SAINT MARY'S UNIVERSITY FACULTY UNION
HEALTH & WELLNESS TRUST

Cash flow, assets and forecasts

October 25, 2016

Prior to June 1, 2008, faculty and librarians were members in the Saint Mary's University Benefits plan. There were insufficient benefits, for example, benefits for neither orthodontics nor psychological services, no Health Care Spending Account, and many benefits suffered low caps, for example, $40 per lifetime for orthotics. There was no promise of the University improving benefits, the cost of which was shared equally by the University and members of the plan.

On June 1, 2008, the Saint Mary's University Faculty Union Health and Wellness Trust assumed responsibility and control of a benefits plan for faculty and librarians in aid of having control of our benefits, and negotiating for employer contributions that saved members' income taxes.

The Saint Mary's University plan's provider had accumulated a surplus of premium payments over costs. The Union Executive fought to have that part of the surplus based on faculty and librarians' contributions over faculty and librarian costs. After about two years, the University did transfer to the Trust a total of $1,059,866.

Trustees:

R. Konopasky, Chair
F. Boabang, Trustee
N. Conrad, Trustee

Alternate Trustees:

Lucie Kokum
Sally Wood
Jeff Power*

*Jeff Power has asked to step down, and John Irving has agreed to stand.

Administration:

The Canadian Benefits Consulting Group (CBCG) helps the Trust to administer the plan, for example, it helps to negotiate our contract for benefits with Great-West Life Assurance Company (GWL), represents us to GWL if a claim is disputed, etc.

The jargon of our GWL benefits plan:

Premiums/Costs: Trust payments to GWL for our benefits

Contributions to the plan:

- Employer contributions to the plan: 2.7% of salary mass

- Employee contributions to the plan: Single Health/Dental: $13.50/24 pays
  Family Health/ Dental: $45.50/24 pays
  Life Insurance: 6.9% increase*
  LTD: $1.672/$100 coverage**

* Our life insurance rate was increased for the current contract year from $0.35/$1000 of coverage to $0.374/$1000 coverage, or an increase of 6.9%, or an increase of $7.00/month for faculty and librarians who have the maximum Life Insurance benefit of $300,000. (The average salary of faculty and librarians at Saint Mary's is about $116,000.) If your maximum Life Insurance benefit is less than $300,000, your increase in dollars per month is less.

** There was no increase for LTD under the current contract, though there is likely to be one for the contract year 2017. The maximum LTD benefit is

$6,000/month (60% for the first $2,500/monthly earnings, plus 50% of the remainder monthly earnings to a maximum of $6,000.00, or 85% of take-home pay, or which ever is less). Using the maximum LTD benefit as a reference point, the employee contribution is $50.16/pay.

Last two increases in your – employee – contributions/payments:

Employee contributions:

2015

Single H/D: $9/month increase
Family H/D: $9/month increase
Single LTD: Members pay 100%, rather than 50% of LTD premiums

2016

Life Insurance: 6.9% increase

It's important to remember that the premiums/costs of the plan are *not* what you pay - member contributions – at the time of your salary payment: **The costs (premiums) are the sum total of the member contributions, the employer contributions, and payments made by the Trust, *if there are such payments (subsidies)*.**

***Examples of the difference between member contributions and premiums/costs*:**

Calendar Year 2016

Estimated premiums/administration:	$1,492,260.
Estimated *member* contributions:	$691,428.
Estimated *employer* contributions:	$814,715.

***Examples of the difference between member contributions and premiums/costs*:**

Calendar Year 2017

Estimated premiums/administration:	$1,804,906.
Estimated *member* contributions:	$699,034.
Estimated *employer* contributions:	$823,677.
Estimated *Trust* contributions:	**$282,195.**

We have renewed our contract with GWL.

- ***The overall increases in costs of our H/D plan are 23.7%, $14,396/month, and $172,756/year. Your contributions, what you think of as premiums, for H/D will not increase this year. Rather, the Trust will make up the increased cost/premiums from the Trust's assets.***

- **The only increase to your contributions in this contract year will be 6.9% for life insurance, which went into effect on October 1, 2016.** Our life insurance rates are determined by the GWL pool for life insurance and by the amount of life insurance for our members – we are too small to "self-fund" for life insurance. In part our rates are high because the basic life insurance is 3 times salary to a cap of $300,000. Some of our members have added life insurance for dependents, or extra coverage. It's important to remember that should a member die, and his/her estate (dependents) is paid the (normal) cap (lump sum) of $300,000. If that money is invested and enjoys a return of 5%, dependents would receive payments of about $15,000/year, and would have to pay income tax on the investment income. This, of course, is far less than your salary.

*We have continued to provide an EAP benefit. This is the only benefit for which we play a flat rate that is (relatively) independent of usage. To date, the provider has proved unwilling to provide data on the number of hours of usage; we suspect that the small number of hours used makes for a high hourly rate. If we can, finally, make the determination the hourly rate is unwarranted, we will provide ample notice of the termination of this benefit.

Estimated premiums and member and employee contributions for three years*

*The following figures are forecasts by Levy Casey Carter MacLean, our auditor and the Union's auditor, and, therefore, are unaudited

	Forecast 2016	**Forecast 2017**	**Forecast 2018**
Total expenditures:	($1,492,260.)	($1,804,906.)	($2,006,190.)
Member contributions:	$691,428.	$699,034.	$706,724.
Employer contributions:	$814,715.	$823,677.	$832,737.
Surplus (deficit)*:	$13,884.**	($282,195.)	(466,729.)

