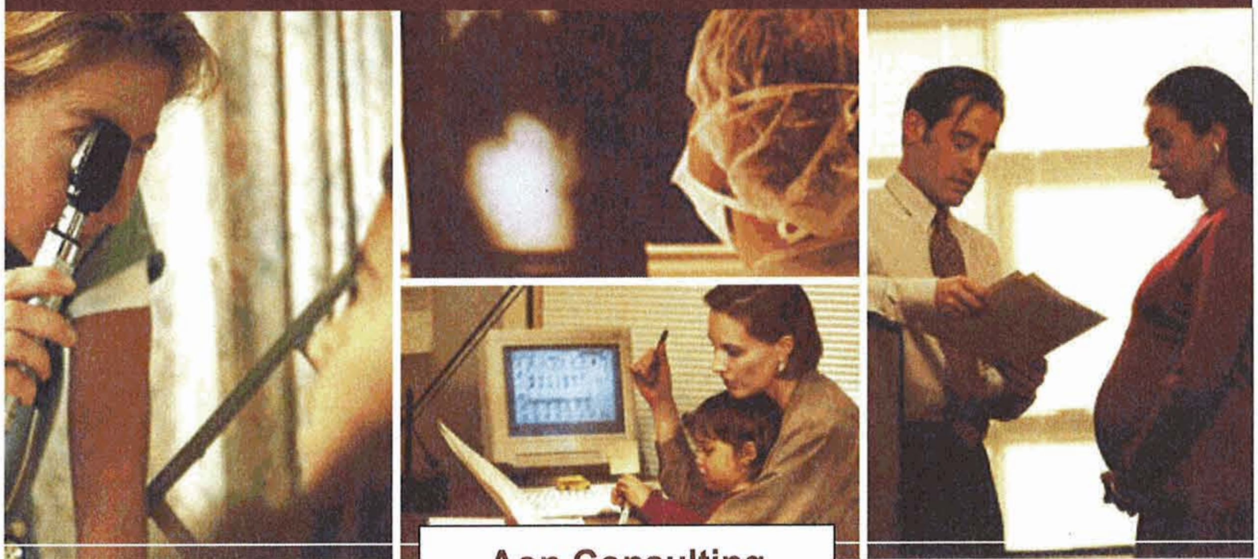
Q. **In reply to CA-NP-322 in the 2008 GRA, NP referred to arranging Aon Consulting in 2006 to conduct a review of the group insurance plan. (a) Please provide a copy of the Terms of Engagement and any reports provided to NP in relation to this review. (b) Please also provide a copy of any further such reports provided to NP since the Aon Consulting engagement.**

A. (a) Attachment A contains a copy of Aon Consulting's report titled *Comprehensive Review of Group Insurance Plan* dated December 21, 2005. There were no formal Terms of Engagement for the review of the insurance plan or the preparation of this report.

(b) No further such reports have been provided to Newfoundland Power since the Aon Consulting engagement.

Aon Consulting
Comprehensive Review of Group Insurance Plan
Newfoundland Power Inc.
December 21st, 2005

Comprehensive Review of Group Insurance Plan



Aon Consulting

Newfoundland Power Inc.

December 21, 2005

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Executive Summary

Aon Consulting was engaged by Newfoundland Power on November 15, 2005 to conduct a comprehensive review of the Newfoundland Power group insurance plan for active employees and retirees. We immediately began the process of collecting detailed plan data from both Newfoundland Power and the current plan provider, Great-West Life. Great-West Life has been the underwriter of the Life, Dependent Life, Long Term Disability, Health and Dental plans since 1984.

Our examination and analysis covered the following critical areas for each line of benefit:

- plan design,
- financial arrangements,
- validity of rates,
- reserves and retention charges,
- cost sharing,
- tax efficiency,
- retiree considerations,
- administration, and
- claims payment considerations.

Our analysis is detailed within this report. Our recommendations are detailed below. Note that for those recommendations for which were able to provide specific metrics, we estimate **total annual savings of $222,956** may be achieved if these recommendations are adopted. (See summary outlined in Appendix F)

Recommendations:

Plan Design

- We recommend that Newfoundland Power develop a Statement of Plan Objectives to provide a link with overall human resource and corporate strategy.
- We recommend that Newfoundland Power review and revise the plan design to meet the desired level of competitiveness of the benefit plan in the marketplace.

Prescription Drugs

- We recommend that Newfoundland Power conduct an audit of the prescription drug plan to fully understand the source of costs, to ensure Great-West Life is paying claims appropriately, and to proactively manage the plan on a go-forward basis.

Executive Summary

Life Insurance and Dependent Life Insurance

- We recommend that Newfoundland Power consider non-refund accounting for life insurance due to the relatively small size of the group and the volatility of the benefit.
- If refund accounting is continued, we recommend that the aggregate stop loss level, and pooling charges, be evaluated to ensure optimum level and competitiveness.
- We recommend that Newfoundland Power cease cross-experience rating the life insurance plan with the health insurance plan.
- We recommend a market study be conducted to ensure competitive premium rates.
- We recommend an annual detailed analysis of proposed insurer renewal rates.
- We recommend that the practice of cross-experience rating be terminated in order to avoid co-mingling of taxable and non-taxable employer premium contributions, and to ensure the plan meets with CRA guidelines.

Long Term Disability Insurance

- We recommend continuation of the non-refund accounting methodology for the LTD benefit.
- We recommend that the LTD rate be re-negotiated with Great-West Life to achieve potential savings of over $131,000 per year.
- We recommend that Newfoundland Power conduct a market study to ensure competitive premium costs.
- We recommend an annual detailed analysis of proposed insurer renewal rates.
- We recommend that the LTD plan cost sharing be amended to ensure CRA guidelines are met.
- We recommend that Newfoundland Power ensure that the legal obligation to pay LTD premium is that of the employee.
- We recommend that Newfoundland Power ensure that all documentation and communication related to the plan reflects this obligation.

Short Term Salary Continuation

- We recommend that Newfoundland Power engage a third-party claims adjudicator to assess short term disability claims. This practice will ensure only appropriate claims are paid, and it may enhance the level of intervention prior to claims becoming long term claims. This practice also helps to protect the privacy rights of individuals.

Executive Summary

Health Insurance

- We recommend that the current method of underwriting be continued.
- We recommend that negotiations take place with Great-West Life to reduce retention charges to those available under Administrative Services Only (ASO). This represents approximately $15,000 annual savings.
- We recommend that Individual Large Amount Pooling (ILAP) be added to the plan and that an assessment be performed to determine the appropriate rates and optimal pooling limit.
- We recommend continuation of the status quo for this plan with respect to the rate basis.
- We recommend that Newfoundland Power engage in a study to determine the long term impact of blending rates for active employees and retirees in order to proactively manage the health insurance plan and to ensure the continued feasibility and attractiveness of the health insurance plan for active employees.

Dental Insurance

- We recommend that the administration charges be re-negotiated with Great-West Life.
- Given the need of Newfoundland Power to recruit large numbers of employees in the future, we recommend providing dental on a mandatory, cost shared basis, underwritten on a refund accounting basis.
- We recommend that Newfoundland Power conduct a market study to ensure competitive premium costs and retention charges.

Out of Country Travel Insurance

- We recommend that the travel rates be re-negotiated to achieve approximately $50,000 of annual savings.
- We recommend a market study to ensure the competitiveness of rates. Special risk insurance providers should be considered to underwrite the travel benefits as part of this process.

Retiree Considerations

We recommend the following actions for Newfoundland Power:

- Consider current retirees v. future retirees separately.
- Consider future hires separately, i.e., do not provide retiree coverage to future hires.

