE INA, both declining to quote.
- All carriers submitting a proposal met the deadline

Marketing Process

- Many carriers did not quote all lines of benefits
- Note that current AD&D and Critical Illness underwriter, SSQ, submitted a quote for the Travel insurance

| Line of Benefit | Medavie Blue Cross | SSQ | DFS | Green Shield | Manulife | Standard Life | Sun Life |
|---------------------------------|-----------------------|-----|-----|-----------------|----------|------------------|----------|
| Basic, Dependent, Optional Life | ✓ | | ✓ | | ✓ | ✓ | ✓ |
| Basic, Voluntary AD&D | | ✓ | | | ✓ | ✓ | ✓ |
| Long Term Disability (LTD) | ✓ | | ✓ | | ✓ | ✓ | ✓ |
| Health Care | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Travel Insurance | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dental Care | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Optional Critical Illness | ✓ | ✓ | | | ✓ | ✓ | ✓ |

Analysis of Results – Quantitative Analysis

- Presentation of results – two main methodologies
 - 16-month premium calculated for all insurers based on identical volumes for each line of benefit
 - Shows substantial savings
 - Premium projection over 5 years
 - Better risk evaluation for each carrier
 - Accounting for projected surplus/deficit and deficit recovery margins, renewal methodology, proposed fees and reserve factors for each carrier
 - Includes a second projection of Blue Cross' proposal using current credibility that has accumulated, as they are the incumbent
 - Greater consideration typically given to projection results than the 16-month premium calculation since it better reflects ongoing sustainability of the rate structure
 - Target implementation date: October 1, 2013
 - Subsequent renewals: February 1st each year

Quantitative Analysis – first 16 months

- Premium comparison for 16 months (28 months for certain benefits)
 - Coverage volumes calculated from the employee data submitted by Newfoundland Power
 - Premiums calculated based on identical volumes for each carrier (excluding premium tax)
 - See Appendix A for rate guarantees from each carrier

| Benefits | Current | MBC / SSQ | Desjardins / SSQ* | Green Shield | Manulife | Standard Life | Sun Life |
|---|-------------|---------------|-------------------|--------------|---------------|---------------|---------------|
| Basic Life | \$1,490,700 | \$961,600 | \$1,167,800 | | \$983,800 | \$1,137,100 | \$1,014,500 |
| Dependent Life | \$71,300 | \$63,400 | \$79,500 | | \$47,100 | \$54,500 | \$48,600 |
| AD&D | \$63,100 | \$66,900 | \$66,900 | | \$55,700 | \$97,600 | \$69,700 |
| LTD | \$1,335,800 | \$935,200 | \$1,113,200 | | \$1,084,900 | \$1,122,400 | \$1,200,300 |
| Subtotal (Life, AD&D and LTD) | \$2,960,900 | \$2,027,100 | \$2,427,400 | | \$2,171,500 | \$2,411,600 | \$2,333,100 |
| Rank | | 1 | 5 | | 2 | 4 | 3 |
| Variation compared to best | | \$0 | \$400,300 | | \$144,400 | \$384,500 | \$306,000 |
| Variation compared to current | | (\$933,800) | (\$533,500) | | (\$789,400) | (\$549,300) | (\$627,800) |
| Health Care (excluding Travel) | \$3,900,700 | \$3,646,100 | \$3,853,800 | \$3,602,000 | \$3,802,900 | \$3,301,200 | \$3,032,900 |
| Rank | | 4 | 6 | 3 | 5 | 2 | 1 |
| Variation compared to best | | \$613,200 | \$820,900 | \$569,100 | \$770,000 | \$268,300 | \$0 |
| Variation compared to current | | (\$254,600) | (\$46,900) | (\$298,700) | (\$97,800) | (\$599,500) | (\$867,800) |
| Total premium | \$6,861,600 | \$5,673,200 | \$6,281,200 | | \$5,974,400 | \$5,712,800 | \$5,366,000 |
| Rank | | 2 | 5 | | 4 | 3 | 1 |
| Variation compared to best | | \$307,200 | \$915,200 | | \$608,400 | \$346,800 | \$0 |
| Variation compared to current | | (\$1,188,400) | (\$580,400) | | (\$887,200) | (\$1,148,800) | (\$1,495,600) |
| Additional savings for Life, AD&D and LTD during the following 12 months due to 28-month rate guarantees | | | | | | | |
| Subtotal (Life, AD&D and LTD) | \$2,220,756 | \$1,520,256 | \$1,820,568 | | \$1,628,712 | \$1,808,664 | \$1,749,804 |
| Variation compared to current | | (\$700,500) | (\$400,188) | | (\$592,044) | (\$412,092) | (\$470,952) |
| Total savings compared to current | | (\$1,888,900) | (\$980,588) | | (\$1,479,244) | (\$1,560,892) | (\$1,966,552) |

