

Government of Yukon

# Financial Accounting Report

22 September, 2021

For the period of April 1, 2020 to March 31, 2021

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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, 2020 to March 31, 2021 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, 2020 to March 31, 2021 include the following:

- There were no basic life claims for active employees and there was one retiree life claim for \$30,500. There were no AD&D, dependent life or optional life claims.
- The refund long term disability benefit plan resulted in a plan year surplus of \$441,728. The surplus was transferred to the Refund Deposit Account ("RDA").
- As at March 31, 2021, the closing balance in the refund Claims Fluctuation Reserve ("CFR") is \$1,281,072 and it is 100% funded.
- As at March 31, 2021 the RDA had a balance of \$5,082,631.

- Extended health claims (net of pooled claims), plus expenses and taxes totalled \$11,977,822 and the Government of Yukon paid \$13,778,880 in extended health deposits for the period of April 1, 2020 to March 31, 2021. As a result, the ending balance as at March 31, 2021 was a surplus of \$1,801,058. For your information, \$391,779 of extended health claims were pooled (after adjusting for prior year's pooled claims) during this period, which is lower than the usual and as such resulted in a higher surplus this year.
- Dental claims, expenses and taxes totalled \$3,970,032 and the Government of Yukon paid \$4,742,314 in dental care deposits. As a result, the ending balance as at March 31, 2021 was a surplus of \$772,282.

## 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, 2020 to March 31, 2021 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, 2021. There is a small discrepancy (\$254) in the reported premium for the 2020/2021 period; we have identified the two months (August 2020 and February 2021) where the amount reported by the Yukon Government varied slightly from Canada Life's report. Canada Life is in the process of reviewing this and will confirm if the premium credit will be applied in next year's financial report.

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, 2020 to March 31, 2021. 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 22, 2021 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.*

*This report uses data and/or documentation that have been supplied to us by or on behalf of the client. We have not independently verified the accuracy or completeness of it except to the extent required by generally accepted professional standards and practices. Mercer will not be held responsible for any liability arising from the use of incomplete, inaccurate or not up-to-date data or documentation.*

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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, 2020 to March 31, 2021:

Insured Benefit	Premium*	Claims*
Basic life <sup>1</sup>	\$616,082	\$30,500
Accidental death and dismemberment	\$53,356	\$0
Optional life	\$132,906	\$0
Dependent life	\$15,709	\$0
Global Medical Assistance (GMA)	\$40,264	\$0
Total	\$858,317	\$30,500

\*Rounding applies.

Premium and claims were obtained from Canada Life

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

Canada Life has reported life claims totalling \$30,500. There were no AD&D, dependent life, optional life or GMA claims for active employees.

As of March 31, 2021, there were 24 approved life waiver of premium claims. The waiver of premium reserves established for these claims totalled \$722,703 as at March 31, 2021. 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 long term disability (“LTD”) benefit is underwritten on a refund accounting basis. As noted with basic life coverage, effective November 1, 2013, the LTD 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, 2015 to March 31, 2021. As at March 31, 2021, 21 open LTD claims have reached the five-year benefit duration with total pooled claims of \$595,200.

## Financial Review Methodology

We reviewed Canada Life's financial report for the period of April 1, 2020 to March 31, 2021 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;
- 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 LTD plan as at March 31, 2021. Canada Life is looking into a small discrepancy between the total LTD premium on their system and the LTD premium amount reported by Government of Yukon (approximately \$254 for the 2020-2021 period). We asked Canada Life to confirm whether a credit will be applicable in the next financial period.