- All plan provisions, documentation, and communication should reserve the right of Newfoundland Power to make plan amendments at its discretion.
- Any changes should be made with "Reasonable Notice".
- Plan design solutions are available to manage the cost of post-retirement benefits as follows:
    - **Future Retirees:**
        - ➢ **Eliminate coverage**: set up access to individual coverage, 100% employee paid
        - ➢ **Maintain coverage**: but introduce cost-sharing; revise plan design to one more efficient at managing costs
        - ➢ **Adopt defined contribution approach**: limit employer contribution to a specific amount subject to inflation, or a specific percentage.
        - ➢ **Ensure member's spouse at time of retirement is the only eligible spouse for the life of the retiree**: reward the family of the employee who served the organization over an extended period of time, not a perk for individuals who never had a relationship with the employer
        - ➢ **Provide that surviving spouses lose coverage if they re-marry or enter into a common law relationship**; same premise as above
        - ➢ **Apply more stringent minimum service requirements** for eligibility for retiree benefits
        - ➢ **Pro –rate employers premium contribution** based on employee's length of service before retirement
        - ➢ For employees who retire and work for another employer**, introduce provisions that make any benefit plan with subsequent employer, first payer of benefits.**
- **Current Retirees:**
    - ➢ **Introduce parallel (voluntary) plan with reduced health benefit levels,** i.e., managed drug formulary, higher co-insurance
    - ➢ **Add less expensive benefits**
        - o Critical Illness
        - o Increase Life Insurance
        - o Non-medical travel insurance
        - o Enhance pension benefits
        - o Any combination of these

Cost Sharing and Tax Efficiency

- We recommend that Newfoundland Power revise cost sharing to ensure a tax effective approach.
- We recommend that Newfoundland Power provide a total compensation statement to employees to communicate the value of benefits and the employer contribution.
- We recommend that Newfoundland Power develop strategy regarding cost sharing for the benefit plan.
- We recommend that Newfoundland Power convert the $10,000 paid-up life at age 65 to a death benefit payable by the company as income tax legislation states that a company may pay out a "death benefit" of up to $10,000 per insurable benefit to the retiree, without the payment being taxable in the hands of the beneficiaries. While this change would not impact the employer's requirement to include this benefit as a future obligation, it would eliminate premium taxes as well as the administration fees involved. Most importantly this change would also eliminate the taxable benefit to the retiree, making the plan tax efficient.

Market Opportunity

- We recommend that a market study be conducted to ensure Newfoundland Power takes advantage of competitive fees and rates.

Contracts

- We recommend that Newfoundland Power ask Great-West Life to rewrite the current policies or alternatively new policies will be provided by a new insurer.

Consulting Fees

- We recommend that Newfoundland Power pay the consulting fees through commissions. Based on the current 50/50 cost-sharing agreement with employees, this approach will result in sharing the cost of consulting services with employees on a 50/50 basis or to the extent that employees participate in premium costs. No sales tax will be applicable.

Underwriting Agreement Recommendation:

- We recommend that the underwriting agreement be reviewed to ensure it reflects the financial agreements between Great-West Life and Newfoundland Power.

We thank Newfoundland Power for this opportunity to work on this mandate. We hope throughout this process that we have been able to demonstrate the high quality of consulting services we provide to our clients, the high level of expertise we devote to each mandate, and the sophistication of the tools, technology and processes we use in providing added value to our work on behalf of clients.

Next Steps:

We would be delighted to work with Newfoundland Power in order to implement the recommendations we have made and to achieve the appropriate savings. Our on-going role with Newfoundland Power would ensure a long term strategic approach to benefit planning and day-to-day plan management. In order to proceed, we suggest the following approach:

- Newfoundland Power appoints Aon as consultant to the plan.
- Aon negotiates with the provider immediately to achieve desired objectives and savings.
- Aon engages in a market study to ensure appropriate rate basis.
- Aon works with Newfoundland Power on an ongoing basis.

Respectfully submitted,

Sherry Lee Gregory, B.Comm., CEBS
Senior Consultant

Plan Design

In order to evaluate the Newfoundland Power plan design we compared the plan against several benchmarks. Appendix A contains a comparison of Newfoundland Power against a) a recent national survey of 600 group insurance plans covering 150,000 employees, b) the energy and utilities section of the survey covering 60 plans and 20,000 employees and c) a natural gas organization with a similar number of employees.

Comments:

- Newfoundland Power does not have a formal statement of benefits plan philosophy.
- Newfoundland Power provides benefits to employees in order to attract and retain its workforce and to provide competitive total compensation; Newfoundland Power desires to provide benefits at the 75th percentile or above.
- Newfoundland Power human resources representatives feel that employees are generally satisfied with the current level of benefits.
- The comparison suggests that the Newfoundland Power plan is highly competitive. Areas to be noted include the following:
    - The basic life insurance benefit is provided at a level of two times the benchmark, i.e. four times earnings versus the market level of two times earnings.
    - Dependent children are covered up to age 23, or age 25 if a full time student; the norm is age 21, or age 25 if a full time student.
    - The all-source maximum on the long term disability (LTD) plan is 100% of pre-disability earnings; this is high compared with the benchmark at 85% earnings and may be a deterrent to return to work for disabled individuals.
    - Under the health insurance plan, the paramedical practitioner limit is low at $250/calendar year, compared with the benchmark of $500/calendar year.
    - Also under the health insurance plan, survivor benefits do not have a termination age; the benchmark plans provide survivor benefits for 24 months. Lack of a termination age may result in significant extra costs for Newfoundland Power.
    - Dental coverage is optional; the benchmark plans include dental as mandatory coverage.
    - Retiree life insurance benefit is $10,000, and this is insured as a paid-up life insurance benefit.

Plan Design

Recommendations:

- We recommend that Newfoundland Power develop a Statement of Plan Objectives to provide a link with overall human resource and corporate strategy.
- We recommend that Newfoundland Power review and revise the plan design to meet the desired level of competitiveness of the benefit plan in the marketplace.

Comments: Prescription Drugs

- The prescription drug plan is based on the Newfoundland Provincial Formulary. According to Great-West Life, a Newfoundland Power Advisory Committee decides twice a year which additional drugs from the National Formulary (NASA) are added to the plan.
- There has never been an audit to confirm the quality of claims payment by Great-West Life.
- Who is on the Advisory Committee? Are they at arms length with employer? What are the decision criteria?
- It would be interesting to see what percentage of prescriptions and cost they represent and to what extent they are the source of increased costs. NASA covers 85% of drugs so extra DINs could be significant. (GWL says they don't have the list of these DINs?)
- Maybe "extra DINs" should not be covered for all insureds. If they are second and third line therapies, they should be covered only when the first line therapy on Provincial Formulary has failed or cannot be used for specific health reasons. In other words, covering more than the Provincial Formulary could be conditional for all claimants. An analysis could confirm the extent to which a more expensive second or third line drugs among these "extra DINs" have been reimbursed without using a first line therapy covered under the provincial formulary. This Step Therapy approach would allow the plan to control all claims in real time with only a minority under prior authorization. (Prior authorization is an expensive cost containment measure.)
- New NASA drugs could be excluded for future retirees.
- Coinsurance is currently 80%; this could be lower for extra DINs not covered by the Provincial Formulary, i.e., 50%, 60%, 70%.
- Some of the covered drugs require prior authorization; only a physical audit or data on the percentage of rejected claims over those submitted for these drugs can confirm that indeed, these drugs are only approved for the right patients and the right health problems. Some of these drugs could be approved for off-label indication or they may have been administered in a hospital environment, which should not be reimbursed by the plan

- Great West suggested that obesity drugs are among those "extra DINs" but managed under prior authorization. If so, this indicates that indeed, "extra" DINs" approved by the Advisory Committee could be excluded from the plan, because covering obesity drugs is not an absolute necessity.
- Mandatory generic substitution : even with a "no sub" note from the doctor, Great-West Life cuts back to the cost of the generic. However, only an audit can confirm that the plan is managed this way. If tightly managed, full savings are being realized. One way to quantify is to determine the percentage of claims for multi-source brand name drugs.
- Only an audit can confirm if these drugs are only approved for other than contraception.
- We did not discuss controls over reimbursement with GWL but if they don't apply a fee and margin cap to control the maximum eligible amount, the plan could be spending up to an additional 7%.
- We are not confident that Great-West Life enforces "secondary to government" payment, thus Newfoundland Power may be paying for costly drugs that are eligible for coverage under the Newfoundland Government plans.

Recommendations: Prescription Drugs

- We recommend that Newfoundland Power conduct an audit of the prescription drug plan to fully understand the source of costs, to ensure Great-West Life is paying claims appropriately, and to proactively manage the plan on a go-forward basis.

Life Insurance and Dependent Life Insurance

1. **Financial Arrangements**
   - Basic and dependent life insurance are underwritten on a refund accounting basis with aggregate stop loss at 125% of premium.
   - Retention:
     - General Administration 1.20%
     - Profit 1.25%
     - CSE $155/claim
   - Cross-experience rated with health insurance.
   - No waiver of premium.
   - Incurred But Not Reported (IBNR) is 10.4% of refund billed premium.
   - Stop loss charge is 13.55% of billed premium effective July 1, 2005.
   - Claims Fluctuation Reserve (CFR) requirement is built into the health insurance CFR (as long as the health insurance CFR remains at 20% of refund).

