

# Financial Accounting Report

## Government of Yukon

26 AUGUST 2020

For the period of April 1, 2019 to March 31, 2020

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# 1

## Executive Summary

The purpose of this report is to summarize the financial results of the Government of Yukon's group insurance plan with Canada Life for the period of April 1, 2019 to March 31, 2020 and provide comments based on our review of these results.

The following table summarizes the benefits covered in this report and the corresponding underwriting arrangement.

Benefit	Underwriting Arrangement
Basic life	Non-Refund
Accidental death and dismemberment ("AD&D")	Non-Refund
Optional life	Non-Refund
Dependent life	Non-Refund
Dependent accidental death and dismemberment	Non-Refund
Long term disability	Refund accounting with durational pooling
Extended health care	Administrative Services Only
Dental care	Administrative Services Only

### Highlights

The highlights of the 12-month period of April 1, 2019 to March 31, 2020 include the following:

- There were two basic life claims paid totalling \$149,000, no AD&D claims and two dependent life/AD&D claims totalling \$10,000. There were no optional life claims incurred in this period.
- The refund long term disability benefit plan resulted in a plan year surplus of \$539,997. The surplus was first used to fully fund the claims fluctuation reserve and the balance was transferred to the Refund Deposit Account ("RDA").
- As at March 31, 2020, the closing balance in the refund Claims Fluctuation Reserve ("CFR") is \$1,479,021 and it is 100% funded.
- As at March 31, 2020 the RDA had a balance of \$5,262,502.

- Extended health claims (net of pooled claims), plus expenses and taxes totalled \$11,883,778 and the Government of Yukon paid \$12,365,436 in extended health deposits for the period of April 1, 2019 to March 31, 2020. As a result, the ending balance as at March 31, 2020 was a surplus of \$481,658. For your information, \$1,287,478 of extended health claims were pooled (after adjusting for prior year's pooled claims) during this period, which is significantly higher than last year due to one emergency out of country claim in particular.
- Dental claims, expenses and taxes totalled \$4,496,122 and the Government of Yukon paid \$4,532,417 in dental care deposits. As a result, the ending balance as at March 31, 2020 was a surplus of \$36,295.

### Balance of Report

No formal financial accounting is prepared for the benefits underwritten on a non-refund basis. However, for your information, we have included paid premium and claims information for these benefits in Section 2.

Section 3 of this report summarizes the financial results of the long term disability ("LTD") benefit, which is underwritten on a refund accounting basis. Canada Life prepared a formal financial accounting covering the period of April 1, 2019 to March 31, 2020 based on the terms outlined in the Government of Yukon's Financial Agreement with Canada Life. Based on our review, we found that Canada Life's financial accounting report accurately reflects the financial position of the long term disability plan as at March 31, 2020. We note that during the 2018/2019 financial review, it was determined that an error resulted in paid premium being understated by \$240. As agreed, a premium credit flowed through the 2019/2020 financial accounting to rectify the issue.

For the Administrative Services Only ("ASO") benefits, we completed a financial reconciliation of the extended health and dental plans for the period of April 1, 2019 to March 31, 2020. This reconciliation is provided in Section 4 along with a summary of the Government of Yukon's claiming trends over the last 10 plan years.

### Next Steps

We will meet with the Government of Yukon on September 28, 2020 to discuss the results of this financial report in detail.

***Please note that our assessments provided are based solely on costs. Mercer does not guarantee or make representations in regard to, and expressly disclaims responsibility for, the financial condition of underwriters whose bids it analyzes or with which it arranges clients' insurance.***

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# 2

## Non-Refund Benefits

The basic life, accidental death and dismemberment (“AD&D”), optional life, Global Medical Assistance (“GMA”), dependent life and dependent AD&D benefits are underwritten on a non-refund basis. A non-refund arrangement is fully insured and there is no formal accounting of premium and claims. The insurer assumes the full risk that actual claims may exceed premium. On the other hand, no refunds are generated if premium exceeds claims.

Although Canada Life does not prepare a formal financial reconciliation of the non-refund benefits, the following table summarizes paid premium and claims experience reported by Canada Life for the period of April 1, 2019 to March 31, 2020:

Insured Benefit	Premium*	Claims*
Basic life <sup>1</sup>	\$585,852	\$149,000
Accidental death and dismemberment	\$51,194	\$0
Optional life	\$138,214	\$0
Dependent life and accidental death and dismemberment <sup>2</sup>	\$15,077	\$10,000
Global Medical Assistance (GMA)	\$34,631	\$105,801
<b>Total</b>	<b>\$824,968</b>	<b>\$264,801</b>

\*Rounding applies.

<sup>1</sup> Includes premium and claims paid for the post-retirement life benefit

<sup>2</sup> Canada Life reports dependent life and AD&D premium together

Canada Life reported two basic life claims totalling \$149,000 for two employees for the 12-month period ending March 31, 2020. They reported two claims for dependent life / AD&D in the amount of \$10,000 and GMA claims totalling \$105,801 paid in the same period. There were no optional life or AD&D claims during the period.