## Financial Results

For the period of April 1, 2020 to March 31, 2021, there was an in-year surplus of \$441,728, which was entirely transferred to the RDA. As a result, the in-year ending balance after the transfer is \$0. The table below outlines the financial results of the LTD benefit for the period April 1, 2020 to March 31, 2021:

<b>LTD Benefit - Financial Results for the period of April 1, 2020 to March 31, 2021*</b>		
<b>A. Premium</b>		
• Total billed premium**	\$10,279,317	
• Pooling charge	\$5,139,658	
• Refund billed premium		\$5,139,658
<b>B. Claims</b>		
• Paid claims	\$4,870,839	
• Pooled claims	\$595,200	
• Experience-rated claims		\$4,275,639
<b>C. Experience-rated Incurred But Not Reported (IBNR) reserve</b>		
• Beginning reserves	\$2,001,177	
• Ending reserves	\$1,849,991	
• Change in IBNR reserve		(\$151,186)
<b>D. Experience-rated Disabled Life Reserves (DLR)</b>		
• Beginning reserves	\$7,490,405	
• Ending reserves	\$7,639,670	
• Change in DLR		\$149,265
<b>E. Total experience-rated claims charge (B + C + D)</b>		<b>\$4,273,718</b>
<b>F. Expenses</b>		<b>\$520,555</b>
<b>G. Interest</b>		
• Interest on reserves	\$114,426	
• Interest on cash flow	(\$18,083)	
• Net interest		\$96,343
<b>H. Plan year surplus/(deficit) (A – E – F + G)</b>		<b>\$441,728</b>

<b>LTD Benefit - Financial Results for the period of April 1, 2020 to March 31, 2021*</b>		
I.	Closing balance	
	• Plan-year surplus (H)	\$441,728
	• Transfer to Claims Fluctuation Reserve	\$0
	• Transfer to Refund Deposit Account	(\$441,728)
	• Closing balance at March 31, 2021	\$0
J.	Claims Fluctuation Reserve (CFR)	
	• Beginning balance at April 1, 2020	\$1,479,021
	• Transfer to RDA	\$209,781
	• Interest	\$11,832
	• Transfer In	\$0
	• Closing Balance at March 31, 2021	\$1,281,072
K.	Refund Deposit Account (RDA)	
	• Beginning balance at April 1, 2020	\$5,262,502
	• Monthly RDA Withdrawals	(\$868,980)
	• Interest	\$37,600
	• Deposits	\$209,781
	• Transfer from plan year surplus	\$441,728
	• Closing balance at March 31, 2021	\$5,082,631

\*Rounding applies.

\*\* As reported by Canada Life in the 2020/2021 financial accounting

## A. Premium

Canada Life reported \$10,279,317 in total paid premium during the financial period of April 1, 2020 to March 31, 2021. This premium includes the portion of the premium withdrawn from the refund deposit account (RDA). At the April 1, 2020 renewal, the Government of Yukon decreased the negotiated LTD rate of \$3.495 per \$100 of benefit by 8.0% to \$3.215 per \$100 benefit. Effective January 1, 2021 the negotiated LTD increased from \$3.495 to \$3.561 due to the increase in premium tax from 2.0% of premium to 4.0% of premium. The Government of Yukon continued to pay the lowered rate of \$3.215. The difference between the negotiated LTD rate and the lowered LTD rate was covered by monthly withdrawals from the RDA. During the 2020/2021 financial period, RDA withdrawals totalled \$868,980 to top up premium payment.

The total premium amount of \$10,279,317 includes pooling charges. This reflects \$5,139,658 of pooled premium for the current 2020/2021 plan year (50% of total premium). In exchange for this

pooling charge, Canada Life pools LTD 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 \$5,139,658 for the 12-month financial period.

## **B. Claims**

Paid claims totalled \$4,870,839 during the period of April 1, 2020 to March 31, 2021 for 145 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. \$595,200 of claims were pooled, resulting in a total of \$4,275,639 in experience rated claims. This compares to \$4,042,480 paid in the 2019/2020 financial year for 140 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 \$2,001,177 at the beginning of the current financial year and was \$1,849,991 as at March 31, 2021. The change in IBNR reserve included in the financial accounting is therefore a decrease of \$151,186 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, 2021 totalling \$31,739,003 (\$7,639,670 experience rated DLR and \$24,099,333 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 \$7,639,670 as of March 31, 2021 for 88 claimants. The beginning DLR at April 1, 2020 was \$7,490,405 for 91 claimants. The change in DLR over the 12-month period is an increase of \$149,265.

