

## **MEMO**

To: Mayor and Council

From: Robert Higson, Chair – Pension and Benefits Committee

**Subject: Market Study – Employee Benefits Plan (Health, Dental, Insurance)**

Date: July 8, 2019

### **Background**

As part of the ongoing process to review all services provided by external third parties to the Town, a *Market Study* (RFP) for the above noted employee benefits (excludes pension) was completed on our behalf by our employee benefits consultant Mercer Canada, with a closing date of May 17, 2019. Five (5) submissions were received as follows:

Manulife Financial (*incumbent*)

Great-West Life

Green Shield

Medavie Blue Cross

Sun Life

Assumption Life was also asked to submit a proposal but declined as they felt they could not offer competitive premium rates.

The Town has utilized the services of Manulife since around 2001 when it switched from Blue Cross. The last market study was performed in 2010 and Manulife was reconfirmed as our carrier at that time. Since then we have been very successful in maintaining our premium rates at stable levels through negotiations during the annual renewal process.

The request for proposals required that the submissions were to be based upon the same benefits coverage as our current provider, ie., Manulife. Other criteria that were taken into consideration in a general way included level of service, technology and, most importantly, cost.

### **Selection Process**

Mercer received the quotations and prepared an analysis which concluded that the pricing was generally consistent with each other with some variation in the length of premium rate guarantees. There were a few minor variations that led a sub-committee (comprised of the

consultant, Director of Finance and Director of Human Resources) to narrow down the choice to between the incumbent Manulife and Medavie Blue Cross. After that initial review the consultant presented a summary of the market study findings to the *Pension and Benefits Committee* for discussion. This Committee consists of representatives from all employee groups including both CUPE and IAFF bargaining units, non-bargaining employees, Council, retirees and the CAO also was in attendance.

After a thorough discussion of the pros and cons of each of the submissions from Manulife and Medavie Blue Cross the Committee achieved a consensus to recommend that the Town maintain the existing relationship with Manulife. Of course, there will continue to be an annual renewal process which the Committee will review and manage carefully.

### **Cost Savings**

As noted above, the premium pricing was relatively consistent between all submissions. Having said that, the good news is that there is fierce competition in the health plan benefits industry which has resulted in a significant reduction in premiums from the current rates. At first glance, this may lead one to conclude we must have been “*leaving money on the table*” in past renewal negotiations. This is not the case as, per our consultant, health benefit providers are willing to invest in the longer term and absorb losses in the first year or two of a business relationship with a view to recouping these losses over the longer term. Our consultant indicated it is very common to see premium reductions of 15% during a market study and competitive bidding process. Having said this, one must be very careful not to go to market for quotations too often or the companies will simply refuse to provide quotations if they do not believe they will retain the business with a degree of certainty over the longer term.

**Currently, prior to this market study, the annual premiums for the Town’s Manulife Plan are \$414,000 and the renewal premiums shall be \$317,000 for a premium reduction of almost \$100,000!!** This is a very significant savings but we must expect that once the rate guarantee period(s) expire, the premiums will likely quickly increase to approximately the current levels. One other factor to note is that our employees cost share the premiums for health, dental and insurance premiums, therefore, the annual savings to the Town budget is not the full \$100,000. In an environment in which health care costs are increasing at an average annual rate of 6.5% this is a “*win win*” for the Town budget and the employees.

### **Recommendation**

The Committee recommends that the incumbent Manulife Financial be awarded the renewal contract for supplying health, dental and insurance benefits.