*Desjardins did not quote AD&D. SSQ's AD&D premium is included in Desjardins Subtotal (Life, AD&D and LTD)

Quantitative Analysis – first 16 months

- Over \$1M in cash savings by staying with the incumbents
- All carriers offering savings in the first 16 months
- Travel is not included in the previous table, as SSQ quoted this benefit with favourable rates
- Below are the 16-month costs for Travel

| Travel Benefit | Current | MBC | SSQ | Desjardins | Green Shield | Manulife | Standard Life | Sun Life* |
|--|-----------|-----------|------------|------------|--------------|-----------|---------------|-----------|
| Out of Province/Country Travel & Travel Assistance | \$191,600 | \$216,300 | \$139,100 | \$185,100 | \$226,700 | \$358,300 | \$234,800 | \$0 |
| Rank | | 3 | 1 | 2 | 4 | 6 | 5 | |
| Variation compared to best | | \$77,200 | \$0 | \$46,000 | \$87,600 | \$219,200 | \$95,700 | |
| Variation compared to current | | \$24,700 | (\$52,500) | (\$6,500) | \$35,100 | \$166,700 | \$43,200 | |

*Sun Life would not separate the Travel cost from the total Health Care costs.

- SSQ has rates for Out of Province/Country Travel and Travel Assistance that can save over \$52,000 in the first 16-months
- Blue Cross' quoted travel rates are higher than those currently being paid
- Sun Life would not extract the Travel portion of Health Care rates and premium

Quantitative Analysis – first 16 months

- Table below compares premium costs for Optional benefits currently offered under the group benefits plan

| Optional Benefits | Current | MBC | SSQ | Desjardins | Green Shield | Manulife | Standard Life | Sun Life |
|--------------------------------------|-----------|------------|-----------|------------|--------------|------------|---------------|------------|
| Dental Care | \$200,700 | \$181,300 | | \$200,700 | \$210,400 | \$186,700 | \$200,100 | \$171,600 |
| Rank | | 2 | | 5 | 6 | 3 | 4 | 1 |
| Variation compared to best | | \$9,700 | | \$29,100 | \$38,800 | \$15,100 | \$28,500 | \$0 |
| Variation compared to current | | (\$19,400) | | \$0 | \$9,700 | (\$14,000) | (\$600) | (\$29,100) |
| Optional Life - Employee & Spouse | \$228,473 | \$216,955 | | \$264,545 | | \$226,198 | \$198,430 | \$473,308 |
| Rank | | 2 | | 4 | | 3 | 1 | 5 |
| Variation compared to best | | \$18,525 | | \$66,115 | | \$27,768 | \$0 | \$274,879 |
| Variation compared to current | | (\$11,518) | | \$36,072 | | (\$2,275) | (\$30,043) | \$244,836 |
| Optional Critical Illness - Employee | \$10,985 | | \$9,485 | | | \$12,094 | | \$12,108 |
| Rank | | | 1 | | | 2 | | 3 |
| Variation compared to best | | | \$0 | | | \$2,608 | | \$2,623 |
| Variation compared to current | | | (\$1,499) | | | \$1,109 | | \$1,124 |
| Optional AD&D - Single & Family | \$20,810 | | \$20,154 | | | \$10,530 | \$18,428 | \$20,425 |
| Rank | | | 3 | | | 1 | 2 | 4 |
| Variation compared to best | | | \$9,623 | | | 0 | \$7,898 | \$9,894 |
| Variation compared to current | | | (\$656) | | | (\$10,280) | (\$2,382) | (\$385) |

- Few carriers quoted all optional benefits
- SSQ is the incumbent Optional CI and Optional AD&D carrier

Quantitative Analysis – 5 year projection

- Life and LTD
 - Medavie Blue Cross has indicated in their proposal that the Life deficit shown at the Jan 1, 2013 renewal is now at \$0. See Appendix B
 - Used past experience to calculate a claims hypothesis for analysis
 - Same level of claims used to project results for each carrier
 - Medavie Blue Cross was evaluated both as a “new” carrier (limited credibility on the experience) and as the incumbent carrier (more credibility placed on the experience)
 - Renewal methodology, expense charges, etc. used are those provided in the proposals
 - An inflation factor used for earnings based benefits
- Health and Dental Care
 - Used past experience to calculate a claims hypothesis for analysis
 - Used Aon Hewitt calculated trend factors
 - Health Care: 4% trend for first renewal; 6% thereafter
 - Dental Care: 3% trend
- Premium tax not included in any calculations