* The surplus (deficit) figures do not include the impact of income earned on investments owned by the Trust. The surplus (deficit) figures are meant to represent the amount of over or under payments received from members and the employer.

** A surplus of $13,884 is predicted for the calendar year 2016. Premiums paid to Great West Life are expected to increase by $102,585 in calendar year 2016 when compared to calendar year 2015.

How is the Trust able to make these payments to close the gap between costs/premiums and the total of contributions by the employer and the members; for where does the Trust get the money?

The Trust has accumulated assets in these ways:

Assets transferred from old (pre-2008) Manulife Plan:	$1,059,866.*
Income earned on portfolio investment:	$177,016.*
Increase in value of portfolio investments:	$76,952.
Excess member and employer contributions over 8 years:	$737,689.**

* The bulk of our assets is made up of assets – the surplus – accumulated in the University's plan prior to us assuming responsibility for our benefits, money earned on our investments, and the increase in the value of our investments. We have invested carefully, and have done well enough, but we accept that investments over the next 8 years might not perform as well as those over the last 6 years. (We took no risks in investments in 2008 and 2009.)

**CBCG's advice is that we should always budget for the worstcase scenario, for example, that everyone will use all of the HCSA, that members frequently use new benefits like orthodontics. In the early years, this was not the case; some did not make use of their HCSA. As such, the current net assets (end of fiscal 2015) are $2,051,523.

What will happen if we use the Trust's assets to offset increases in the cost of the plan?

	Forecast 2016	**Forecast 2017**	**Forecast 2018**
Increase (decrease) in trust assets:	$73,461.*	($224,333.)	($404,583.)

* The increase (decrease) in net assets includes investment income.

Is it important for the Trust to have assets?

The Trust's assets provide two important safeguards/advantages:

1. With significant assets, we can negotiate from a position of strength with providers; providers know we can pay our bills, we will not go bankrupt, and we are an attractive client to other providers.

2. We are able to pay for most costs that run over premiums without having to make up these costs by increasing member contributions, for example, the Trust covered a deficit of $74,975.91 incurred in the 2015.

3. We are able to absorb unusual increases in H/D costs, or minimize increases in member contributions, or spread out increases in member contributions.

4. The Trust's assets offer a second defense SMUFU fund: If we go on strike, or if we are locked out, the Trust will be able to pay our premiums – about $150,000 a month in 2018 – for a substantial period of time. When we were covered under the University's plan, we might have hoped that if we went on strike, or if we were locked out, the University would have continued to pay for those premiums applicable to faculty and librarians, though there would have been no salary from which to withhold member contributions. Once we assumed responsibility for our benefits, there was no reason to make the happy assumption that the University would make its contribution during a strike or lockout, and, again, there would be no mechanism for withholding member contributions. As such the Trust endeavored to create assets enough to pay for premium payments in the event of a strike or lockout – let's remember that we are talking about life insurance payments, as well as H/D premiums, etc. We appreciate that the Union has a defense fund, that we carry strike insurance with CAUT and that CAUT would loan the Union substantial funds were we to go on strike or be locked out. We also appreciate that after a strike or lockout, we might be able to negotiate back payments from the University for its contributions during the strike or lockout. The Trust's position is these options might be pursued, but that none of them offer the clear promise of making uninterrupted premium payments, or that the costs of the premiums would not have to be made up after a strike or lockout. Our position is that we are stronger if we have enough assets to cover premium payments during a strike or lockout, and that other resources, for example, our defense fund will address lost income.

Recommended Trust Assets

According to CBCG, and our auditor, it is common for Trusts, like ours, which administer a benefits program for employees, who might go on strike, or be locked out, to have assets enough to pay for one year of benefits.

	Forecast 2016	**Forecast 2017**	**Forecast 2018**
1. Recommended assets:	$1,492,260.	1,804,906.	2,006,190.
2. Forecast net assets:	$2,123,1166.	$1,900,969.	$1496,271.
3. Surplus (deficit) of rec. assets:	$630,856.	(96,063.)	($509,919.)

1. CBCG and our auditor recommend that the Trust maintain at least one year of operating costs as net assets. As such, this is equal to the Trust's forecast operating expenses for the year

2. Net assets are equal to the Trust's forecast assets less the forecast liabilities

3. An excess means the Trust is forecast to have more net assets than recommended while a deficit means the Trust has less net assets than recommended.

Summary:

- In the 2016 calendar year, we have sufficient assets to make payments to close the gap between costs and contributions.

- In the 2017 calendar year, we will just enough assets to close the gap between costs and contributions.

- In the 2018 year, we can close the gap between costs and contributions, but we would have about $500,000 less than the recommended assets for Trusts like our Trust.

Cost cutting:

- As I stated above, if our EAP benefit is too costly, we will terminate it and save about $11,000/year.

- We have moved our portfolio from the RBC to a wealth manager at RBC Dominion Securities; this will save us about $14,000/year in management fees.

Choices:

In the Collective Agreement 2018-2021, we urge our negotiating team to obtain an increase in employer contributions enough to make close the gap between estimated costs and contributions in each of the three years of that agreement. (We will provide exact targets closer to the time of negotiations.) If we do not obtain a greater contribution from the employer, we will have substantially less than the recommended assets in 2018, and, worse, require unsustainable subsidies from the Trust over the life of that agreement, unless we:

- Substantially increase member contributions.
- We can reduce significant benefits.

R. Konopasky,
Chair, Saint Mary's University Faculty Union Health and Wellness Trust