LTD Claims Process Health Check

BC Public Service Agency

Final Report: August 16th, 2012

Contents

Executive Summary

Background and Objectives

- In 2007, the BC Public Service Agency (the Agency) commenced a five-year service agreement with Great West Life (GWL) to provide a claims processing service for Long Term Disability (LTD) benefits. This Services Agreement was a part of an ongoing relationship dating back to beyond 30 years.
- At the end of the agreement in 2011, the Agency elected to renew for one additional year, and are currently considering what to do at the expiration of this contractual extension. For this reason, it is important that this health check is completed in readiness for a directional decision in September 2012, when the Agency will consider whether to renew with Great West Life or to go out to RFP.
- The objective of the LTD claims process health check is to determine if the Agency is receiving quality services at an appropriate rate by considering the following areas of review:
  - **Contract Review:** How the contract has been structured against leading practices
  - **Contract Operationalization**: The extent to which the contract has been operationalized. This assessment is evaluated against operational leading practices
  - **An Alternative Approach to LTD funding and Delivery**: looking at the differences between insured and self-insured arrangements based on common US practices. Supplementary commentary on the Canadian landscape and practice is provided by Morneau Shepell. They have also provided a description of an additional insured model known as experience-rated refund accounting.
  - **A maturity assessment of the overall LTD claims process:** to identify opportunities to improve the process and service delivery between the Agency and the outsourced service delivery partner
  - **Risk Sharing and Experience-rated Refund Accounting**: An assessment of the current self-insured risk sharing model in the Canadian / provincial landscape and a description of experience-rated refund accounting.
  - **Benchmarking Assessment:** Conducting a benchmarking assessment of the underlying LTD claims adjudication and administration expenses with their current provider, Great-West Life Assurance Company (GWL)
- Excluded from the scope are plan administration, short term disability, rehabilitation and return to work.
- The report summarizes the findings and recommendations of these key review areas and also provides further recommendations and a proposed approach and timeline for conducting the RFP process.

- *Note 1: Morneau Shepell have covered the Assessment of Current Risk Sharing and Benchmarking of LTD Provider Administration Expenses within this report. This content is represented in this report as a separate section with this same title. In the Executive Summary the Morneau Shepell findings and recommendations have been highlighted on slides 4 and slides 11 to 14 and the description of an additional experience-rated refund accounting model is provided on slide 8.*
- *Note 2: Deloitte has covered the contract review and how this has been operationalized, a high level process and service assessment, comparisons of the current self insured model versus a typical fully insured model and recommendations for a proposed approach and timeline for the RFP process.*

Overview of Recommendations for the Long Term Disability Claims Administration

Joint recommendations by Deloitte and Morneau Shepell are summarized as follows:

Category (Organization)	Summary Recommendations
Contract Review (Deloitte)	The contract has several areas where language could be improved to adopt leading practices and to better align with the Agency's future vision; e.g. in areas of innovation, technology requirements, termination and transition. There are additional new provisions recommended that are currently missing, such as including the provider's requirements of the Agency, adding the LTD Plan, noting who can act as Plan Sponsor on behalf of the Agency. Fees and pricing structure should be amended to standard industry practice, e.g. on a per capita basis, flat rate monthly charge, or per claims administrator charge.
Contract Operationalization (Deloitte)	The agreement has been operationalized very well through an established working relationship and having experienced teams on both sides. However there are some operational gaps between the provisions in the agreement and its operationalization. Greater technology integration, data exchange and analytics are key recommendations that support the Agency's future desired state for LTD.
Alternative Approaches to LTD Funding and Delivery (Deloitte)	In the US, it is less common to fund LTD on a self-insured basis than on a fully-insured basis, even for large employers. Some of the key differences between these models have been identified. In Canada, Morneau Shepell report that many Canadian Provincial Governments are self-insured.
Risk Sharing (Morneau Shepell)	The self-insured risk sharing model remains valid for the Agency, based on such characteristics as the size and maturity of the group, predictability of claims, stability of membership, etc.) The current appeals process would likely not be possible outside of the current self-insured model. Changes to Risk Sharing: If current practices are removed or materially changed, the risk sharing model should be revisited as the Agency may increase their risk exposure and follow the path of other plans that later experienced financial challenges, particularly those who managed their programs on a 'pay-as-you-go' basis.
Benchmarking Assessment (Morneau Shepell)	GWL's LTD expenses as charged to the Agency are generally competitive. Only two groups have lower overall retention costs. Overall LTD expense charges were 30.8% lower than the average. • Claims Administration charge: Amend fees and pricing structure to standard industry practice, e.g. per capita basis, flat rate monthly charge, per claims administrator charge which provides a more accurate metric. • General Administration charge: Explore flat monthly charge to minimize the impact on increasing claims on expense charges. Pooling Protection: During the RFP process, the Agency may wish to explore the cost of pooling protection for catastrophic situations (e.g. pandemic). It is recommended maintaining the current practice relating to investment of reserves as it optimizes the opportunity for investment income which assists in offsetting the LTD program costs.
RFP Considerations (Deloitte)	It is recommended that the Agency examine the overall service delivery model for Workplace, Health & Safety and both the fully-insured and self-insured arrangements in the upcoming RFP process . This will help determine the optimal arrangement based on a review of competitive information.
Additional Considerations	The Agency should take into account some additional considerations before embarking on the RFP process. These considerations are: 1) A strategic decision to continue to manage risk,; 2) Appropriate timing to move to a fully-insured model; 3) Possible further extension of GWL contract; 4) Carrier discovery meetings; 5) Performance against similar organizations; 6) Current labour relations environment; 7) Limited number of carriers in Canada.

Contract Terms Review – Findings and Recommendations

Contract Terms Review - relatively mature against leading practice. 

- The GWL contract has been in place for many years and has been renewed in five-year increments since the 1970s. The contract has several areas where language could be improved to adopt leading practices and to better align with the Agency's future vision.
- The language for the contract term, claim adjudication, claims control practices, identification of rehabilitation candidates, review of claims for successive disability, process benefit adjustments, identifying adverse trends, planning for special projects is relatively mature against leading practice but there are some operational challenges .
- There are some missing contractual provisions that would be typical of self-insured LTD contracts.

Category	Recommendations
1. Contractual terms	Negotiate improved contractual terms as set out in this report and leverage favorable terms in the existing contract. e.g. revise language in areas of innovation, technology requirements, termination and transition.
2. Additional contract provisions	Additional contract provisions include GWL's requirements of the Agency; GWL providing cost estimates for plan design / policy changes; adding additional language for the adoption of technology
3. Termination timeframe	Lengthen the timeframe for termination beyond 60 days
4. LTD Plan inclusion	The plan should be incorporated as an appendix in the contract and key components of the process, for both GWL and the Agency summarized
5. Contract language	Add additional language on allocation of authority – initial decisions, review, appeals process and final decision making Remove STD language if this option is not being sought for future contract, and remove redundant provisions from the contract (e.g. prepare and print service agreements)
6. Pricing structure and fees	Amend fees and pricing structure to standard industry practice, e.g. per capita basis, flat rate monthly charge, or per claims administrator charge which provide a more accurate metric
7. Service standards	Revise service standards to reflect time to pay a claim, rather than responsiveness rate

Rating against leading practice

Strong Weak

Contract Operationalization: Findings and Recommendations

Contract Operationalization - relatively mature against leading practice.