Quantitative Analysis – 5 year projection

| Benefit | Period | Medavie Blue Cross | Desjardins | Green Shield | Manulife | Standard Life | Sun Life | Medavie Blue Cross as Incumbent |
|--|--|--------------------------------|----------------------------------|--------------------------------|----------------------------------|----------------------------------|------------------------------|---------------------------------|
| Basic and Dependent Life | Total Life Rank | \$4,146,700 3 | \$4,491,900 5 | | \$4,114,800 2 | \$4,484,200 4 | \$3,874,000 1 | \$3,739,192 1 |
| Long Term Disability | Total LTD Rank | \$3,662,800 1 | \$4,119,900 3 | | \$4,411,300 5 | \$4,378,200 4 | \$3,964,400 2 | \$3,107,907 1 |
| Sub-total Life and LTD | Total Life and LTD Rank Variation compared to best | \$7,809,500 1 \$0 | \$8,611,800 4 \$802,300 | | \$8,526,100 3 \$716,600 | \$8,862,400 5 \$1,052,900 | \$7,838,400 2 \$28,900 | \$6,847,099 1 \$0 |
| Sub-total Health Care (excluding Travel) | Total Health (excluding Travel) Rank Variation compared to best | \$16,380,266 4 \$596,309 | \$16,614,521 6 \$830,564 | \$16,536,603 5 \$752,645 | \$16,293,827 3 \$509,869 | \$16,113,289 2 \$329,331 | \$15,783,958 1 \$0 | \$16,380,266 4 \$596,309 |
| Total | Total All Benefits Rank Variation compared to best | \$24,189,766 2 \$567,409 | \$25,226,321 5 \$1,603,964 | | \$24,819,927 3 \$1,197,569 | \$24,975,689 4 \$1,353,331 | \$23,622,358 1 \$0 | \$23,227,365 1 \$0 |
| Dental Care | Total Dental Rank Variation compared to best | \$791,630 4 \$47,397 | \$788,277 3 \$44,043 | \$813,657 6 \$69,424 | \$810,268 5 \$66,035 | \$766,838 2 \$22,605 | \$744,233 1 \$0 | \$791,630 4 \$47,397 |

- Medavie Blue Cross (as incumbent) ranks 1st over 5 year projection period, with the exception of Health Care and Dental Care, where their high charges lead to a 4th place ranking.

Qualitative Analysis

- All carriers have quoted their standard Travel, AD&D and Critical Illness benefits
 - These standards do not include any deviations that would materially alter the current Travel or AD&D plans
 - Other carriers CI plans include fewer covered illnesses than the current plan
- Deviations
 - SSQ
 - Offers many plan enhancements to the current plan design for Basic and Voluntary AD&D and Optional CI
 - Sun Life
 - LTD benefit offering includes an LTD all-source maximum of 85% of pre-disability earnings
 - Minimum offer on a mandatory CI plan is \$10,000; \$5,000 mandatory plan was requested

Qualitative Analysis

- Disability Case Management
 - Recent finalist presentations with large clients have revealed that the disability management practices in the marketplace are difficult to distinguish/rank in a finalist environment
 - Our experience with clients has shown that the individual disability case manager(s) with the carrier is more relevant

- Life and LTD maximums
 - Most carriers not willing to change the current overall maximum and non-evidence maximums (NEMs)

| Benefit | Medavie Blue Cross | | DFS | | Manulife | | Standard Life | | Sun Life | |
|------------|--------------------|----------|-----------------|----------|----------|----------|---------------|---------------|-----------------|----------|
| | NEM | Overall | NEM | Overall | NEM | Overall | NEM | Overall | NEM | Overall |
| Basic Life | \$1M | \$2M | \$1M | \$2M | \$1M | \$2M | \$1M | \$1.5M | \$1M | \$2M |
| LTD | \$10,000 | \$12,000 | \$20,000 | \$20,000 | \$10,000 | \$20,000 | \$10,000 | \$20,000 | \$12,000 | \$20,000 |

Qualitative Analysis

- Other considerations

| | Medavie Blue Cross | SSQ | DFS | Green Shield | Manulife | Standard Life | Sun Life |
|---|-----------------------|-----|--|------------------------------------|---|--------------------------------|---|
| Transition / Implementation credit | No | No | \$25,000 | \$2,500 | \$10,000 transition & \$50,000 convergence allowance | No | \$50,000 |
| Implementation costs | No | No | No | No | \$2.50 per kit to direct mail Welcome Kit with drug card to member | No | No |
| Service agreement & guarantee | Willing to discuss | No | Yes, but no guarantee listed | Yes, but no guarantee listed | Yes, maximum of \$7,500 | Yes, maximum of \$15,000 | Bright Promise Guarantee, approximate value \$12,500 |
| Expatriate products | Yes | Yes | Yes | Yes | Yes | Unclear | Yes |
| Local NL presence | QuickPay offices | No | Yes, GNL service centres open to NLP members | No | No | No | No |
| Reserves for pending LTD claims | 50% | n/a | 100% | n/a | 85% | 100% WOP 70% DLR | 100% |