As of this March 31, 2020, there were 20 approved life waiver of premium claims. The waiver of premium reserves established for these claims totalled \$624,499 as at March 31, 2020. The basic life benefit transitioned to Canada Life from Sun Life effective November 1, 2013. Claimants disabled prior to this date remain the liability of Sun Life until the claimant terminates or returns to work. As such, they are not included on Canada Life’s waiver of premium listing. In addition, there are fewer life waiver of premium claims than there are open long term disability claims given that Division 1 (YEU) does not have basic life coverage under this plan.

# 3

## Long Term Disability Benefit

### Underwriting Arrangement

The LTD benefit is underwritten on a refund accounting basis. As noted with basic life coverage, effective November 1, 2013, the long term disability benefit transitioned to Canada Life from Sun Life. Any claimants disabled before November 1, 2013 remain the liability of Sun Life after plan termination. This financial accounting report addresses the financial results and claimants with Canada Life only.

Under a refund arrangement, a formal financial accounting is completed at plan year-end and the Government of Yukon shares in the financial results with Canada Life. Premiums are compared to plan costs, which include incurred claims, disabled life reserves (“DLR”) and expenses. If premiums are less than plan costs, a deficit is declared and is carried forward to be offset by future surpluses. If premiums exceed plan costs, a surplus is declared and is used to offset any deficit carried forward, fund any required reserves, such as the claims fluctuation reserve (“CFR”), or is available for refund to the plan sponsor. If the plan terminates, the insurer remains liable for claims incurred prior to the termination date and also remains responsible for any deficit that has been carried forward (i.e., the insurer will not attempt to recover any deficit from the plan sponsor after the plan termination date). However, any surplus that exists when the final accounting is completed is refunded to the plan sponsor.

Under the refund pooling agreement with Canada Life, a five-year durational pooling arrangement applies to claimants with a date of disability on or after November 1, 2013. The durational pooling arrangement limits the Government of Yukon’s risk by limiting the period of time (five years in this case) that incurred claims (paid claims and reserves) are included in the annual financial accounting. Once the five-year time period has passed, the claim is fully pooled and is not included in the Government of Yukon’s financial accounting. As a result, the financial accounting for the current period includes claims incurred between April 1, 2014 to March 31, 2020. This is the first financial period where claims reached the pooling duration. As at March 31, 2020, sixteen open LTD claims have reached the five-year benefit duration with total pooled claims of \$211,118.

### **Financial Review Methodology**

We reviewed Canada Life's financial report for the period of April 1, 2019 to March 31, 2020 to validate the following:

- Opening balance of reserves and deposit funds;
- Total premium paid compared to the monthly payment information provided by the Government of Yukon including whether the premium credit of \$240 was applied for an error in the 2019/2020 financial accounting
- Expenses charged against the plan are calculated according to the Financial Agreement;
- Reserves for incurred but not reported claims, as well as reserves for current disabled employees, are calculated according to the Financial Agreement; and
- Interest rates used and interest calculated are in accordance with the Financial Agreement.

We reviewed Canada Life's financial report based on the terms outlined in the Government of Yukon's current Financial Agreement with Canada Life. In our review, we found Canada Life's financial accounting report accurately reflects the financial position of the long term disability plan as at March 31, 2020.



## Financial Results

For the period of April 1, 2019 to March 31, 2020, there was an in-year surplus of \$539,997. A portion of this surplus, an amount of \$47,685, has been transferred to fully fund the CFR, which is intended to cover volatility in future claims. The remaining surplus, \$492,312, was transferred to the RDA. The in-year ending balance after the transfer is \$0. The table below outlines the financial results of the long term disability benefit for the period April 1, 2019 to March 31, 2020:

Long Term Disability Benefit - Financial Results for the period of April 1, 2019 to March 31, 2020*			
A.	Premium		
	• Total billed premium**	\$10,990,260	
	• Pooling charge	\$5,026,845	
	• Refund billed premium		\$5,963,415
B.	Claims		
	• Paid claims	\$4,042,480	
	• Pooled claims	\$211,118	
	• Experience-rated claims		\$3,831,362
C.	Experience-rated Incurred But Not Reported (IBNR) reserve		
	• Beginning reserves	\$2,046,161	
	• Ending reserves	\$2,001,177	
	• Change in IBNR reserve		(\$44,984)
D.	Experience-rated Disabled Life Reserves (DLR)		
	• Beginning reserves	\$6,306,080	
	• Ending reserves	\$7,490,405	
	• Change in DLR		\$1,184,325
E.	Total experience-rated claims charge (B + C + D)		\$4,970,703
F.	Expenses		\$568,615
G.	Interest		
	• Interest on reserves	\$118,263	
	• Interest on cash flow	(\$2,363)	
	• Net interest		\$115,900
H.	Plan year surplus/(deficit) (A – E – F + G)		\$539,997

Long Term Disability Benefit - Financial Results for the period of April 1, 2019 to March 31, 2020*			
I.	Closing balance		
	• Plan-year surplus (H)	\$539,997	
	• Transfer to Claims Fluctuation Reserve	(\$47,685)	
	• Transfer to Refund Deposit Account	(\$492,312)	
	• Closing balance at March 31, 2020		\$0
J.	Claims Fluctuation Reserve (CFR)		
	• Beginning balance at April 1, 2019	\$1,414,364	
	• Transfer to RDA	\$0	
	• Interest	\$16,972	
	• Transfer In	\$47,685	
	• Closing Balance at March 31, 2020		\$1,479,021
K.	Refund Deposit Account (RDA)		
	• Beginning balance at April 1, 2019	\$5,531,294	
	• Monthly RDA Withdrawals	(\$832,686)	
	• Interest	\$57,505	
	• Deposits	\$14,077	
	• Transfer from plan year surplus	\$492,312	
	• Closing balance at March 31, 2020		\$5,262,502

\*Rounding applies.

