HEALTHCARE BENEFIT TRUST

HBT

BENEFIT FROM EXPERIENCE

INFO

September 19, 2013

HBT Self Insurance

The Healthcare Benefit Trust (HBT) is a not-for-profit health and welfare trust that administers group health and welfare benefits on behalf of participating employers for nearly 100,000 eligible employees, their eligible dependents, and beneficiaries employed in health care and social services in British Columbia and the Yukon. The primary benefits administered by HBT are Group Life, Accidental Death & Dismemberment (AD&D), Long-Term Disability (LTD), Extended Health, and Dental. HBT ensures these benefits are administered in accordance with provisions and plan design negotiated by the Health Employers Association of BC (HEABC), the Community Social Services Employers' Association (CSSEA), and single-site collective agreements.

HBT is a not-for-profit organization

HBT's only source of revenue is member contributions and investment income generated from the reserves to payout claims. HBT holds combined assets of over $1 billion in the Trust fund to cover all claims liability.

HBT contribution rates are set to equal the present value of future claims obligations accrued using a standardized rate setting process. Contributions from members pay for claims and the administration of the benefits provided by HBT, and its service providers Great-West Life (GWL) and Pacific Blue Cross (PBC).

HBT does not take profits or hold surpluses in reserve. Any surplus realized through investment income of these reserves, or due to lower than anticipated claims, reduces costs to members in the future years.

Benefits coverage through HBT is provided to members under a self-insured model. This model provides our members with the following advantages compared to fully insured models:

» HBT contribution rates do not include a premium for profit or charge for risk. When an organization purchases insurance through a standard insurance company that is fully insured, they would pay a premium to the insurer (most likely built into the rate) for the risk the insurer has to bear to provide full insurance.
» HBT rates are based on self-insurance – rates are based on the expected cost of claims and cost to administer the benefits only.
» Beneficial tax treatment; no GST on contributions.
» Pooling of members to manage claims risk and reduce the cost of coverage.
» Consistent benefits delivery.

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HBT Pooling

The Trust is self-insured, where similar employers are pooled together for certain types of coverage. Surpluses and deficits of these pools are then the responsibility of these employers. Longer tenured participants in the Trust can be more impacted by some of these surpluses and deficits than those joining more recently. So, by pool and within pools, there are some variations in the levels of contributions charged (or credited) in respect of deficits (or surpluses).

The Trust is composed of 12 notional pools:

» Six pools for Health Authorities' LTD income and benefits.
» A pool for Northern Health Authority (NHA) for its LTD benefits and Extended Health and Dental benefits for active beneficiaries.
» A pool for Non-Health Authority Affiliates LTD benefits,
» One Pool with:
  – All health care participants (excluding NHA) active Extended Health and Dental benefits, and
  – All health care participants (including NHA) active Group Life and Accidental Death & Dismemberment benefits.
» One pool with Permitted Employers' (non-CSSEA, non-HA and non-Affiliate) LTD income and benefits, active Extended Health, Dental, Group Life and Accidental Death & Dismemberment benefits.
» One pool with CSSEA employers' LTD income and benefits, active Extended Health, Dental, Group Life and Accidental Death & Dismemberment benefits.
» One pool with LTD benefits for 100% employee-paid health care employees.

Pools provide a mechanism for pooling experience for similar benefits with similar employers. For many of the smaller employers, pooling provides the employers with the ability to obtain coverage on a self-insured basis: without pooling, one large claim could cause financial difficulty for a small employer.

The use of pooling doesn't preclude the ability of the Trustees to set different rates within each pool to reflect each participant's expected cost of coverage. This is the current practice within pools.

HBT's Rate Setting Goals

The primary goal of rate setting is the systematic accumulation of assets to fund the Trust's obligations in an actuarially sound manner.

A number of secondary goals exist as well:

» **Place incentives on desired outcomes**: the costs charged to employers should be lower for better claims outcomes, particularly for big employers and particularly related to disability management. Employers can influence claims experience and to the extent possible rates should keep employers' attention on this.
» **Fairness of rates**: to the extent possible all participants – and in many cases subgroups – should be paying into the cost at a level equal to their expected future costs. And, all participants should pay an appropriate share for past deficits or receive an appropriate credit for past surpluses.
» **Consistent treatment of collective agreements**: rates should provide HEABC, CSSEA and the unions with a clear understandable basis from which to negotiate benefit levels.
» **Consistent with HBT's administrative policies**: Group Life, Accidental Death & Dismemberment, Extended Health and Dental coverage ceases for disabled claimants if their employer closes or exits the Trust. Consistent rating practices, as described within, charge employers explicitly for these benefits

linking up the financial obligation to pay for the benefit with our administrative policy of discontinuing the benefits in the absence of these explicit payments.

What does HBT define as a liability of the Trust or a deficit of the Trust?

The liability of the Trust is different from the deficit of the Trust. A liability exists for HBT for any employee on LTD or reasonably expected to go onto LTD.

A deficit exists for HBT when the assets of the Trust are less than the liabilities of the Trust.

The basic mechanics are total assets of the Trust (which include investments, cash, receivables, etc.) less total liabilities of the Trust (primarily actuarial liability of the estimated future benefits payments to approved LTD claimants) equals the deficit/surplus of the Trust. This deficit/surplus can be calculated for each pool of the Trust and any deficit calculated, represents the amount that is shared by members of the pool and payable upon termination of LTD benefits.