Carrier Overview and Shortlist Recommendations

- Medavie Blue Cross
 - Current provider with good knowledge of current plan and organization
 - Local service team for the Employer and QuickPay offices for employees
 - Minimal effort for Newfoundland Power to capture over \$1M in savings over the first 16 months
 - Uncompetitive Health administration charges and no reduction in Dental administration charges
 - Appear reluctant to enter into a service agreement
- SSQ
 - Incumbent provider with knowledge of the plan and organization
 - Competitive rates
 - Plan enhancements to all lines of benefits currently underwritten by SSQ
- DFS
 - Local presence for Employer and the employees
 - \$25,000 transition allowance
 - Ranked 5th in both 16-month and projected premium costs
- Green Shield
 - Drug claim management strategies part of standard offering, including concurrent DUR at point of sale
 - Uncompetitive Health rates and administration charges
 - Would automatically add an additional service provider to the group benefits plan

Carrier Overview and Shortlist Recommendations

- Manulife
 - \$10,000 transition allowance if awarded full benefits program
 - Current pension provider (one-time \$50,000 convergence credit applied to first year financials)
 - Proposed service agreement has lower penalty amount than some insurers
 - Ranks 3rd in 5-year projection costs, with over \$500,000 separating it from 2nd
- Standard Life
 - Lack of presence in the Atlantic region, however, Aon Hewitt has a large client base nationally with Standard Life
 - Comfortable entering into service agreements with larger penalties than offered by most
 - Competitive savings offered during first 16 months, but uncompetitive rates and charges over 5-year projection
- Sun Life
 - Ranks 1st in 16-month savings and 5-year projection (excluding analysis with Blue Cross as incumbent)
 - \$50,000 transition credit and Bright Promise Guarantee (service agreement)
 - Streamlined employee experience with easy to use technology
 - Significantly increased Optional Life costs for employees

Carrier Overview and Shortlist Recommendations

- If finalist interviews are required, Aon Hewitt recommends including Medavie Blue Cross and Sun Life on shortlist
- Given the status of the Life account, Aon Hewitt recommends considering moving to a fully insured Basic Life and Dependent Life program
 - Possibly more rate stability
 - No deficit recovery in the future
 - Appropriate for a plan of this size

Next Steps

| What | When | Who |
|---------------------------------------|---|--|
| 1. Finalist meetings | To be determined | NLP Aon Hewitt Carriers |
| 2. Discuss plan design & underwriting | To be determined | NLP Aon Hewitt |
| 3. Confirmation of carriers | To be determined | NLP Aon Hewitt |
| 4. Confirmation of plan design | To be determined | NLP Aon Hewitt |
| 5. Plan implementation | October 1, 2013 if incumbents To be determined if new carriers | NLP Aon Hewitt Successful carrier(s) |

Appendix A – Rate Guarantees

- Table below illustrates guarantees periods offered in each carrier’s proposal (in months)

| Benefit/Charges | Medavie Blue Cross | SSQ | DFS | Green Shield | Manulife | Standard Life | Sun Life |
|--|-----------------------|-----|-----|-----------------|----------|------------------|---------------------------------------|
| Life, AD&D, LTD premium rates | 28 | 12 | 28 | n/a | 28 | 41 | 29 |
| Health, Dental premium rates | 16 | n/a | 16 | 16 | 16 | 17 | 17 |
| Travel premium rates | 28 | 12 | 16 | 28 | 28 | 17 | 17 |
| Optional Life, AD&D, CI premium rates | 52 | 12 | 52 | n/a | 28 | 41 (Life) | 29 (Life, AD&D) / 17 (CI) |
| Expense charges | 40 | n/a | 40 | 40 | 40 | 36 | 41 (Life, Health) / 17 (Dental) |
| Pooling charges | 28 | n/a | 28 | 16 | 28 | 17 | 29 (Life) / 17 (Health) |

Appendix B – Preliminary Life Accounting (Estimate only)

- The following calculations, as of April 30, 2013, were included in the Medavie Blue Cross proposal.

| As of April 30, 2013 | Basic & Dependent Life |
|---|------------------------|
| Estimated balance as at Jul 31, 2012 (including outstanding deposits at the time) | (\$784,111) |
| Premiums received | \$845,028 |
| Claims paid | (\$249,000) |
| Change in Disabled Life Reserves (DLRs) | \$490,898 |
| Estimated ending balance at April 30, 2013 | \$302,815 |