\*\* As reported by Canada Life in the 2019/2020 financial accounting

## A. Premium

Canada Life reported \$10,990,260 in total paid premium during the financial period of April 1, 2019 to March 31, 2020. This premium includes the portion of the premium withdrawn from the refund deposit account (RDA). At the April 1, 2019 renewal, the Government of Yukon reduced the negotiated long term disability premium rate of \$3.758 per \$100 of benefit by 8.0% to \$3.457 per \$100 of benefit. The lower premium rate was used to calculate the monthly premium to pay Canada Life each month and funds from the RDA were transferred to pay the total monthly premium owing (based on the negotiated premium rate). During the 2019/2020 plan year, \$832,686 was transferred from the RDA to pay premium.

Total premium also includes a credit adjustment of \$594,134 for LTD premium that was owing to Canada Life since the 2014/2015 plan year. This premium was collected from employees who were on an approved leave without pay, but due to an internal system error not paid to Canada Life. The issue was resolved in May 2018, but during a recent audit of financial ledgers this premium was "found" by the Government of Yukon and paid to Canada Life. Additionally, the total premium

includes a credit of \$240 to correct an error in the 2018/2019 financial accounting where the paid premium amount reported by Canada Life was understated by \$240. Canada Life issued a premium credit in this amount that flowed through the 2019/2020 financial accounting

The total premium amount includes pooling charges of \$5,026,845. This reflects \$4,771,822 of pooled premium for the current 2019/2020 plan year, (45.9% of total premium) as well as \$255,024 pooled premium associated with the retroactive premium adjustment noted above. In exchange for this pooling charge, Canada Life pools long term disability claims that exceed 60 monthly payments or five years in duration.

The refund billed premium, which equals the total premium net of pooling charges, was \$5,963,415 for the 12-month financial period.

## **B. Claims**

Paid claims totalled \$4,042,480 during the period of April 1, 2019 to March 31, 2020 for 140 claimants (including those with negative adjustments). Under the current durational pooling arrangement, disability claims incurred over five years ago are pooled by Canada Life and not charged against the plan's experience. This is the first year there has been pooled claims and \$211,118 of claims were pooled, resulting in a total of \$3,831,362 in experience rated claims. This compares to \$3,427,862 paid in the 2018/2019 financial year for 130 claimants (including those with negative adjustments).

## **C. Incurred But Not Reported (IBNR) Claim Reserve**

An incurred but not reported ("IBNR") claim reserve is established by Canada Life to account for claims that have been incurred but not yet submitted. Canada Life's required experience-rated IBNR level is calculated as the refund billed premium for the last month of the policy year, annualized, multiplied by a factor. As defined in the Financial Agreement, this IBNR factor is calculated to be approximately 0.33, based on the elimination period under the plan. A 5.0% expense factor is also applied to the reserve to account for Canada Life's expenses to adjudicate these claims after termination.

The experience-rated IBNR reserve was \$2,046,161 at the beginning of the current financial year and was \$2,001,177 as at March 31, 2020. The change in IBNR reserve included in the financial accounting is therefore a decrease of \$44,984 over the 12-month period.

## **D. Disabled Life Reserves (DLR)**

Disabled Life Reserves are established by Canada Life to cover expected future benefit payments to long term disability claimants in the event of plan termination. The reserves are calculated using actuarial assumptions and the demographics of specific claimants. Canada Life will use the reserve to make benefits payments for claims incurred before the plan termination date until the claimant recovers or reaches the termination age. A 5.0% expense factor is also applied to the reserve to account for Canada Life's expenses to adjudicate these claims after termination.

Overall, Canada Life is holding DLR as at March 31, 2020 totalling \$30,057,340 (\$7,490,405 experience rated DLR and \$22,566,935 pooled DLR). For the purpose of the refund financial accounting, only the experience-rated DLR is taken into consideration. The experience-rated DLR represents reserves for the remainder of each claimant's first five years of payments (with an actuarial factor for potential recovery from disability and death during that period). The remainder of the DLR is the pooled reserves that Canada Life is holding to potentially pay claims until the claimant reaches age 65.

The experience-rated DLR was \$7,490,405 as of March 31, 2020 for 91 claimants. The beginning DLR at April 1, 2019 was \$6,306,080 for 77 claimants. The change in DLR over the 12-month period is an increase of \$1,184,325.

#### **E. Total Experience-Rated Claims Charge**

Paid claims, plus the changes in the experience-rated IBNR reserves and experience-rated DLR represent the total experience-rated claims charge assessed by Canada Life. For the period of April 1, 2019 to March 31, 2020, the total experience-rated claims charge was \$4,970,703.