### **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, 2020 to March 31, 2021, the total experience-rated claims charge was \$4,273,718.

### **F. Expenses**

Canada Life's expense charges for administering the long term disability benefit are negotiated on an annual basis. As negotiated in the 2020 renewal for the period of April 1, 2020 to March 31, 2021 the expenses are as follows:

Expense	Formula	Amount*
General administration	• 0.45% of refund billed premium	\$23,128
Claims administration	• \$1,200 per new claim	\$50,400
	• \$650 per declined claim	\$16,250
	• \$550 per ongoing claim	\$56,650
Profit	• 0.40% of refund billed premium <sup>1</sup>	\$20,559
Risk	• 0.80% of refund billed premium <sup>2</sup>	\$41,117
Premium tax	• Varies by province <sup>3</sup>	\$117,232
Rehabilitation and other costs	• Medical Vouchers	\$2,018
	• Internal Rehabilitation	\$32,336
	• External Rehabilitation	\$63,289
	• Internal Medical Coordination	\$12,216
	• External Medical Coordination	\$48,239
	• Independent Medical Exams	\$27,139
	• Functional Capacity Evaluation	\$4,446
	• CPP Appeals	\$1,600
	• Legal	\$3,934
<b>Total</b>		<b>\$520,555</b>

\*Rounding applies.

<sup>1</sup> Profit charge is based on level of CFR funding at the beginning of the plan year; range for 2020/2021 plan year is 0.4% to 0.7% of refund billed premium – the lowest charge applies given the fully funded CFR

<sup>2</sup> Risk charge is based on level of CFR funding at the beginning of the plan year; range for 2020/2021 plan year is 0.8% to 2.65% of refund billed premium – the lowest charge applies given the fully funded CFR

<sup>3</sup> For the period of April 1, 2020 to March 31, 2021, the estimated average premium tax is approximately 2.4954%.

In the period of April 1, 2020 to March 31, 2021, Canada Life charged \$520,555 in expenses against the plan. This is a decrease of approximately \$48,000 compared to the April 1, 2019 to March 31, 2020 plan year. The decrease is primarily driven by the decrease in charges for claims administration, reduced premium and independent medical exams. Effective January 1, 2021 the premium tax on insurance premium increased from 2% to 4%, which increased the amount of premium tax payable for the last 3 months of the policy year. 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.

## 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, 2020 was \$2,001,177 and interest earned was \$20,272 based on a rate of 1.013%. The DLR was \$7,490,405 at April 1, 2020 and the interest earned was \$94,154 based on a rate of 1.257%. Total interest paid on reserves was \$114,426.

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 0.533% for the next financial year (i.e., April 1, 2021 to March 31, 2022).

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 0.975% 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, 2020 to March 31, 2021, the applicable interest rate on premiums is declared to be 0.533%.

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, 2020 to March 31, 2021 is 1.257%.

Interest was credited and charged as follows:

Cash Flow	Interest Credit / (Charge)*
Premium	\$12,726
Claims	(\$27,538)
Retention (including premium taxes)	(\$3,272)
<b>Total</b>	<b>(\$18,084)</b>

\*Rounding applies.

## Net Interest

Net interest is the sum of interest on reserves (i.e., \$114,426) and on cash flow (i.e., interest debit of \$18,084). The net interest for the period is a credit of \$96,342.

## 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 \$441,728. This is a reduction from the surplus of \$539,997 last year. The reduction in the in-year surplus is largely a result of the retroactive premium payment made in the 2019/2020 plan year in addition to the negotiated LTD rate and plan experience.

## I. Closing Balance

As the CFR was already fully funded, the in-year plan year surplus totalling \$441,728 was transferred to the refund deposit account. As a result, the closing balance as at March 31, 2021 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, 2020 to March 31, 2021 and adjusting for interest earned on the opening balance, the target CFR level is \$1,281,072. At the beginning of the period, the CFR had a balance of \$1,479,021.