   Comments:
   - Life insurance risk may outweigh benefits of refund underwriting.
   - Life insurance claims experience can be volatile – the smaller the group, the greater the volatility.
   - Compared against Aon's national database, for a plan of this size, retention fees, IBNR and CFR are competitive.
   - Cross-experience rating methodology is questionable, considering that non-taxable and taxable premiums are co-mingled; see separate discussion regarding this point.
   - With respect to aggregate stop loss level and charges, in order to evaluate properly we need detailed employee data.

   Recommendations:
   - We recommend that Newfoundland Power consider non-refund accounting for life insurance due to the relatively small size of the group and the volatility of the benefit.
   - If refund accounting is continued, we recommend that the aggregate stop loss level, and pooling charges, be evaluated to ensure optimum level and competitiveness.
   - We recommend that Newfoundland Power cease cross-experience rating the life insurance plan with the health insurance plan; refer to additional comments in the health insurance section.

2. **Rate History:**
   - **Life Insurance**
     - May 1, 2001 $0.23
     - July 1, 2003 $0.21
     - July 1, 2005 $0.221
   - **Dependent Life Insurance**
     - May 1, 2001 $1.33
     - July 1, 2005 $1.40

3. **Claims Experience:**

Life Insurance and Dependent Life Insurance Combined					
PERIOD	**01/08/ 00 - 31/07/01**	**01/08/01 - 31/07/02**	**01/08/02 - 31/07/03**	**01/08/03 - 31/07/04**	**01/08/04 - 31/01/05**
Premium ($)	435,288	437,645	440,645	410,672	211,387
Paid Claims ($)	347,000	483,830	148,000	475,584	251,000
Loss Ratio (%)	80%	11%	34%	116%	119%

4. Renewal Analysis

- See Appendix A

Comments:

- Great-West Life and Morneau renewal documents lack life insurance experience analysis and detailed renewal rate calculations.
- Aon applied our life insurance renewal methodology and analyzed 4.5 years of claims experience, validated the credibility factor, and calculated the required adjustment based on the experience. We also validated the demographic change calculated by Great-West Life.
- Based on the combination of the experience adjustments on the credible portion of the rate and the demographic adjustment on the non-credible portion of the rate, our calculations support a required adjustment of 3.5%, (8.5% including the 5% for CFR), compared with 10.25% (including 5% for CFR) recommended by Morneau
- Current market conditions may provide for more competitive rates, especially on a non-refund method of underwriting.

Recommendations:

- We recommend a market study be conducted to ensure competitive premium rates.
- We recommend an annual detailed analysis of proposed insurer renewal rates.

5. Cross-experience Rating

Comments:

- The cost sharing arrangement is such that for certain employees (depending on the salary level) the life insurance benefit is paid with both employer and employee contributions.
- Employer contributions to the life insurance plan create a taxable benefit to employees. Employer contributions to the health insurance plan do not have tax implications for employees as these contributions do not create a taxable benefit for employees.
- The life and health insurance plans are currently cross-experience rated.
- When life insurance surplus is used to support the health insurance benefit, part of the premiums being transferred are those on which employees have paid tax. Similarly, when health premium is used to support life insurance plan deficits, this creates a taxable benefit for employees to the extent that the employer has contributed to the premium being transferred to the life plan, however, the co-mingling of funds between the life and health insurance plans makes it difficult to track taxable benefits for employees.
- When life insurance funds are transferred to the health plan, employees pay unnecessary tax on the employer portion of these funds. This has amounted to thousands of dollars of

additional taxes paid by employees over the past 10 – 15 years. For example, during the August 1, 2003 to July 31, 2004 period $268,537.27 was transferred from the CFR to cover deficits in the life and health insurance plans. Of this, $108,435.76 was used to cover a health insurance plan deficit. Assuming that the funds represent surplus from the life insurance plan, and assuming 50% cost sharing, and a 40% tax rate, employees paid $21,687 in unnecessary taxes. (From the financial statement we were also unable to track the *source* of the funds held in the CFR.)

- This practice may not meet Canada Revenue Agency (CRA) guidelines.

Recommendations:

- We recommend that the practice of cross-experience rating be terminated in order to avoid co-mingling of taxable and non-taxable employer premium contributions, and to ensure the plan meets with CRA guidelines.

Long Term Disability Insurance

1. **Financial Arrangements**
   - The LTD plan was underwritten on a refund accounting basis with 2 year durational pooling until July 1, 2005.
   - As of July 1st, 2005, a non-refund accounting method of underwriting was adopted.

   Comments:
   - Based on the small size of the group relative to the high risk of this benefit, we agree with the decision to move to a non-refund accounting as of July 1, 2005.

   Recommendations:
   - We recommend continuation of the non-refund accounting methodology for the LTD benefit.

2. **Rate History**
   - **Refund:**
     - **May 1, 2001:** Div 1 $2.58 Div 2 $3.08 Div 5 $2.28
     - **April 1, 2002:** Div 1 $2.84 Div 2 $3.39 Div 5 $2.51
   - **Non-refund:**
     - **July 1, 2005** Div 1 $3.80 Div 2 $4.54 Div 5 $3:36

3. **Claims Experience**

Long Term Disability Insurance						
PERIOD	**01/08/ 00 - 31/07/01**	**01/08/01 - 31/07/02**	**01/08/02 - 31/07/03**	**01/08/03 - 31/07/04**	**01/08/04 - 31/01/05**	**TOTAL**
Premium ($)	360,692	573,160	629,711	634,180	336,520	2,534,263
Cumulative Value of Paid Claims ($)	224,121	152,029	364,957	104,000	2,600	847,707
Disabled Life Reserve ($)	153,236	116,796	794,215	460,172	67,578	1,591,997
Present Value of Incurred Claims ($)	377,357	268,825	1,159,172	564,172	319,111	2,688,637

4. Renewal Analysis

- See Appendix A

Comments:

- The Morneau renewal document lacks independent analysis of the renewal rate request from Great-West Life.
- Aon applied our LTD renewal methodology to analyze 4.5 years of claims experience. We validated the credibility factors applied to the claims experience, and we calculated and validated the Disabled Life Reserves. We also validated the demographic change calculated by Great-West Life.
- Based on our calculations, the combination of the experience adjustments on the credible portion of the rate, and the demographic adjustments on the non-credible portion of the rate, results in a calculated rate increase of 9.4%.
- Our calculations do not support the 31% LTD rate increase implemented on July 1, 2005.
- A 9.4% rate increase represents over $131,000 of annual savings compared with the 31% rate increase implemented on July 1st, 2005.

Recommendations:

- We recommend that the LTD rate be re-negotiated with Great-West Life to achieve approximately $131,000 of savings annually.
- We recommend that Newfoundland Power conduct a market study to ensure competitive premium costs.
- We recommend an annual detailed analysis of proposed insurer renewal rates.

5. Tax Considerations:

- The LTD plan is non-taxable.
- The current approach shows 50/50 overall cost sharing with employee premium allocated to show 100% employee paid LTD plan.
- This may be offside with CRA (Ref 930963 – 2003, and 005068–2000).
  - CRA does not recognize the re-allocation of employee premiums for reducing tax liabilities.
  - Tax status is determined by defining who is legally obligated to pay disability premium.
  - Morneau renewal document provides evidence of the practice of re-allocation.
  - CRA may find that the current practices result in a taxable, cost-shared plan.

Long Term Disability Insurance

Recommendations:

- We recommend that the LTD plan cost sharing be amended to ensure CRA guidelines are met.
- We recommend that Newfoundland Power ensures that the legal obligation to pay LTD premium is that of the employee.
- We recommend that Newfoundland Power ensures that all documentation and communication related to the plan reflects this obligation.

Short Term Salary Continuation

Comments:

- We do not have details of the short term salary continuation plan except that we understand that up to 15 weeks of full salary is payable to employees on a scale that increases the number of weeks paid with years of service. Newfoundland Power pays salary continuation benefits without third-party claims adjudication.

Recommendations:

- We recommend that Newfoundland Power engage a third-party claims adjudicator to assess short term disability claims. This practice will ensure only appropriate claims are paid, and it may enhance the level of intervention prior to claims becoming long term claims. This practice also helps to protect the privacy rights of individuals.