#### **F. Expenses**

Canada Life's expense charges for administering the long term disability benefit are negotiated on an annual basis. As negotiated in the 2019 renewal for the period of April 1, 2019 to March 31, 2020 the expenses are as follows:

Expense	Formula	Amount*
General administration	• 0.45% of refund billed premium	\$26,835
Claims administration	• \$1,200 per new claim	\$79,200
	• \$650 per declined claim	\$14,950
	• \$550 per ongoing claim	\$51,700
Profit	• 0.40% of refund billed premium <sup>1</sup>	\$23,854
Risk	• 0.80% of refund billed premium <sup>2</sup>	\$47,707
Premium tax	• Varies by province <sup>3</sup>	\$108,729
Rehabilitation and other costs	• Medical Vouchers	\$3,132
	• Internal Rehabilitation	\$29,697
	• External Rehabilitation	\$57,069
	• Internal Medical Coordination	\$7,976
	• External Medical Coordination	\$38,838
	• Independent Medical Exams	\$67,036
	• Functional Capacity Evaluation	\$162
	• CPP Appeals	\$4,285
	• Legal Internal	\$7,445
<b>Total</b>		<b>\$568,615</b>

\*Rounding applies.

<sup>1</sup> Profit charge is based on level of CFR funding at the beginning of the plan year; range for 2019/2020 plan year is 0.4% to 0.7% of refund billed premium

<sup>2</sup> Risk charge is based on level of CFR funding at the beginning of the plan year; range for 2019/2020 plan year is 0.8% to 2.65% of refund billed premium

<sup>3</sup> For the period of April 1, 2019 to March 31, 2020, the estimated average premium tax is approximately 2.0048%.

In the period of April 1, 2019 to March 31, 2020, Canada Life charged \$568,615 in expenses against the plan. This is an increase of approximately \$133,900 compared to the April 1, 2018 to March 31, 2019 plan year. This increase is primarily driven by an increase independent medical exams and an increase in the premium tax collected compared to last year. The increase in premium tax is due to the retroactive payment adjustment made this year of which premium tax is owing on. Additionally, there was an increase in the external medical coordination charges. Over the last few years, charges for rehabilitation and medical coordination have fluctuated due to the number of claimants and conditions that required these services. We note that the legal internal charge is related to a claim brought against Canada Life by a declined claimant.

## G. Interest

### Interest on Reserves

Canada Life credits interest on the experience-rated long term disability claims reserves at the beginning of the financial period. The IBNR reserve at April 1, 2019 was \$2,046,161 and interest earned was \$33,005 based on a rate of 1.613%. The DLR was at \$6,306,080 at April 1, 2019 and the interest earned was \$85,258 based on a rate of 1.352%. Total interest paid on reserves was \$118,263.

The interest rate applicable to the IBNR reserves is the average monthly declared valuation rate for the prior financial year. The valuation rate is determined based on the average asset yield that can be earned on the portfolio of fixed income assets backing the liabilities of the disability claims. The interest rate applicable to IBNR reserves is declared to be 1.013% for the next financial year (i.e., April 1, 2020 to March 31, 2021).

The interest rate applicable to the DLR is the average reserve weighted valuation rate (ARWVR) as defined in the Agreement. This rate is declared to be 1.254% for the next financial year.

### Interest on Cash Flow

Canada Life credits interest on premium and charges interest on claims, expenses and premium taxes.

The interest rate applicable to the premiums is the average monthly declared valuation rate for the current financial year. For the current financial period of April 1, 2019 to March 31, 2020, the applicable interest rate on premiums is declared to be 1.013%.

The interest rate applicable to the claims and retention charges is the average reserve weighted valuation rate (ARWVR) as defined in the Agreement. The applicable interest rate on retention charges for the current financial period of April 1, 2019 to March 31, 2020 is 1.352%.

Interest was credited and charged as follows:

Cash Flow	Interest Credit / (Charge)*
Premium	\$26,702
Claims	(\$25,221)
Retention (including premium taxes)	(\$3,844)
<b>Total</b>	<b>(\$2,363)</b>

\*Rounding applies.

### Net Interest

Net interest is the sum of interest on reserves (i.e., \$118,263) and on cash flow (i.e., interest debit of \$2,363). The net interest for the period is a credit of \$115,900.

## H. Plan Year Balance

The plan year balance is the result of the refund billed premium and net interest credited less total experience-rated claims charges and expenses. The balance for the period is a surplus of \$539,997. This is a significant reduction from the in-year surplus last year of \$2,943,631. The reduction in the in-year surplus is largely a result of the 8.0% decrease to the LTD premium rate at the April 1, 2019 renewal and the increase in disabled life reserves. If there had not been the retroactive premium payment included in this year's financial results, the surplus would have been approximately \$383,000 lower at approximately \$157,000.

## I. Closing Balance

After the \$539,997 plan year surplus was used to fully fund the CFR and the balance transferred to the refund deposit account, the closing balance as at March 31, 2020 is \$0.

## J. Claims Fluctuation Reserve (CFR)

The CFR is funded by plan year surpluses over time and the target CFR level is 25% of annual refund billed premium. Using the refund billed premium for the period of April 1, 2019 to March 31, 2020 and adjusting for interest earned on the opening balance, the target CFR level is \$1,479,021. At the beginning of the period, the CFR had a balance of \$1,414,364.

Canada Life credited interest of \$16,972 on the opening CFR balance, using the one-year standard rate of 1.200%. The target one-year rate is the average one-year GIC rates from the five major banks, less a provision for Canada Life's tax obligations.