Canada Life credited interest of \$11,832 on the opening CFR balance, using the one-year standard rate of 0.800%. 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.

There was a transfer of \$209,781 to the RDA from the CFR as the CFR was already fully funded. The closing balance of the CFR as at March 31, 2020 is \$1,281,072.

## 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 \$5,262,502. Canada Life paid \$37,600 in interest on this amount. At the April 1, 2020 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 increase to the required premium due to the increase in premium tax effective January 1, 2021 was also paid from the RDA for the period January 1 to March 31, 2021 (the last 3 months of the policy year). The total withdrawals during the year were \$868,980. As the CFR was already fully funded, the CFR surplus of \$209,781 was transferred to the RDA. In addition, the current in-year surplus of \$441,728 was transferred into the RDA. The closing balance of the RDA as at March 31, 2021 is \$5,082,631.

As part of the April 1, 2021 renewal, Canada Life estimated that the LTD refund plan for 2020/2021 financial period was going to generate a plan year surplus of \$330,561. Given the amount of funds expected to be in the RDA, at the April 1, 2021 renewal the Joint Management Committee (JMC) made a decision to continue to suppress the negotiated LTD premium rate by approximately 10% (from \$3.739 per \$100 of benefit to \$3.365 per \$100 of benefit) and use the lower LTD rate to pay Canada Life. The remaining portion of the premium owing, is expected to be approximately \$1,135,000 over the year, will be withdrawn from the RDA each month. As such, the balance of the RDA as at March 31, 2022 is expected to be approximately \$3,948,000 (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 is 0.80% on the ending balance, less 0.55% on the withdrawn portion of the opening balance. In other words a higher interest rate of 0.80% is applied to the balance maintained on account through the whole year while a rate of 0.25% applies to the remaining funds. Mercer negotiated this higher rate last year; previously Canada Life was applying a rate of 0.25% to all funds held on account.

Canada Life has confirmed that the interest rate on LTD as of April 1, 2021 will be 0.30% less 0.05% on withdrawn portion of opening balance.

## 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, 2021 renewal.

### Maintain Balance

The financial results for the 2021/2022 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 repay a deficit, Canada Life charges interest on the remaining deficit. The Government of Yukon can transfer funds from 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 funds are withdrawn, the Government of Yukon should consider that a portion of the RDA includes employee contributions. The Government of Yukon 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 2021/2022 are accounted for; of approximately \$3,948,000) represent approximately 4.1 months of premium for the LTD benefit, based on August benefit volumes and negotiated premium rate at the April 1, 2021 renewal. If a premium holiday were implemented for four months, this would utilize approximately \$3,852,100 of the funds in the refund deposit account. If the Government of Yukon is considering this option for the 2022/2023 plan year, we can update the values based on updated volumes and the outcome of the April 1, 2022 renewal.

Administratively, the Government of Yukon would need to determine the volume of LTD 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, 2022, 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 EHC (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 EHC ASO plan for the April 1, 2020 to March 31, 2021 period:

<b>EHC – April 1, 2020 to March 31, 2021*</b>	
Paid deposits***	\$13,778,880
Paid claims net of pooled claims	(\$10,398,533)
<b>Canada Life expenses</b>	
General administration	(\$61,351)
Claims administration	(\$357,327)
Profit charge	(\$47,833)
Pooling charge	(\$1,105,530)
Miscellaneous Expenses**	(\$2,434)
<b>Total expenses</b>	<b>(\$1,574,475)</b>
Tax	(\$4,814)
<b>Total disbursements (Paid claims + Expenses + Tax)</b>	<b>(\$11,977,822)</b>
<b>Balance over the April 1, 2020 to March 31, 2021 Period</b>	<b>\$1,801,058</b>

\* Rounding applies.

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

\*\*\* Paid deposits are net of GMA

During the 12-month period ending March 31, 2021, deposits paid by the Government of Yukon for the extended health care benefit totalled \$13,778,880 while disbursements for claims (net of pooled claims), Canada Life expenses and tax totalled \$11,977,822. The ending balance as at March 31, 2021 is a surplus of \$1,801,058.

