



Report to: General Committee

Date Report Authored: March 22, 2012

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**SUBJECT:** 168-S-11 Renewal of Life Insurance contract

**PREPARED BY:** Bessie Mok, Ext 2337  
Rosemarie Patano Ext, 2990

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**RECOMMENDATION:**

- 1) THAT the report entitled “168-S-11 Renewal of Life Insurance contract” be received;
- 2) AND THAT contract 168-S-11 for Basic Life Insurance be extended with Sun Life Assurance Company for an additional one (1) year (January 1 to December 31, 2012) in the estimated annual amount of \$353,141 inclusive of HST impact;
- 3) AND THAT contract 168-S-11 for Optional Life Insurance be extended with Sun Life Assurance Company for an additional one (1) year (January 1 to December 31, 2012) in the estimated annual amount of \$31,871 inclusive of HST impact;
- 4) AND THAT the tendering process be waived in accordance with Purchasing By-Law 2004-341, Part II, Section 7 (1) (c) which states “when the extension of an existing contract would prove more cost-effective or beneficial”;
- 5) AND THAT funds for Basic Life Insurance be provided from account 030 220 0046 Payroll – Life in the estimated annual amount of \$353,141 inclusive of HST impact;
- 6) AND THAT funds for Optional Life Insurance be recovered from employees as required in the estimated annual amount of \$31,871 inclusive of HST impact;
- 7) AND THAT the Director of Human Resources and Manager of Purchasing be authorized to extend the contract for Basic Life Insurance for three (3) additional years, provided that it is in the best interest of the Town and rate increase per year does not exceed 5% of the cost of the previous year’s rate;

And that Staff be authorized and directed to do all things necessary to give effect to this resolution.

**PURPOSE:**

To obtain approval to extend the current contract with Sun Life Assurance Company (Sun Life) to provide Group Life Insurance coverage to Town employees for 2012 under the Regional Municipality of York Umbrella Plan at the same 2011 rates.

**BACKGROUND:**

On June 1, 1994, the Town of Markham entered into an agreement with the Mutual Life Assurance Company, which has since changed its name to Sun Life Assurance Company.

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The agreement is to provide a Group Life Insurance benefit for Town employees under The Regional Municipality of York's umbrella plan renewable on a year to year basis. The "Umbrella Group" includes The Region of York, Town of Markham and Town of Newmarket.

A third party consultant, Buffett Taylor & Associates Ltd. has been hired by the Umbrella Group to review the premium and terms and conditions of the contract every year. Buffett Taylor also negotiates contract terms with Sun Life, on behalf of the Umbrella Group, on a yearly basis.

The Town's Group Life Insurance Benefit Plan includes basic life insurance coverage for employees. The Plan also provides optional life insurance for employees and their dependents for additional coverage as required. Premiums for basic life insurance are payable by the Town, and premiums for optional life insurance coverage are payable by the employees.

**OPTIONS/ DISCUSSION:**

Staff concluded that it is in the best interest of the Town to renew the Group Life Insurance benefit plan with Sun Life under the Regional Municipality of York Umbrella Plan for the following reasons:

1. The Town continues to enjoy competitive premiums through economies of scale. The Town maintained a premium rate of \$0.184 per \$1,000 from 2005 to 2009, a premium rate decrease for 2010 to \$0.170 per \$1,000 and in 2011, the premium rate increased back to \$0.184 per \$1,000 due mainly to claims experience and aging demographic risk.
2. For January 1, 2012, Sun Life requested a +20% increase in Basic Life rates based on their analysis of 5 years of claims experience, August 2006 through July 2011. All three municipal members of the umbrella plan experienced death claims during the most recent 12 month period (August 2010 to July 2011). The Town of Newmarket and York Region have experienced upward rate adjustments at January 1, 2012; however, the consultant was successful in negotiating the continuation of current rates for the Town of Markham, given the underlying demographic risk and plan experience specific to Markham, as compared to the existing current rate structure already in place at Markham.

During these renewal negotiations, Sun Life reviewed more recent claims experience from August 2011 through December 2011, and reported again that all member municipalities (including Markham) had experienced death claims during this later period.

3. Currently, 36.8% of the Town's plan members are over the age of 50 which represents 38.6% of the total insured volume. This represents a slight improvement relative to last year when a similar measurement was about 43% of volume.

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The Town represents approximately 14.5% of the total volume insured in the umbrella plan. Of the entire umbrella plan volume including Markham, only 28.5% of the volume is associated with lives over age 50 (which indicates that Markham has a relatively older demographic risk). When the other member municipalities are reviewed (excluding Markham), the volume associated with lives over age 50 drops to 26.8%. This again illustrates that, in spite of improving demographics at Markham, the Town still represents a higher underwriting risk relative to the other participating groups.

The demographics of the Town's insured population over the past years and the emerging claims experience over the past 12 months in particular may likely continue to put pressure on the rate in the future. However for 2012, Buffett Taylor was able to negotiate with Sun Life at maintaining the 2011 rate of \$0.184 per \$1,000.

4. Sun Life has a proven track record with the Town and the Umbrella Group and has provided satisfactory customer services for many years through Sun Life and its predecessors Clarica (Mutual Group); furthermore, the competitiveness of the financial and service offering is tested every 5 years through a comprehensive carrier benefit marketing exercise, whereby Sun Life has maintained the contract throughout this period. The plan is scheduled to be marketed again no later than 2013.

Since it takes approx three (3) months to work through the negotiation process and rates are not available until the beginning of March of each respective year. Staff is requesting the approval for the Director of Human Resources and Manager of Purchasing to be authorized to extend the contract with a certain parameter to minimize the delay in payment for life insurance to the provider.

#### **FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)**

The current life insurance premium rate of \$0.184 per \$1,000 will remain unchanged for 2012. Funds for basic life insurance are provided from account 030 220 0046 Payroll – Life, which has a budget of \$358,058, in the amount of \$353,141 inclusive of HST. The remaining budget of \$4,917 (\$358,058 - \$353,141) will be net within the overall Town's benefits. The current enrolment for Town and library employees combined show 983 lives insured with a total life insurance volume of \$149,686,500.

The monthly premium of \$0.184 per \$1,000 works out to an annualized premium of \$336,325 inclusive of HST impact ( $\$149,686,500 \times \$0.184 / \$1,000 \times 12 \text{ months} \times 1.0176 \text{ HST impact}$ ). An allowance of 5% or \$16,816 including HST impact ( $\$336,325 \times 5\%$ ) has been added to the annualized premium to provide for salary increases and additional enrolments.

Premiums payable for Dependent and Optional life insurance requests have been estimated at \$ 31,871 including HST impact based on historical trends that will be recovered from employees.

#### **HUMAN RESOURCES CONSIDERATIONS**


Not applicable

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**BUSINESS UNITS CONSULTED AND AFFECTED:**

Not applicable

**RECOMMENDED BY:**

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11/04/2012

**X** Mona Nazif

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Mona Nazif  
Acting Director, Human Resources

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Andy Taylor  
Chief Administrative Officer