Health Insurance

1. Financial Arrangements (#44349)

- The health insurance plan is underwritten on a fully insured, experience-rated refund accounting basis.
- The health insurance plan is cross-rated with the life insurance plan.
- The IBNR is based on the last 3 months of actual run-off plus 10%.
- The CFR requirement is 20% of refund health premium. This amount covers the life insurance CFR as well.
- Retention:
  - General admin — 1.20% of billed premium
  - Profit — 0.50% of billed premium
  - Health Care — 5.05% of billed premium
  - Vision Care — 5.05% of billed premium
  - Pay Direct Drugs — $1.45 per DIN

Comments:

- When compared against Aon's national database for a plan of this size, the IBNR, CFR and retention charges are competitive.
- We note that Great-West Life was prepared to reduce retention charges under an Administrative Services Only (ASO) method of underwriting, and we question why these reductions would not be available with the current method of underwriting.
- Reduced fees proposed by Great-West Life under an ASO arrangement are as follows:

	Current	ASO
General Administration	1.2% billed premium	1.0% paid claims
Drug Claims	$1.45/DIN	$1.33/DIN

- We agree with the experience-rated refund method of underwriting for this benefit.
- We suggest that individual large amount pooling (ILAP) be added to the plan as an additional risk control to protect the plan against high individual claim amounts.
- The Morneau and Great-West Life renewal documentation suggest that ILAP of $10,000 is an appropriate level of pooling at rates of $2.41 (single) and $8.45 (family).
- Our approach to ILAP is to examine the details of the plan claims experience to determine the optimal pooling level. We then calculate an appropriate pooling premium.

- In our opinion, the pooling rates provided by Great-West Life in the renewal are excessive taking into account that the travel benefit is pooled separately.

Recommendations:

- We recommend that the current method of underwriting be continued.
- We recommend that negotiations take place with Great-West Life to reduce retention charges to those available under ASO. This represents approximately $15,000 annual savings.
- We recommend that ILAP be added to the plan and that an assessment be performed to determine the appropriate rates and optimal pooling limit.

2. Rate History

- Retiree 65+

	05/01	04/02	06/04	01/05
Single	$54.33	$63.77	$76.52	$80.35
Family	$102.52	$125.84	$151.01	$158.56

- Employee and Retiree < 65

	05/01	04/02	06/04	01/05
Single	$36.57	$41.44	$49.73	$52.22
Family	$89.81	$104.25	$125.10	$131.35

3. Claims Experience

HEALTH, VISION AND DRUG BENEFIT COMBINED		
PERIOD	**01/08/03 - 31/07/04**	**01/08/04 - 31/01/05**
Premium ($)	1,867,286	1,080,404
Paid Claims ($)	1,770,930	903,200
Loss Ratio (%)	95%	84%

4. **Renewal Analysis**
   - See Appendix A

Comments:

- We applied Aon health insurance plan renewal methodology, and based on our calculations, we generally agree with the renewal analysis prepared by Great-West Life and their proposed rate requirements.
- Morneau analysis of the renewal was limited.

Recommendations:

- We recommend continuation of the status quo for this plan with respect to the rate basis.

5. **Rate Structure/Cross Subsidization**
   - Premium and claims are combined for active employees, retirees under age 65, and retirees age 65 and over.
   - The cost sharing is on a 50/50 basis for active employees and retirees under age 65. For retirees over age 65, the employer pays 100% of premium.
   - Claims Experience Loss Ratios are as follows:

	Active	Active, Short-Term Temporary	Retired Under Age 65	Retired Over Age 65
01/08/99 – 31/07/00	75%	132%	107%	147%
01/08/00 – 31/07/01	67%	99%	97%	128%
01/08/01 – 31/07/02	68%	101%	101%	135%
01/08/02 – 31/07/03	65%	72%	105%	135%
01/08/03 – 31/07/04	70%	56%	111%	138%

Comments:

- Because the rates are blended for each of the three groups: active, retirees less than age 65, and retirees age 65 and over, and because of the foregoing claims experience, this has created a situation in which active employees subsidize rates for retirees.

Health Insurance

Recommendations:

- We recommend that Newfoundland Power engage in a study to determine the long term impact of blending rates for active employees and retirees in order to proactively manage the health insurance plan and to ensure the continued feasibility and attractiveness of the health insurance plan for active employees. Cost containment measures related to retiree health insurance are outlined in a separate section of this report.

Dental Insurance

1. Financial Arrangements (#135435)

- The dental insurance plan is an optional benefit.
- The employee pays 100% of the dental premium (except for executives who have access to a health care spending account (HCSA) for dental services only).
- The plan is underwritten on a non-refund experience-rated basis.
- Policy #135435 also includes fully insured Global Medical Assistance (GMA) and fully insured Out-of-Country Emergency Travel Benefit.
- Out-of-province and out-of-country pooling claims are moved from policy #44349 to policy #135435.

Comments:

- Based on Aon's national database for plans of similar size, the administration charges for the dental plan may not be competitive.
- The optional nature of the plan is unusual for an employer such as Newfoundland Power in that competitive employers typically provide dental as a mandatory cost shared plan. (Refer to comments related to plan design.)

Recommendations:

- We recommend that the administration charges be re-negotiated with Great-West Life.
- We recommend that a market study be conducted to ensure competitive administration charges.
- Given the need of Newfoundland Power to recruit large numbers of employees in the future, we recommend providing dental on a mandatory, cost shared basis, underwritten on a refund accounting basis.

2. Rate History

- Employees (Retirees age 65 and over are not eligible for dental coverage)

	05/01	04/02	06/03	06/04	07/05
Single	$25.46	$28.52	$28.52	$29.86	$29.86
Family	$59.68	$66.84	$66.84	$69.98	$69.98

3. Claims Experience

Dental Insurance			
	01/08/02 – 31/07/03	**01/08/03 – 31/07/04**	**01/08/04 – 31/01/05**
Paid Premiums ($)	178,487	160,213	82,343
Paid Claims ($)	138,901	128,951	57,899
Loss Ratio (%)	78%	80%	70%

4. Renewal Analysis

- See Appendix A

Comments:

- We used Aon dental insurance plan renewal methodology, and based on our calculations, we generally agree with the renewal analysis prepared by Great-West Life and their proposed rate requirements (not withstanding our earlier comment regarding the non-competitiveness of the administration fees).
- Morneau analysis of the renewal was limited.

Recommendations:

- We recommend that Newfoundland Power conduct a market study to ensure competitive premium costs and retention charges.

Out-of-Country Emergency Travel Insurance

1. **Financial Arrangement**
   - The emergency out-of-province/out-of-country travel benefits are underwritten on a fully pooled basis, as is the Global Medical Assistance benefit.
   - Rates are blended for active employees and retirees.
   - Travel benefits are included as part of the overall health insurance plan.
2. **Rate History**
   - **Retiree / Active**

	05/01	04/02	06/03	06/04	07/05
Single	$1.88	$2.68	$3.50	$4.83	$3.76
Family	$4.83	$7.37	$9.86	$13.62	$10.34

Comments:

- Based on our knowledge of the markets, the current travel rates appear to be high. The premium for this coverage is currently approximately $130,000 per year. We estimate a competitive premium level of approximately $75,000, resulting in savings of over $50,000 annually.
- The current arrangement requires that all employees who participate in the health insurance plan must also have the travel benefit as the two benefits are linked. Newfoundland Power has a number of employees and retirees who never travel, thus this benefit has no value to these participants. We suggest that the travel plan be set up as a separate benefit that is provided to employees and retirees on an optional basis. Further premium savings would result from this change.

Recommendations:

- We recommend that the travel rates be re-negotiated to achieve approximately $50,000 of annual savings.
- We recommend a market study to ensure the competitiveness of rates. Special risk insurance providers should be considered to underwrite the travel benefits as part of this process.

Retiree Considerations

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1. **Current Situation:**
   - Newfoundland Power provides retiree coverage to:
     - Retirees less than age 65; 50/50 cost sharing.
     - Retirees greater than age 65; 100% employer paid.
     - When retiree benefits introduced costs were low, and the number of retirees was relatively small.
     - Currently the number of retirees exceeds the number of active employees.
2. **Claims experience:**
   - Active
   - Retired less than age 65
   - Retired greater than age 65
3. **Benefits are collectively bargained**
   - Contract references "Regular" and "Temporary" employees only; no mention of Retirees, no mention of 100% employer contribution for Retirees age 65+
4. **Canadian landscape (recent surveys):**
   - 54% of Canadian employers offer post-retirement benefits.
   - CICA 3461 requirements for the recognition, measurement, accrual and disclosure of future retiree benefits since Jan 1,2000 has added additional financial burden.
   - Rising health care costs are continuing.
   - Aging workforce is also a contributing factor, especially for mature organizations.
   - Significant change is anticipated.
   - One –third of employers are expected to drop post-retirement health plans in the near future.
   - Large number of employers making changes.
   - Of those employers planning to make changes:
     - *90.8% plan to change benefits for future retirees*
     - *84.2% plan to change benefits for new hires*
     - *25.0% plan to change benefits for current retirees*
   - The nature of anticipated changes:
     - *38.9% plan to introduce or increase retiree premiums*
     - *33.3% plan to change deductible or coinsurance*
     - *23.1% plan to change lifetime maximum*

- *37.0% plan to reduce coverage for certain services*
- *32.4% plan to eliminate benefit coverage for certain services*

5. **Judicial restrictions re: changes to retiree benefits**

- **Dayco Canada Ltd. V. CAW Canada**
  - Supreme Court ruled that an employer cannot reduce or eliminate post-retirement benefits as they vest with the employee on retirement.
- **Ormrod v. Etobicoke(Hydro-Electric Commission)**
  - Employer attempted to reduce contribution to premium
  - Settled out of court but principles of Dayco prevailed
- **Kranjec v. Ontario**
  - Employer changed benefits for both active and retired employees in "lock-step" plan.
  - Retirees content that employer could not reduce benefits, seeking damages for breach of contract, breach of fiduciary duty, and seeking punitive damages.