To fully fund the CFR, a transfer was made in the amount of \$47,685 from the in-year surplus. The closing balance of the CFR as at March 31, 2020 is \$1,479,021. Therefore, the CFR is 100% funded at the end of the financial period.

## K. Refund Deposit Account (RDA)

Once the CFR is 100% funded, any remaining surplus is transferred into the RDA. At the beginning of the period, the RDA had a balance of \$5,531,294. Canada Life paid \$57,505 in interest on this amount. At the April 1, 2019 renewal, the Government of Yukon elected to suppress the negotiated premium rate by 8% and the balance of the premium owing each month was withdrawn from the funds in the RDA. The total withdrawals during the year were \$832,686. The Government of Yukon also made two deposits totalling \$14,077 into the RDA. These funds represent remaining LTD premium for individuals who were not eligible for disability coverage from either Sun Life or Canada Life during the transition to Canada Life on November 1, 2013. In addition, the current in-year surplus of \$492,312 (after funding the CFR) was transferred into the RDA. The closing balance of the RDA as at March 31, 2020 is \$5,262,502.

As part of the April 1, 2020 renewal, Canada Life estimated that the LTD refund plan for 2019/2020 financial period was going to generate a plan year surplus of \$672,511. While a surplus did occur, it is lower than expected particularly when the retroactive premium credit is considered. Given the amount of funds expected to be in the RDA at the April 1, 2020 renewal, the Joint Management

Committee (JMC) made a decision to continue to suppress the negotiated LTD premium rate by approximately 8% (from \$3.495 per \$100 of benefit to \$3.215 per \$100 of benefit) and use the lower LTD rate to pay Canada Life. The remaining portion of the premium owing, expected to be approximately \$773,900 over the year, will be withdrawn from the RDA each month. As such, the balance of the RDA as at March 31, 2021 is expected to be approximately \$4,488,600 (before interest).

Canada Life credits interest on the RDA based on the balance at the beginning of the year. The interest rate applicable to the RDA is the short term interest rate as defined in the Agreement. The declared interest rate for this year was initially 0.25%; however, given the significant balance in the RDA we requested that a higher interest rate be paid on the RDA balance. Following discussion with Canada Life they agreed to pay the same interest rate that applies to the CFR as long as the amount in the RDA exceeded \$4,000,000 and would apply to the funds held for the full year. Funds deposited or withdrawn and not held for the full year will be credited at the rate of 0.25%. As part of their financial accounting, Canada Life declared the interest rate for this year to be 1.20%, less 0.95% on the withdrawn portion of the opening balance. This is based on 1.20% interest being applied to \$4,698,608.23 that remained in the RDA during the year and 0.25% applying on the remaining funds

The declared rate for next year is 0.80% on the balance less 0.55% on any portion of the opening balance to a minimum of 0.25%.

### **Options for Utilization of the RDA**

There are a number of options for the Government of Yukon to consider to utilize the funds in the RDA including maintain a balance, make a withdrawal, take a premium holiday, supplement reduced monthly premium payments or a combination of these. The Government of Yukon usually considers how to use the RDA funds as part of the April 1 annual renewal, most recently at the April 1, 2020 renewal.

### **Maintain Balance**

The financial results for the current 2020/2021 plan year is unknown at this time. If the year ends in a deficit, Canada Life will use fund in the CFR to pay the deficit. If funds in the CFR are not sufficient to fully re-pay a deficit, Canada Life charges interest on the remaining deficit. The Government of Yukon can transfer funds in the RDA to pay a remaining deficit.

As noted above, Canada Life has lower profit and risk charges when the CFR is fully funded and if CFR funds are used to pay a deficit, the Government of Yukon can transfer funds in the RDA to fully fund the CFR.



**Withdrawal**

As per the financial agreement, the funds in the RDA are available to the Government of Yukon for withdrawal. If you withdraw funds, you should consider that a portion of the RDA includes employee contributions. You may want to consider using contributions to fund special projects that employees would benefit from such as mental health training or well-being etc. In our experience, plan sponsors rarely refund surplus to employees given the communication and other challenges.

We also note that there may be potential implications when funds are withdrawn. This is because employers typically receive tax deductions/credits for paying employee benefit premium. If an adjustment is not made when funds are transferred in to an RDA, the necessary adjustments need to be made when funds are withdrawn from the RDA and not used to pay premium. We suggest that you discuss the impact of any refund withdrawals with your tax advisor and/or finance department.

**Premium Holiday**

The funds in the RDA (after monthly withdrawals in 2020/2021 are accounted for; approximately \$4,488,600) represent approximate 5.6 months of premium for the long term disability benefit, based on benefit volumes and negotiated premium rate at the April 1, 2020 renewal. If a premium holiday were implemented for five months, this would utilize approximately \$4,025,000 of the funds in the refund deposit account. If the Government of Yukon is considering this option for the 2021/2022 plan year, we can update the values based on the outcome of the April 1, 2021 renewal.

Administratively, the Government of Yukon would need to determine the volume of long term disability coverage during the months when the premium holiday is taken, and instruct Canada Life to withdraw the applicable premium (both the employer and employee portions) from the refund deposit account. The Government of Yukon would also need to communicate to employees and adjust payroll to stop their contributions during the holiday period.