Note, paid claims in the 2020/2021 period were likely impacted by COVID-19 since mid-March 2020 when limited access to health care services started as a result of pandemic closures/restrictions. 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 2020 also helped to reduce emergency out of country claims. As health care services started to reopen from July 2020 onwards, we can anticipate claims returning to a normal claiming pattern.

For your information, \$391,779 of health claims were pooled during the same period. The majority of the pooled claims were for prescription drugs (\$390,722) followed by paramedical and other (\$1,057). There was a significant decrease in pooled claims this year compared to last year (\$1,266,824). This is due to the decrease in out of country claims.

### Canada Life Expenses

The following table summarizes the extended health pooling charge and other ASO expense charges for the period of April 1, 2020 to March 31, 2021.

<b>EHC Expense</b>	<b>April 1, 2020 to March 31, 2021</b>
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	11.37% of paid claims net of pooled claims not applicable to vision claims

### Pooling

During the period of April 1, 2020 to March 31, 2021, the EHC plan had a pooling arrangement where extended health claims (including prescription drugs and out-of-country medical claims, but excluding vision claims) 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, \$391,779 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 (\$5,862), we note that in the 2020/2021 plan year there were \$397,642 in pooled claims. This compares to \$1,287,478 in pooled claims during the last financial period of April 1, 2019 to March 31, 2020. We note that in the current period approximately 39% of the pooled claims are for retirees, but retirees make up 25% of plan members (active and retirees combined). Last year retirees made up 66% of pooled claims; however, the high pooled claim percentage was because the claimant who had the high emergency out of country pooled claims was a retiree.

## Tax

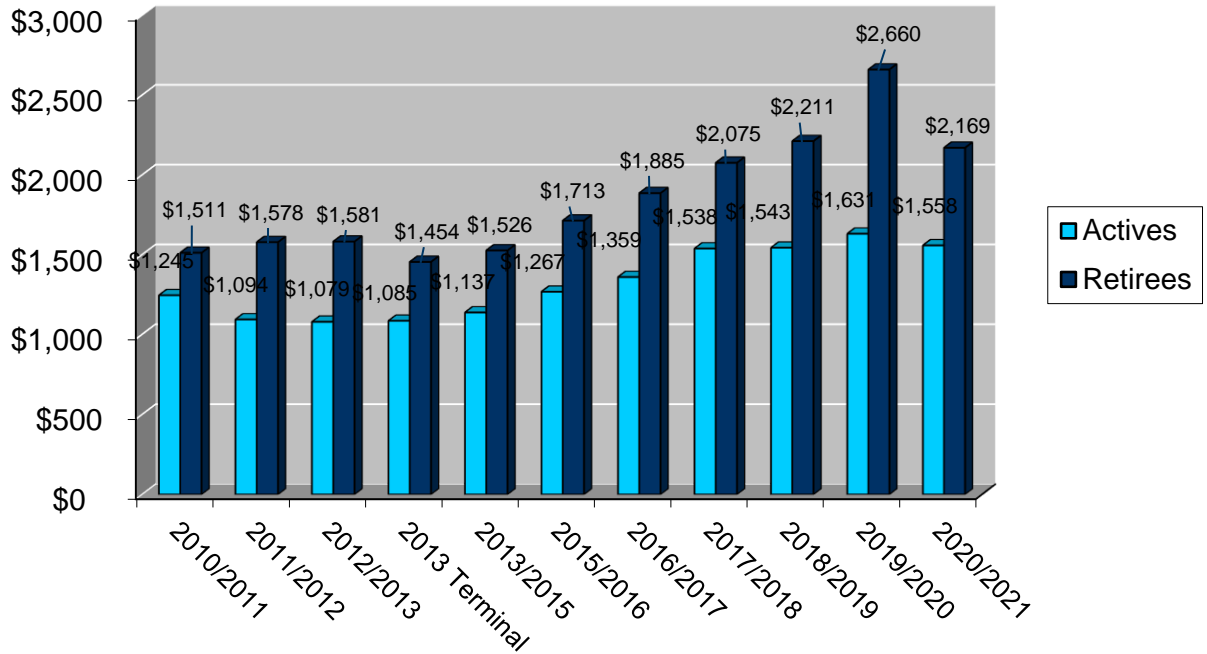
The following table outlines the premium tax and sales tax applicable to self-insured extended health plans in the provinces of Newfoundland, Ontario and Quebec. Self-insured extended health plans in other provinces are not subject to these taxes. These taxes are only applied to claims incurred by the 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, 2020 to March 31, 2021, average extended health claims per retiree decreased by approximately 18% to \$2,169 from \$2,660 in the previous financial period. The average extended health claims per active employee decreased approximately 4% to \$1,558 from \$1,631 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 \$2,074 during the most recent financial period (down 2% from last period). For actives, the average extended health non-pooled claims were \$1,510 during the same period (down 2% from last period). This trend is much 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.