Comments:

- Changes are difficult but not impossible.

Recommendations:

We recommend the following actions for Newfoundland Power:

- Consider current retirees v. future retirees separately.
- Consider future hires separately, i.e., do not provide retiree coverage to future hires.
- All plan provisions, documentation, and communication should reserve the right of Newfoundland Power to make plan amendments at its discretion.
- Any changes should be made with "Reasonable Notice".
- Plan design solutions are available to manage the cost of post-retirement benefits as follows:
  - **Future Retirees:**
    - **Eliminate coverage:** set up access to individual coverage, 100% employee paid
    - **Maintain coverage:** but introduce cost-sharing; revise plan design to one more efficient at managing costs
    - **Adopt defined contribution approach:** limit employer contribution to a specific amount subject to inflation, or a specific percentage.
    - **Ensure member's spouse at time of retirement is the only eligible spouse for the life of the retiree:** reward the family of the employee who served the

organization over an extended period of time, not a perk for individuals who never had a relationship with the employer

- **Provide that surviving spouses lose coverage if they re-marry or enter into a common law relationship;** same premise as above
- **Apply more stringent minimum service requirements** for eligibility for retiree benefits
- **Pro –rate employers premium contribution** based on employee's length of service before retirement
- For employees who retire and work for another employer, **introduce provisions that make any benefit plan with subsequent employer, first payer of benefits.**

- **Current Retirees:**
  - **Introduce parallel (voluntary) plan with reduced health benefit levels,** i.e., managed drug formulary, higher co-insurance
  - **Add less expensive benefits**
    - Critical Illness
    - Increase Life Insurance
    - Non-medical travel insurance
    - Enhance pension benefits
    - Any combination of these

Cost Sharing and Tax Efficiency

1. Current Arrangement

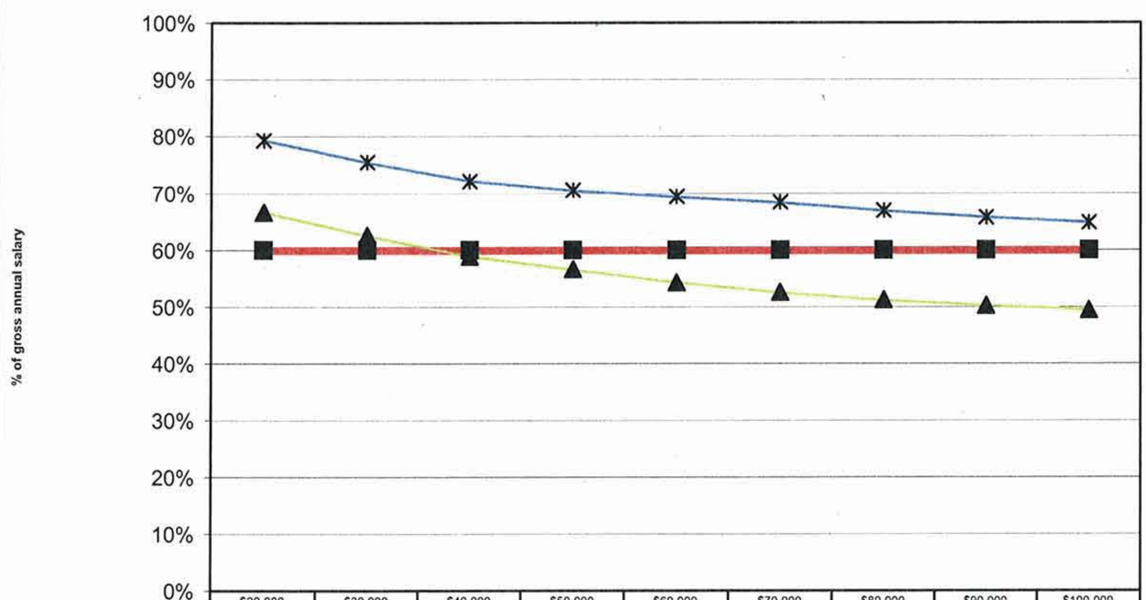
- Employees are not provided with a global compensation statement to communicate the value of benefits and the value of employer contribution to benefits.
- The link between the cost sharing arrangement and compensation and HR strategy is not clear.
- Benefits are cost shared between employee and employer on a 50%/50% basis with premium for LTD coverage allocated to achieve 100% employee payment.
- The current arrangement is not tax effective as the employer contribution to life insurance creates a taxable benefit for employees. There are a number of ways to achieve tax efficiency. Following we note one possible solution.
- The retiree life insurance benefit of $10,000 is currently provided as a paid-up life insurance benefit. Employer contribution to the premium creates a taxable benefit for retirees, and the purchase of paid-up life insurance is not efficient.

2. Proposed Solution for Tax efficiency

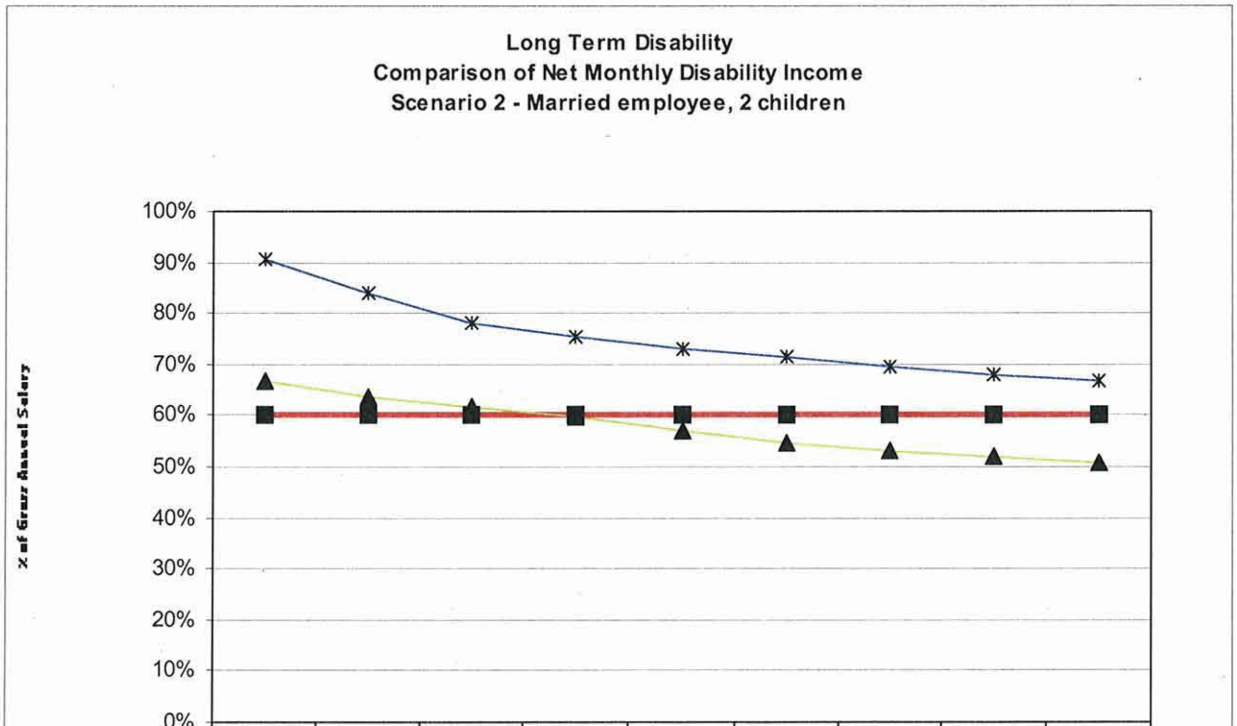
- When an employer pays premium for an LTD benefit, the premium paid by the employer is not a taxable benefit to the employee, however the benefit payment to the employee is taxable. In contrast, life insurance premiums paid by the employer are a taxable benefit to employees.
- New thinking in this area focuses on the fact that only a very small minority of employees will ever be in receipt of disability payments, but *all* employees are covered for life insurance. If the cost sharing portion of the employee is first applied to the life insurance benefits (Basic and Dependent), this results in the elimination of the taxable benefit for all employees. However, by having employees pay 100% of life insurance premium, and having the employer contribute toward LTD premium, LTD benefit payments become subject to taxation, but only for disabled employees.
- Changing the benefit from the current 60% non-taxable to 66.67% taxable would help to minimize the impact on the employees and should have no impact or a small reduction on the rate. Under this scenario, employees earning less than $50,000 annual salary would see no change in disability income. For employees earning higher salaries, the difference would be such that for someone earning $100,000 annual salary, would be receiving 50% of the pre-disability gross income instead of 60%. Below are graphs depicting the take home income for a 60% non-taxable benefit (Plan A) compared with the take home net income for a 66.67% taxable benefit (Plan B).