**Supplement Reduced Monthly Premium Payments**

The Government of Yukon could continue to suppress the negotiated LTD premium rate at the next renewal, April 1, 2021, which is what the Government of Yukon elected to do for the last four years. Administratively, the suppressed rate would be used to calculate the employer and employee portions of the premium each month and would be paid to Canada Life. The difference between this rate and the negotiated rate would be used to calculate the amount that Canada Life should withdraw from the refund deposit account each month to supplement the premium payment. Alternatively, we can discuss with Canada Life if they would agree to a retrospective rate agreement where the difference between the negotiated rate and the suppressed rate is paid at the end of the year when the financial position is known.

# 4

## Administrative Services Only Benefits

The extended health care (“EHC”) and dental care benefits are underwritten on an Administrative Services Only (“ASO”) basis. This is a non-insured arrangement where the Government of Yukon assumes full financial liability for eligible claims incurred under the extended health care (up to the pooling level) and dental care plans and pays a fee to Canada Life to provide claim adjudication and payment services and a pooling charge to reduce claims exposure. The expense charges for these services are reviewed each year at the annual renewal.

### Extended Health Care

#### Financial Results

The following table provides a detailed summary of the activity of the extended health care ASO plan for the April 1, 2019 to March 31, 2020 period:

Extended Health Care – April 1, 2019 to March 31, 2020*	
Paid deposits	\$12,365,436
Paid claims net of pooled claims	(\$10,349,281)
Canada Life expenses	
General administration	(\$61,061)
Claims administration	(\$356,134)
Profit charge	(\$47,607)
Pooling charge	(\$1,058,918)
Miscellaneous Expenses**	(\$2,585)
Total expenses	(\$1,526,305)
Tax	(\$8,192)
Total disbursements (Paid claims + Expenses + Tax)	(\$11,883,778)
<b>Balance over the April 1, 2019 to March 31, 2020 Period</b>	<b>\$481,658</b>

\*Rounding applies.

\*\* Miscellaneous expenses reflect cost of mailing pay direct drug cards directly to plan members at home.

During the 12-month period ending March 31, 2020, deposits paid by the Government of Yukon for the extended health care benefit totalled \$12,365,436 while disbursements for claims (net of pooled claims), Canada Life expenses and tax totalled \$11,883,778. The ending balance as at March 31, 2020 is a surplus of \$481,658.

Note, paid claims in the current year were likely impacted by COVID-19 mid-March 2020 when limited access to health care services started as a result of physical distancing. In general, this affected paramedical and vision claims although access to some practitioners (e.g. psychology, naturopath and physiotherapy) was available virtually. Travel restrictions that started in March also may have reduced emergency out of country claims. COVID-19 will have a more significant impact to paid claims in the 2020/2021 plan year.

For your information, \$1,266,824 of health claims were pooled during the same period. The majority of the pooled claims were for emergency out of country claims (\$727,528) followed by claims for prescription drugs (\$534,404). There was a significant increase in out of country medical pooled claims this year compared to last year (\$176,803). This is due to one claimant in particular who had \$677,535 of pooled emergency out of country claims (\$681,632 total pooled claims). We note that there was a decrease in pooled prescription drug claims this year from \$589,475 last year.

### Canada Life Expenses

The following table summarizes the extended health pooling charge and other ASO expense charges for the period of April 1, 2019 to March 31, 2020.

EHC Expense	April 1, 2019 to March 31, 2020
General administration	0.59% of paid claims net of pooled claims
Claims handling (Healthcare and vision)	3.50% of paid claims net of pooled claims
Claims handling (Drugs)	3.40% of paid claims net of pooled claims
Profit	0.46% of paid claims net of pooled claims
Pooling charge	11.09% of paid claims net of pooled claims and excluding vision claims

### Pooling

During the period of April 1, 2019 to March 31, 2020, the extended health care plan had a pooling arrangement where extended health claims (including prescription drugs and out-of-country medical claims, but excluding vision) greater than \$50,000 per person per year are pooled and not charged against the plan. In exchange for pooling protection, Canada Life charges a fee as a percentage of the paid claims. The specific pooling charge for the financial period under review is detailed in the table above.

As mentioned earlier, \$1,266,824 of claims were pooled by Canada Life during the financial period and not charged against the ASO plan. When adjustments for the prior period are excluded (\$20,654), we note that in the 2019/2020 plan year there was \$1,287,478 in pooled claims for 14 individuals who had health claims greater than \$50,000. This compares to \$812,005 in pooled

claims for 15 individuals during the last financial period of April 1, 2018 to March 31, 2019. We note that in the current period approximately 66% of the pooled claims are for retirees (67% after adjustments for the previous period) but retirees make up 25% of plan members (active and retirees combined). Last year retirees only made up 39% of pooled claims; however, this increase is because the claimant who had the high emergency out of country pooled claims was a retiree.