These lower-than-expected average claim costs were likely impacted by COVID-19 since mid-March 2020 when access to many health care services became unavailable as a result of COVID-related closures. Travel restrictions that started in March 2020 also reduced emergency out of country claims.

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, 2020 to March 31, 2021:

<b>Dental Care – April 1, 2020 to March 31, 2021*</b>	
Paid deposits	\$4,742,314
Paid claims	(\$3,835,917)
<b>Canada Life expenses</b>	
General administration	(\$22,632)
Claims administration	(\$92,062)
Profit charge	(\$17,645)
<b>Total expenses</b>	<b>(\$132,339)</b>
Tax	(\$1,776)
<b>Total disbursements (Paid claims + Expenses + Tax)</b>	<b>(\$3,970,032)</b>
<b>Balance over the April 1, 2020 to March 31, 2021 Period</b>	<b>\$772,282</b>

\*Rounding applies.

During the 12-month period ending March 31, 2021, deposits paid by the Government of Yukon for the dental care benefit totalled \$4,742,314 while total disbursements including claims and expenses amounted to \$3,970,032. The ending balance as of March 31, 2021 is a surplus of \$772,282.

Similar to health, paid dental claims in the current year were likely impacted by COVID-19 since mid-March 2020 when limited access to dental services started as a result of physical distancing. COVID-19 had a significant impact to paid dental claims in the 2020/2021 plan year, but we expect that dental claims will return to normal during the 2021/2022 plan year.

### Canada Life Expenses

Dental ASO expense charges for the period of April 1, 2020 to March 31, 2021 are outlined in the following table.

<b>Dental Expense</b>	<b>April 1, 2020 to March 31, 2021</b>
General administration	0.59% of paid claims
Claims handling	2.40% of paid claims
Profit	0.46% of paid claims