- One option that could be considered is that the benefit be changed for all employees other than executives.
- Another option, in order to control the experience and introduce an incentive for disabled employees to go back to work, would be to introduce a lower all-source maximum to the actual plan so that a disabled employee could only attain 85% of the pre-disability income instead of the 100%. On the market, an 85% all-source maximum for integration is the norm.

Long Term Disability
Comparison of Net Monthly Disability Income
Scenario 1 - Single employee, no children



	\$20 000	\$30 000	\$40 000	\$50 000	\$60 000	\$70 000	\$80 000	\$90 000	\$100 000
PLAN A	60%	60%	60%	60%	60%	60%	60%	60%	60%
PLAN B	66,7%	62,6%	58,9%	56,6%	54,3%	52,6%	51,3%	50,3%	49,5%
Net Monthly Income	79,4%	75,5%	72,2%	70,5%	69,4%	68,4%	66,9%	65,8%	64,9%



	$20 000	$30 000	$40 000	$50 000	$60 000	$70 000	$80 000	$90 000	$100 000
PLAN A	60%	60%	60%	60%	60%	60%	60%	60%	60%
PLAN B	66,7%	63,7%	61,8%	59,7%	56,9%	54,8%	53,2%	51,9%	50,9%
Net Monthly Income	90,8%	84,0%	78,3%	75,2%	73,2%	71,5%	69,5%	67,9%	66,7%

Recommendations:

- We recommend that Newfoundland Power revise cost sharing to ensure a tax effective approach.
- We recommend that Newfoundland Power provide a total compensation statement to employees to communicate the value of benefits and the employer contribution.
- We recommend that Newfoundland Power develop strategy regarding cost sharing for the benefit plan.
- We recommendation that Newfoundland Power convert the $10,000 paid-up life at age 65 to a death benefit payable by the company as income tax legislation states that a company may pay out a "death benefit" of up to $10,000 per insurable benefit to the retiree, without the payment being taxable in the hands of the beneficiaries. While this change would not impact the employer's requirement to include this benefit as a future obligation, it would eliminate

premium taxes as well as the administration fees involved. Most importantly this change would also eliminate the taxable benefit to the retiree, making the plan tax efficient.

Administration and Claims Payment Services

Comments:

- The plans are currently self-administered using the tools and technology provided by Great- West Life. Newfoundland Power uses internal resources to administer the plan and to answer employee enquiries.
- Our review of the administrative and claims payment arrangements related to the plan suggest that the insurer administrative costs are generally competitive; we are unable to comment on the efficiency of internal administration.
- According to Newfoundland Power HR, plan member service is of high quality, and insurer web-based tools are being used, but perhaps not to the greatest extent possible.
- There has not been an audit of claims payment practices.

General Comments

1. **Market Opportunities**

   Comments:

   - Great-West Life has been the insurer for the Newfoundland Power benefit plan since 1984. While there are many positive aspects of a long term relationship, since 1984 Newfoundland Power has not taken advantage of opportunities to achieve rate reduction through the competitiveness of the marketplace.

   Recommendations:

   - We recommend that a market study be conducted to ensure Newfoundland Power takes advantage of competitive fees and rates.

2. **Contracts**

   Comments:

   - The current policies reflect contract wording, some of which is more than 20 years old. A rewritten contract with up-to-date wording would be beneficial, as it would simplify the current contract.

   Recommendations:

   - We recommend that Newfoundland Power ask Great-West Life to rewrite the current policies or alternatively new policies will be provided by a new insurer.

3. **Consulting Fees**

   Comments:

   - Consulting services are currently being provided to Newfoundland Power on a fee-for-service basis. Great-West Life has confirmed there are no commissions payable in the current plans. Under this approach, Newfoundland Power pays 100% of all consulting fees plus applicable taxes.

   Recommendations:

   - We recommend that Newfoundland Power pay the consulting fees through commissions. Based on the current 50/50 cost-sharing agreement with employees, this approach will result in sharing the cost of consulting services with employees on a 50/50 basis or to the extent that employees participated in premium costs. No sales tax will be applicable.

4. Underwriting Agreement

Comments:

- An underwriting agreement reflects the terms and conditions of refund accounted benefits. At the beginning of our review, an underwriting agreement had not been executed. During the process, Great-West Life provided an underwriting agreement.

Recommendations:

- We recommend that the underwriting agreement be reviewed to ensure it reflects the financial agreements between Great-West Life and Newfoundland Power.

Appendix A:
Benchmark Comparison

Appendix A:

Newfoundland Power Inc.

Comparative market analysis of group insurance plan

Benefit	Newfoundland Power Inc.	Market Survey (~600 plans/150,000 employees)	Energy/Utilities market (~60 plans/20,000 employees)	Industry (Natural gas - 1600 lives)	Newfoundland Power vs Market
LIFE INSURANCE					
Basic					
- Executives	4 x salary			2 x salary	+
- All other active employees	3 x salary	2 x salary	2 x salary	2 x salary	+
- Temporary employees	$25,000			2 x salary	
Maximum					
- Without medical evidence	$750,000			Optional life only Execs $1,575,000/Others $825,000 (combined with optional)	=
- With medical evidence	$2,000,000				+
Dependent					
- Executives	$10,000(spouse)/$5,000(child)			n/a	
- All other active employees	$10,000(spouse)/$5,000(child)	$10,000(spouse)/$5,000(child)	$10,000(spouse)/$5,000(child)	$3,500(spouse)/$1,500(child)	=
Optional (employee)	Units of $10,000/Maximum $300,000	Units of $10,000/Maximum $250,000	Units of $10,000/Maximum $250,000	1, 2, 3 or 4 x salary	=
Optional (dependent)				Execs only	
- Spouse	Units of $10,000/Maximum $300,000	Units of $10,000/Maximum $250,000	Units of $10,000/Maximum $250,000	Units of $5,000/Maximum $25,000	=
- Dependent children	n/a	n/a	n/a	$3,000	
Waiver of premium	None	Yes	Yes	Yes	-
Reduction	$25,000 at age 65/$10,000 at retirement Terminates at 65 for temporary employees	Terminates at retirement	Terminates at retirement	Opt'l Life terminates at age 65 or retirement See retiree coverage for basic	

Newfoundland Power Inc.

Comparative market analysis of group insurance plan

Benefit	Newfoundland Power Inc.	Market Survey (~600 plans/150,000 employees)	Energy/Utilities market (~60 plans/20,000 employees)	Industry (Natural gas - 1600 lives)	Newfoundland Power vs Market
SHORT TERM DISABILITY					
Waiting period					
- accident					
- maladie					
- hospitalisation					
Benefit	Salary Continuation Plan	Salary Continuation Plan	Salary Continuation Plan	Salary Continuation Plan	=
Maximum Benefit	?	70% to 100% based on years of service	70% to 100% based on years of service		
Maximum period	15 weeks	26 weeks	3 months	17 weeks	
Taxability	Taxable	Taxable	Taxable	Taxable	
LONG TERM DISABILITY					
Waiting period	15 weeks	3 months	3 months	26 weeks	=
Benefit					
- Execs	60% of monthly earnings	66.67% of earnings	66.67% of earnings	66 2/3% of monthly earnings	-
- All other employees	60% of monthly earnings	66.67% of earnings	66.67% of earnings	70% of monthly earnings	-
Maximum Benefit					
- Executives or full-time employees	$10,000 NEM/ $20,000 MAX	Depends on group size	Depends on group size	$8,945	=
- Part-time or temporary employees with medical evidence	$600	Depends on group size	Depends on group size	$4,000	
All source maximum	100% of earnings	85% of earnings	85% of earnings	85% of gross earnings	+
Maximum period	Age 65	Age 65	Age 65	**Age 65**	
Taxable	Non-Taxable	Taxable	Taxable	Taxable	+
Cost of living protection	None	None	None	Execs only - CPI Maximum of 3%	=
Disability definition					
- own occupation	Waiting period + 24 months	24 months	24 months	Waiting period + 24 months	+
- any occupation	Thereafter	Thereafter	Thereafter	Thereafter	

Newfoundland Power Inc.