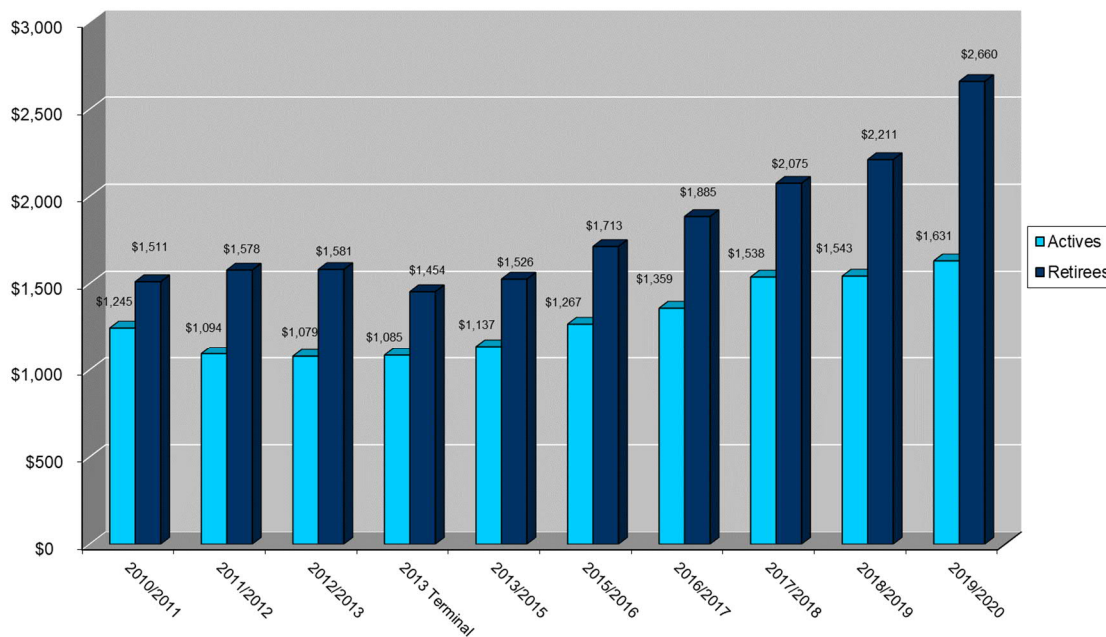
**Tax**

The following table outlines the premium tax and sales tax applicable to self-insured extended health plans in the provinces of Newfoundland, Ontario and Quebec. Self-insured extended health plans in other provinces are not subject to these taxes. These taxes are only applied to claims incurred by the residents of these provinces.

Province	Premium Tax	Sales Tax
Newfoundland	5.00%	N/A
Ontario	2.00%	8.0%
Quebec	3.48%	9.0%

**Trend**

During the 12-month period from April 1, 2019 to March 31, 2020, average extended health claims per retiree increased by approximately 20% to \$2,660 from \$2,211 in the previous financial period (as a result of the large emergency out of country claim). The average extended health claims per active employee increased approximately 6% to \$1,631 from \$1,543 in the previous financial period. The chart below summarizes the claiming trend over the past 10 financial periods, for both active employees and retirees.



Please note that the extended health trend information above includes pooled claims. For your information, the average extended health claims per retiree excluding pooled claims was \$2,110 during the most recent financial period (up 6% from last period). For actives, the average extended health non-pooled claims were \$1,538 during the same period (up 7% from last period). This trend is slightly lower than we would typically expect in a given year (8% to 12%) and lower than we have historically seen for both retirees and actives (with exception to the last financial period which saw relatively flat trend) and contributed to the in-year surplus that occurred.

Note, as mentioned previously claims in the current year were also likely impacted by COVID-19 mid-March 2020 when access to many health care services started to be limited as a result of physical distancing. Travel restrictions that started in March also may have reduced emergency out of country claims. COVID-19 will have a more significant impact to paid claims in the 2020/2021 plan year.

Note, the 2013 Terminal Accounting and the 2013/2015 periods were not 12 months; the average claims cost for these two periods were annualized for comparison purposes.

## Dental Care Financial Results

The following table provides a detailed summary of the financial activity of the dental care ASO plan for the period of April 1, 2019 to March 31, 2020:

Dental Care – April 1, 2019 to March 31, 2020*	
Paid deposits	\$4,532,417
Paid claims	(\$4,342,855)
Great-West Life expenses	
General administration	(\$25,623)
Claims administration	(\$104,229)
Profit charge	(\$19,977)
Total expenses	(\$149,829)
Tax	(\$3,438)
Total disbursements (Paid claims + Expenses + Tax)	(\$4,496,122)
Balance over the April 1, 2019 to March 31, 2020 Period	<b>\$36,295</b>

\*Rounding applies.

During the 12-month period ending March 31, 2020, deposits paid by the Government of Yukon for

the dental care benefit totalled \$4,532,417 while total disbursements including claims and expenses amounted to \$4,496,122. The ending balance as of March 31, 2020 is a surplus of \$36,295.

Similar to health, paid dental claims in the current year were likely impacted by COVID-19 mid-March 2020 when limited access to dental services started as a result of physical distancing. COVID-19 will have a more significant impact to paid dental claims in the 2020/2021 plan year and more so than health claims as we are observing, generally, that dental claims are “returning to norm” at much lower rate.

### Canada Life Expenses

Dental ASO expense charges for the period of April 1, 2019 to March 31, 2020 are outlined in the following table.