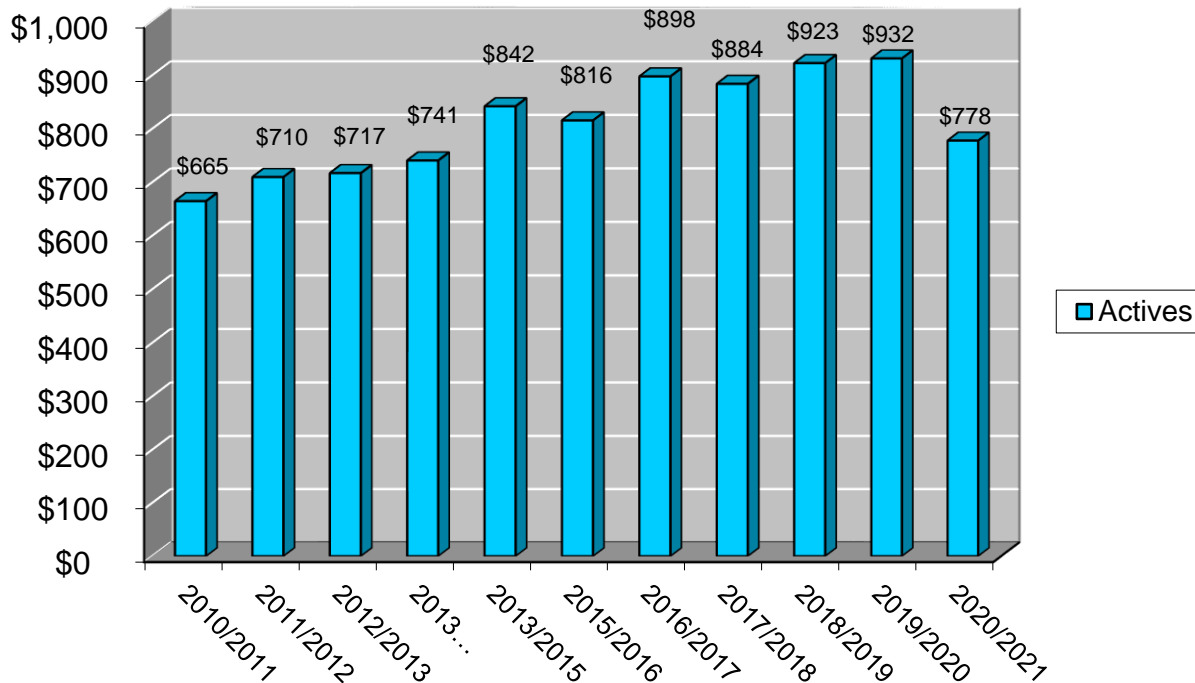
### Tax

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	5.00%	N/A
Ontario	2.00%	8.0%
Quebec	3.48%	9.0%

**Trend**

During the 12-month period from April 1, 2020 to March 31, 2021, the average dental claims per active employee decreased by approximately 17% to \$778 from \$932 in the previous financial period. Typically, we expect trend to increase 5% to 8% per year. However, due to COVID, claims for the current year have dropped significantly. Additionally, we expect costs to increase moving forward as fee guides are expected to increase to compensate for the extra costs due to personal protective equipment. The following chart summarizes the claiming trend over the past 10 financial periods, for the 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 \$2,905,853 as at March 31, 2020 and increased to \$5,597,207 as at March 31, 2021, which is an increase of \$2,691,354.

As illustrated earlier in this section, both the EHC and dental benefits resulted in an in-year surplus of \$1,801,058 and \$772,282 respectively. This resulted in a combined in-year surplus of \$2,573,340. This differs from the increase in the ASO bank balance by approximately \$118,000. We note that the bank balance fluctuates during the month and earns interest, which partially accounts for the difference. The difference can also be affected by the timing of withdrawals for claims and expenses incurred in the benefit year but not charged until the next financial period. The fluctuation in claims due to Covid -19 created a larger impact than past years, accounting for approximately \$82,000 of the difference.

The health and dental surpluses were a result of EHC and dental claims trending lower than expected. The most dramatic impact of Covid-19 closures was on claim levels from March through June 2020 under most plans. For the 2020/2021 plan year, the ASO deposit rates were set using 8% trend for health. As outlined previously, the actual non-pooled health trend decreased by 18% for retirees and decreased by 4% for actives. For the 2020/2021 plan year, the dental ASO deposit rates were set using a 5% trend factor, but the average cost per employee decreased by 17%.

Effective April 1, 2021 the JMC decided to maintain the EHC deposit rates rather than increase rates by the calculated increase of 3.4% with the intent of reducing the balance in the ASO bank account during the 2021/2022 plan year (estimated use of surplus was \$465,200). Similarly the JMC agreed to use the surplus to offset the calculated increase of 13.8% to dental deposit rates (using an estimated \$641,900 of surplus). No change was made to the dental deposit rates for all employee groups with the exception of the Management/Judges Enhanced Plan, which increased by 14% to reflect the plan changes.

The impact of COVID-19 has significantly lowered claims for the 2020/2021 plan year. It is unknown when claims utilization will return fully to “normal”, but costs are expected to increase in 2021/2022 (compared to 2020/2021) as a result of pent-up demand and higher fees to cover personal protective equipment used by the service providers.



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