Comparative market analysis of group insurance plan

Benefit	Newfoundland Power Inc.	Market Survey (~600 plans/150,000 employees)	Energy/Utilities market (~60 plans/20,000 employees)	Industry (Natural gas - 1600 lives)	Newfoundland Power vs Market
HEALTH CARE (Active and retired employees under age 65)					
- Deductible (individual / family)	None	None	None	Execs $50/Others $25	=
- Reimbursement					
- Hospital	100% Semi-private room	100% Semi-private	100% Semi-private	Semi-private room Execs 80%/Others 90%	=
- Vision Care	100%	100%	100%	*90% (80% for execs)*	=
- Drugs	80%	80%	100%	*of first $1,000*	=
- Paramedicals	100%	80%	100%	*of expenses*	=
- Others	100%	80%	100%	*per family*	+
- Outside the province	100%	100%	100%	*100% thereafter*	=
- Admissible expenses	Execs/Others				
- Vision Care	$200/$150 per 24 months	$200 per 24 months	$200/24 months	n/a	=
Eye Exams	1/24 months (1/12 months for dep child)	1/24 months	1/24 months	Eye exams only 1 per 24 months	=
- Drugs	Provincial Formulary + National Formulary	By prescription only/Drug card	By prescription only/**Drug card**	Prescribed	=
- Paramedicals (Chiropractor, chiropodist/podiatrist, naturopath, osteopath, speech therapist and masseur)	$250 / practitioner / calendar year	$500 / practitioner / calendar year	$500 / practitioner / calendar year	$500/practitioner/calendar year	-
- Physiotherapist	$500 / calendar year	$500 / calendar year	$500 / calendar year	Unlimited	=
- Psychologist	$250 / calendar year			$500 per calendar year	
- Hearing Aids	$600 per 36 consecutive months			$500 per 48 months	+
- Orthopedic shoes	Reasonable and customary charges 1 custom made pair per calendar year			One custom-made pair per calendar year	=
- Private duty nursing	$10,000 per calendar year	$10,000 per calendar year	$10,000 per calendar year	Lifetime maximum of $50,000	=
- Emergency out of province	Lifetime maximum $1,000,000	Covered	Covered	Maximum stay of 6 months outside of Canada	=
- Referral out of province	Not covered	Not covered	Not covered	Not covered	=
- Survivor benefit	No termination	24 months	24 months	31 days	+++
- Terminates	No termination	At retirement	Terminates at retirement	At retirement	=
HEALTH CARE SPENDING ACCOUNT					
- Executives only	DETAILS?	None	None	$1,230 per year	

Newfoundland Power Inc.

Comparative market analysis of group insurance plan

Benefit	Newfoundland Power Inc.	Market Survey (~600 plans/150,000 employees)	Energy/Utilities market (~60 plans/20,000 employees)	Industry (Natural gas - 1600 lives)	Newfoundland Power vs Market
DENTAL CARE	(OPTIONAL PLAN)	(NOT OPTIONAL PLAN)	(NOT OPTIONAL PLAN)	(NOT OPTIONAL PLAN)	-
- Deductible	None	None	None	None	=
- Reimbursement					
- Preventative services	100%	100%	100%	90%	=
	(exams every 5 months)	(exams every 6 months)	(exams every 5 months)	(exams every 9 months)	+
- Basic services	100%	100%	100%	90%	=
- Endodontic and periodontic	80%	80%	90%	90%	=
- Major restoration (dentures)	n/a	50%	50%	70%	-
- Orthodontia	n/a	50%	50%	50% (employee and dep children only)	-
- Maximum					
- Per calendar year (excl. orthodontia)	$750	$1,500	$1,500	$1,750 including ortho	-
- Orthodontia	n/a	$2,000 (lifetime)	$2,000 (lifetime)		-
- Dental fee guide	Current	Current	Current	Previous year	=
- Survivor benefit	24 months	24 months	24 months	31 days	=
Terminates	Terminates at the latest of retirement or age 65	At retirement	Terminates at retirement	Retirement	+
MISCELLANEOUS					
Dependent child definition	Under 23 or under 25 if full-time student	Under 21 or under 25 if full-time student	Under 21 or under 25 if full-time student	Under 21 or under 26 if full-time student	+

Appendix A:

Newfoundland Power Inc.

Example of retiree coverage

Benefit	Newfoundland Power Inc.	Industry (Natural gas - 1600 lives)
LIFE INSURANCE Paid-Up - Retired employees	$10,000	1 x salary prior to age 65 30 % of salary at age 65 subject to a max. of $25,000
Paid by	100% Employer	100% Employer
HEALTH CARE - Deductible (individual / family)	Max. $5,000 per person per calendar year * * Excluding Visioncare Drugs only: 20% Max. $5 per prescription	$25/$50
- Reimbursement		
- Hospital	100% Semi-private room	90% Semi-private room
- Vision Care	100%	*90% of first $500*
- Drugs	100%	*of expenses*
- Paramedicals	100%	*per person*
- Others	80%	*($1,000 per family)*
- Outside the province	100%	*100% thereafter*
- Admissible expenses		
- Vision Care	$150 per 24 months	n/a
Eye Exams	1 per 36 months (1 per 12 months for dep child)	1 per 24 months
- Drugs	By prescription only/Drug card	
- Paramedicals (Chiropractor, chiropodist/podiatrist, naturopath, osteopath, speech therapist and masseur)	$250 / practitioner / calendar year (acupuncturist and homeopath not covered)	$450 / practitioner / calendar year
- Physiotherapist	$500 / calendar year	Unlimited
- Psychologist	$250 / calendar year	$450 / calendar year
- Hearing Aids	$600 per 36 consecutive months	$450 per 48 consecutive months
- Orthopedic shoes	Reasonable and customary charges 1 custom made pair per calendar year	1 custom made pair per calendar year
- Private duty nursing	$5,000 per illness	Lifetime max. $50,000
- Emergency out of province	n/a	Maximum stay of 6 months outside of Canada
- Referral out of province	n/a	n/a
- Survivor benefit	For spouse - Forever?	2 years
- Cost Sharing	100% Employer	100% Employer
DENTAL CARE (OPTIONAL) Under Age 65 Only		
- Deductible	None	n/a
- Reimbursement		
- Preventative services	100% (exams every 5 months)	
- Basic services	100%	
- Endodontic and periodontic	80%	
- Major restoration (dentures)	n/a	
- Orthodontia	n/a	
- Maximum		
- Per calendar year (excl. orthodontia)	$750	
- Orthodontia	n/a	
- Dental fee guide	Current	
- Cost sharing	100% Employer	
Terminates	Age 65	At retirement

Appendix B:
Life and Dependent Life Insurance Renewal Analysis

Appendix B:

Newfoundland Power Inc.
Life Insurance
June 1, 2005 Renewal
Employee and dependent life

Experience results as of:	31-Jan-05
Credibility:	47%
Interest Rate:	**2.81%**
Retention (as % of premiums):	**6.00%**