Dental Expense	April 1, 2019 to March 31, 2020
General administration	0.59% of paid claims
Claims handling	2.40% of paid claims
Profit	0.46% of paid claims

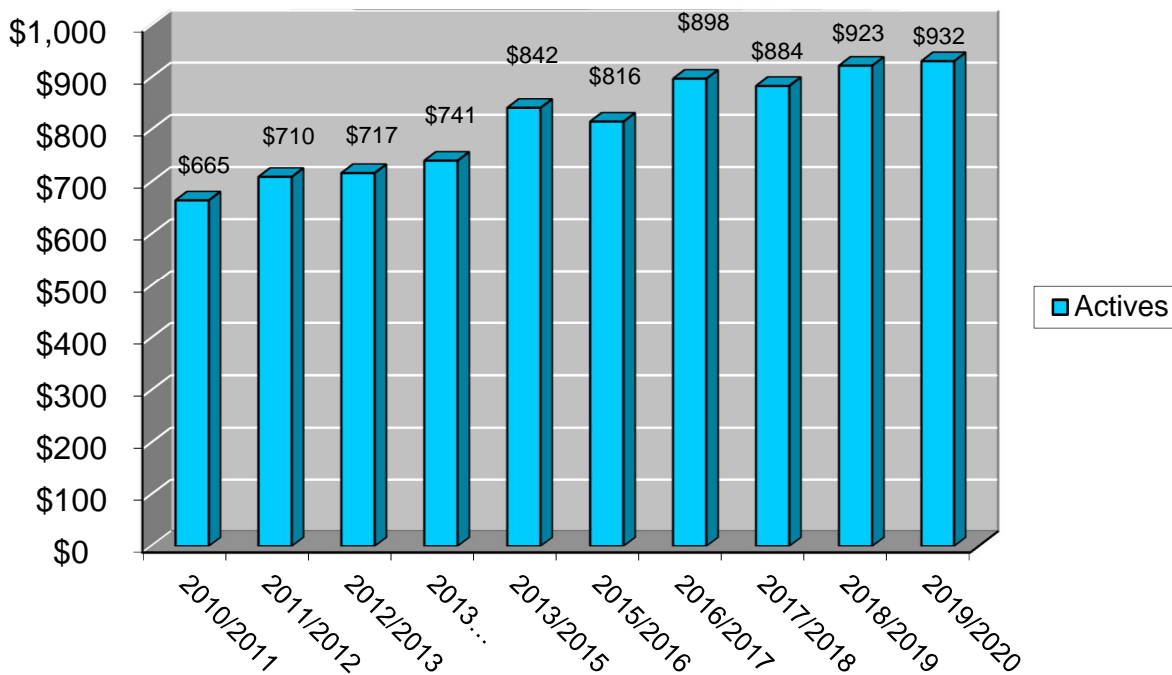
**Tax**

The following table outlines the premium tax and sales tax applicable to self-insured dental plans in the provinces of Newfoundland, Ontario and Quebec. Self-insured extended health plans in other provinces are not subject to these taxes. These taxes are only applied to claims incurred by the residents of these provinces.

Province	Premium Tax	Sales Tax
Newfoundland	5.0%	N/A
Ontario	2.00%	8.0%
Quebec	3.48%	9.0%

**Trend**

During the 12-month period from April 1, 2019 to March 31, 2020, the average dental claims per active employee increased by approximately 1% to \$932 from \$923 in the previous financial period. Typically, we expect trend to increase 5% to 8% per year. We note that March 2020 claims may be reduced as a result of COVID-19, resulting in lower trend. Additionally, we expect costs to increase moving forward as fee guides are expected to increase to compensate the extra costs due to personal protective equipment. The following chart summarizes the claiming trend over the past 10 financial periods, for active employees.



Note, the 2013 Terminal Accounting and the 2013/2015 periods were not 12 months; the average claims cost for these two periods were annualized for comparison purposes.

### ASO Bank Balance

As confirmed by the Government of Yukon, the balance in the ASO bank account with Canada Life was \$2,347,155 as at March 31, 2019 and increased to \$2,905,853 as at March 31, 2020, which is an increase of \$558,698.

As illustrated earlier in this section, both the health and dental benefits resulted in an in-year surplus of approximately \$482,000 and \$36,000 respectively. This resulted in a combined in-year surplus of approximately \$518,000. This differs from the increase in the ASO bank balance by approximately \$40,700. We note that the bank balance fluctuates during the month and earns interest, which partially accounts for this difference.

The health and dental surpluses were a result of health and dental claims trending lower than expected. For the 2019/2020 plan year, the ASO deposit rates were set using 10% trend for health. As outlined previously, the actual non-pooled health trend was 6% for retirees and close to 7% for actives. For the 2019/2020 plan year, the dental ASO deposit rates were set using a 3% trend factor, but the average cost per employee increased by 1%.

Effective April 1, 2020 the Government of Yukon decided to increase the monthly extended health care rates by 7.1% (reflecting a 8% trend factor) to cover expected claims and expenses from April 1, 2020 to March 31, 2021. No change was made to the dental deposit rates (reflecting 5% trend factor), however, this was reduced from a calculated 9% increase to cover expected claims in expenses with the intention of using some of the funds in the deposit account. This reduction was expected to use approximately \$453,100 of funds in the ASO bank account by March 31, 2021. Following the harmonization of the dental orthodontic benefit, the overall dental rates increased by 1.2%.

The impact of COVID-19 is expected to significantly reduce claims in 2020 which would increase the ASO bank balance. It is unknown when claims utilization will return to "normal", but costs are expected to increase in 2021 (compared to 2020) as a result of pent-up demand and higher fees to cover personal protective equipment used by the service providers.



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