The deficit is the driving factor in the calculation of any exit levy upon termination, or changes in employee coverage, from the Trust. The deficit is also the driving factor in the deficit surcharge which is included in a member's annual LTD contribution rates.

TERMINATED MEMBERSHIP TO HBT

Exit Levy

HBT has a provision in its Trust agreement that contractually obligates members who leave the Trust or make measurable changes to the number of employees covered by HBT to pay their allocation of any existing deficit, in respect to a benefit program. HBT will work proactively with you to determine if your proposed changes to employee coverage may trigger an exit levy.

This provision has been in place since the inception of the Trust. The payment is now referred to as an exit levy. The exit levy payment is calculated in an equitable and transparent manner that is consistent with industry practice. The exit levy is in place at HBT to protect the financial interests of the beneficiaries of LTD benefits. Collection of an exit levy from terminating members or members who make significant changes to their employee base, ensures the continuation of payments to eligible beneficiaries of the Trust, and that financial obligations are not burdened on active members. The exit levy is in place to protect these disabled beneficiaries, ensure equity for the Trust's remaining members, and maintain the integrity of the Trust.

Exit Levy Calculations

An exit levy is calculated on a case-by-case basis at the time of termination of HBT membership. Exit levy calculations can change every 6 months due to the overall financial position of the Trust being comprised of: investment performance, deficit recovery through active members and exit levy payments, LTD claims experience and expense management.

The amount of the exit levy reflects the financial position of the Trust, and specifically the size of the deficit within that member's pool, and the number of employees that employer covers within the pool. As the financial position improves, the deficit within the pool should also be smaller and the exit levy would decline accordingly.

If you are a current member of the Trust but are considering leaving or changing the number of employees covered through HBT, please request a new exit levy calculation from HBT, to ensure that you have the most current information available to you.

Upon notice of termination, HBT provides an estimate of an exit levy using the most current actuarial valuation of the Trust. Terminating members may receive an updated exit amount that is based on a more current valuation that more accurately reflects the deficit in their pool and their exit levy. Terminated members should contact HBT if they are uncertain which exit levy amount they are required to pay.

Exit Levy Calculation (pre-February 2010): Withdrawing members were assessed for any shortfall that was determined to exist at the date of withdrawal based solely on the performance of the individual agency (i.e. if an agency had a large number of LTD claims they generally had a large exit levy).

Total Contributions made by member (adjusted for interest revenue)
Less Total LTD claims made by member (adjusted for expenses paid)
Less the actuarially determined value of any future claims of that member's LTD claimants.

As members participate in a pool for the setting of their rates, we heard from our members that they felt that pooling should also apply at the time of withdrawing from the Trust. As such the methodology was changed, to apply the concept of pooling or risk-sharing. The new methodology means that members share in any deficit that exits at the time of termination, irrespective of individual agency LTD activity.

Under the New Methodology (post-February 2010): The calculation was amended to reflect the employers share of the exit levy using the existing deficit of the pool and the deficit recovery rate inherent in a member's LTD rate. The LTD rates paid by member agencies contain a base rate and a small surcharge or "Deficit Recovery rate" that is intended to bring down the deficit of the pool over time. The methodology used for the amended exit levy calculation is:

Deficit Recovery Contributions made by the member over the last 3 years divided by Deficit Recovery Contributions made by the entire pool over the last 3 years. This amount is expressed as a percentage and applied to the deficit of the pool based on the most recently available valuation.

Exit Levy Legal Proceedings

Despite multiple notifications and direct contact by HBT to past members of the Trust, some have not yet paid their exit levy. In these cases, HBT was left with no other alternative but to file civil suits in December 2010 to ensure these debts are collected. At the request of the Ministry of Health and Ministry of Social Development, HBT agreed to delay the requirement for delinquent employers who had been formally served with demands for payment to file a Statement of Defense in order to allow the Ministries additional time to deliberate on an alternate solution to the unfunded liability carried by both CSSEA and the Healthcare Affiliates.

HBT remains committed to working with terminated members and government to resolve this issue outside of the legal system and continues to work toward alternate solutions including payment plan. However, HBT has a fiduciary duty to the beneficiaries to collect payment from the exit levy.

ACTIVE MEMBERS IN HBT

HBT Deficit Recovery Surcharge

Annual contributions made by active members of HBT currently include two components:

1. A base rate that pays for coverage for current employees for the current year.
2. A deficit recovery surcharge that pays for any deficits in respect of past coverage.

The deficit recovery surcharge can be different for each employer, based on the length of time they have been members of the Trust and the number of employees covered in that time frame. For example, employers who joined HBT in 2011 don't pay a surcharge in respect of an existing deficit prior to their membership.

As the deficit within a pool decreases, the surcharge also decreases. If there is no deficit in a pool, there is no surcharge. Decreases in the surcharge contribute to decreases in the annual contribution rates.

How does HBT calculate a deficit or surplus for the CSSEA Pool?

HBT calculates the surplus/deficit twice each year as follows:

» **Trust Liabilities**: The liabilities are calculated using the existing valuation methodology used in the year-end actuarial valuation report.

» **Trust Assets**: The investment gains and losses are recorded based on the investment structure implemented by the Trustees.

» **Trust Deficit or Surplus**: The difference between the assets and the liabilities is the surplus/deficit.

Contact us

Please contact us if you have any questions.

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