		01/08/2000 to 31/7/01	01/08/2001 to 31/7/02	01/08/2002 to 31/7/03	01/08/2003 to 31/7/04	01/08/2004 to 31/1/05	Total (54 months)
Number of lives		*1028*	*1028*	*1028*	*1019*	*557*	*4660*
Premiums		**435,288**	**437,645**	**440,492**	**410,672**	**211,387**	**1,935,483**
Number of months at adjusted rate		6	6	2	12	6	
Number of months in the period		12	12	12	12	6	
Rate changes							
as of 1/6/01		0.00%					
as of 1/6/02		0.00%	0.00%				
as of 1/6/03		-8.70%	-8.70%	-8.70%			
as of 1/6/04		0.00%	0.00%	0.00%	0.00%		
Adjusted Premiums		**397,437**	**399,589**	**408,102**	**410,672**	**211,387**	**1,827,187**
Adjusted Premiums with interest		**444,027**	**434,230**	**431,360**	**422,212**	**212,857**	**1,944,685**
Number of months of interest		48	36	24	12	3	
Paid Claims		**347,000**	**483,830**	**148,000**	**475,584**	**251,000**	**1,705,414**
Paid Claims with interest		**387,678**	**525,774**	**156,434**	**488,948**	**252,745**	**1,811,579**
Number of months of interest		48	36	24	12	3	
Reserves							
Waiver of premium		**0**	**0**	**0**	**0**	**0**	**0**
IBNR (10.4% of annual premium)	10.40%					**43,968**	**43,968**
Current value of incurred claims		**387,678**	**525,774**	**156,434**	**488,948**	**296,713**	**1,855,547**
Adjusted loss ratio before retention		**0.8731**	**1.2108**	**0.3627**	**1.1581**	**1.3940**	**0.9542**
Retention (as % of premiums)		**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**
Adjusted loss ratio including retention							**1.4%**
Adjustment based on experience							**1.4%**
Demographic adjustment							**5.25%**
Required adjustment						Non-Refund	**3.50%**
						Refund basis with 5% CFR margin	**8.50%**
Adjustment proposed by Morneau						Non-Refund	**5.25%**
						Refund basis including 5% CFR margin	**10.25%**

Appendix C
Long Term Disability Insurance Renewal Analysis

Appendix C:

Newfoundland Power Inc.

Long Term Disability
June 1, 2005 Renewal

Experience results as of:	31-Jan-05						
Credibility:	41%	31%					
Current Rate:	2.84						
Interest Rate:	2.81%						
Fees (as % of premiums):	17.00%						
		8/00-7/01	8/01-7/02	8/02-7/03	8/03-7/04	8/04-1/05	**Total (54 months)**
No. of lives		*683*	*683*	*683*	*695*	*342*	*3086*
Premiums		360,692	573,160	629,711	634,180	336,520	**2,534,263**
Number of months at adjusted rate		2	2	2	2	6	
Number of months in the period		12	12	12	12	6	
Rate change							
as of June 1, 2001		60.9%					
as of June 1, 2002		6.85%	6.85%				
as of June 1, 2003		0.0%	0.0%	0.0%			
as of June 1, 2004		0.0%	0.0%	0.0%	0.0%	0.0%	
Adjusted premiums		**562,967**	**605,509**	**629,711**	**634,180**	**336,520**	**2,768,887**
Adjusted premiums with interest to Jan 31, 2005		**628,962**	**658,001**	**665,598**	**652,000**	**338,860**	**2,943,421**
Claims paid per year of payment (horizontal) and year of incurral (vertical)							
	8/00 - 7/01	63,065					**63,065**
	8/01 - 7/02	94,753	26,536				**121,289**
	8/02 - 7/03	19,151	77,698	59,716			**156,565**
	8/03 - 7/04	20,853	31,640	225,238	28,249		**305,980**
	8/04 - 1/05	10,426	9,463	71,806	74,639	2,582	**168,916**
Cumulative value of projected claims up to 31/01/2005							
	8/00 - 7/01	69,972					**69,972**
	8/01 - 7/02	172,228	28,637				**200,865**
	8/02 - 7/03	192,331	110,196	62,683			**365,210**
	8/03 - 7/04	213,622	142,500	292,652	28,842		**677,616**
	8/04 - 1/05	224,121	152,029	364,957	104,000	2,600	**847,707**
Reserves							
Disabled lives as of January 31,2005		153,236	116,796	794,215	460,172	67,578	**1,591,997**
IBNR	37%					248,933	**248,933**
Present value of incurred claims		**377,357**	**268,825**	**1,159,172**	**564,172**	**319,111**	**2,688,637**
Fees (as % of premiums)		17%	17%	17%	17%	17%	17%
Loss ratio including fees		72.3%	49.2%	209.8%	104.3%	113.5%	110.1%
Credibility per year (over 5 years)	41.0%	20.0%	30.0%	30.0%	15.0%	5.0%	**1.1350**
Adjustment based on experience							**13.5%**
Demographic adjustment							**6.6%**
Required adjustment							**9.4%**
Adjustment proposed by Morneau							*31%*

Appendix D:
Health Insurance Renewal Analysis

Appendix D:

Newfoundland Power Inc.

Health Care Analysis

Renewal June 1, 2005
Number of lives: 1277

	Rate Change
6/1/2004	15.75%

		8/1/2003 7/31/2004	8/1/2004 1/31/2005	Total 18-mth
Number of months after renewal		2	6	
Number of months in the period		12	6	
Number of months of inflation		22	13	
Premiums				
- Paid		365,752	205,462	571,214
- Adjusted		**412,529**	**205,462**	**617,991**
- Pooling				
- Participating		**412,529**	**205,462**	**617,991**
Claims				
- Paid		335,793	155,678	491,471
- Pooled claims				
- Reserve variation		7,530	-4,643	2,887
Incurred		**343,323**	**151,035**	**494,358**
Experience loss ratio		**83.22%**	**73.51%**	**79.99%**
Projection inflation of 6%	6.00%	1.1127	1.0652	
Incurred Claims with Inflation		**382,030**	**160,876**	**542,906**
Fee factor (% of premium)	9.90%			9.90%
Required Premium				**602,559**
Loss Ratio				97.50%
Credibility				100.00%
Final Loss Ratio				**97.50%**
Deficit recovery margin				0.00%
Proposed renewal change				**-2.5%**
Great West/Morneau			*Proposed*	*13.69%*
			Sold	*5.0%*

Appendix E:
Dental Insurance Renewal Analysis

Appendix E:

Newfoundland Power Inc.

Dental Care Analysis

Renewal June 1, 2005
Number of lives: 243

	Rate Change					
6/1/2004	4.70%					
		8/1/2002 7/31/2003	**8/1/2003 7/31/2004**	**8/1/2004 1/31/2005**	**Total 18-month**	**Total 30-month**
Number of months after renewal		0	2	6		
Number of months in the period		12	12	6		
Number of months of inflation		34	22	13		
Premiums						
- Paid		178,487	160,213	82,343		
- Adjusted		**186,876**	**166,439**	**82,343**	**248,782**	**435,658**
Claims						
- Paid		138,901	128,951	57,899		
- Reserve variation		-416	-796	-1,052		
Incurred		**138,485**	**128,155**	**56,847**	**185,002**	**323,487**
Experience loss ratio		**74.11%**	**77.00%**	**69.04%**	**74.36%**	**74.25%**
Projection inflation of 6,50%	6.50%	1.1953	1.1224	1.0706		
Incurred Claims with Inflation		**165,536**	**143,839**	**60,861**	**204,700**	**370,236**
Fee factor (% of premium)	16.81%				16.81%	16.81%
Required Premium					**246,063**	**445,049**
Loss Ratio					98.91%	102.16%
Credibility					100.00%	100.00%
Final Loss Ratio					**98.91%**	**102.16%**
Deficit recovery margin ***(Not applicable because not on retention)***					0.00%	0.00%
Proposed renewal change					**-1.1%**	**2.2%**
Great West/Morneau				*Proposed*	*1.00%*	*1.00%*
				Sold	*0.0%*	*0.00%*

Appendix F:
Monthly Premium Comparison

Appendix : F

Newfoundland Power Inc.

Monthly Premium Comparison

BENEFITS	No. Of lives	Prior to 1/6/2005 Premium	As of 1/06/2005 Proposed by GWL Premium	Variation	Negotiated by Morneau Premium	Variation	Calculated by Aon Premium	Variation
Life	1114	$30,532	$35,518	16.33%	$33,662	10.25%	$33,128	8.5%
LTD	684	$50,831	$71,616	40.89%	$66,588	31.0%	$55,609	9.4%
Health								
Drugs	1,246	$132,149	$157,918	19.5%	$138,756	5.0%	$140,342	6.2%
Vision Care	1,246	$10,078	$11,458	13.70%	$10,581	5.0%	$10,209	1.3%
Health Care	1,246	$33,396	$35,750	7.05%	$35,066	5.0%	$32,561	-2.5%
Dental Care	226	$12,766	$13,666	7.05%	$13,405	5.0%	$13,047	2.2%
Total		$269,752	$325,926	20.8%	$298,058	10.5%	$284,895	5.6%
Monthly Savings							-$13,163	
Annual Savings							-$157,956	
Plus: Additional Estimated Savings								
- Reduced Health Administration Fees							-$15,000	
- Reduced Out of Country Travel Rates							-$50,000	
Total Savings							***-$222,956***	