- Overall, the agreement has been operationalized very well through an established working relationship and having experienced teams on both sides. However there are some operational gaps between the provisions in the agreement and its operationalization
- The current state maturity of the LTD process is generally "defined", scoring a 2 out of a possible 4, where 4 is leading practice. A consistently high rating by PSA for the desired future state to be either advanced or leading practice indicates an opportunity to improve the maturity of the process

Category	Recommendations
1. Change orders	Formalize the change order process in the agreement and keep track of agreement changes.
2. Roles and processes	Both parties have experienced and well-trained teams and roles and responsibilities and processes are well understood in practice. However roles and processes need to be more formalized and documented. Articulate both GWL's and Agency's roles and process in the agreement. Document the processes, develop a RACI matrix for responsibilities and share across GWL and the Agency's claims administration team.
3. Governance	Governance is not formally set out in the agreement and meetings are generally scheduled on an ad-hoc basis other than the annual Board meeting. Define the structure of the governance model and interfaces with the provider organization in the agreement, to include: joint planning and management sessions, interfaces between the provider and the contract management group, performance reporting for each meeting; meeting frequencies.
4. Innovation	In the new agreement, Introduce a mechanism for reward and recognition to incentivize innovation and improvement initiatives.
5. Technology integration	Although GWL can provide e-disability to some of it clients the current technology systems with the Agency are not as integrated, nor processes as automated to the extent that the Agency desires, resulting in duplication of effort and many handoffs / interfaces. The new agreement should make intentional provision for the better integration of systems to facilitate delivery – e.g. single portal / point of entry for information gathering, sharing and initiating data.
6. Data exchange	The provision of electronic exchange of data needs to be added to the agreement, based on the future desired state.
7. Data analytics	Extend the additional service requirements to meet desired data analytics and reporting; i.e. issue and trend analysis
8. Improvement initiatives	There are some opportunities for improving the current processes for claims applications, claims adjudication and claims appeals (e.g. better automation, electronic data exchange, exchange of electronic documentation via email, reduce handovers in appeals notification).

Strong Weak

Alternative Approaches to LTD Funding and Delivery (US Practice)

In the US, it is less common to fund LTD on a self-insured basis than on a fully-insured basis, even for large employers. In Canada, there are more self-insured plans (reported by Morneau) though the legislation landscape is changing. In the table below some of the differences between insured and self-insured arrangements in the US have been described.. Each model has different strengths and weaknesses.

	Self-Insured	Fully-Insured
Risk	• In a self-insured arrangement, such as that employed by the Agency, risk is kept by the organization and sufficient funds must be on hand for the payment of LTD claims. • In this case, the Agency has taken the role of "insurer" in that the Agency offers LTD benefits through this self-insured arrangement to various groups, at a "premium equivalent rate" and does not charge back actual expenses to the groups.	• In a fully-insured arrangement, 100% of the risk is transferred to the insurer, in return for payment of premiums. • The insurer is responsible for ongoing payment and management of the plan and for setting aside funds for future reserve liabilities. • In the event that the insurer is terminated, disabled employees remain the liability of the insurer in perpetuity.
Payment	• In the case of Agency, payment is made by GWL. However, in self-insured situations, payment can be made by the client as well, with "advice" as to how much is due. In this case, services provided by the administrator are described as "advice to pay"	• Payment is made by the insurer.
Management of claimants	• Primarily the responsibility of the administrator, although a mixed model can exist where the Plan Sponsor takes on certain responsibilities. • Affords the ability to integrate return to work for STD, LTD and Workers' Compensation.	• The insurer retains all claimant management responsibilities. • **Risk:** Separating the return to work function for LTD from STD and Workers' Compensation may risk a less effective overall ability to limit disability durations.
Funding of reserves	• The Plan Sponsor retains the liability for future annuity payments for all disabled members. • In the case of the Agency, this liability must be managed and accounted for and was around $350M in 2011.	• The insurer is responsible for setting aside reserves and managing investments in those reserves.
Appeals	• Final authority is retained by the third-party Appeals Committee (in the case of the Agency) or the Plan Sponsor (in other cases).	• The insurer retains final decision authority. • **Risk:** The agency would need to successfully negotiate with the unions out of the existing final appeal process that rests with a third party 'tribunal'.
Plan termination	• In the event of plan termination, the Plan Sponsor retains the responsibility for payment of claims. In the case of bankruptcy or plan termination, future payments are at risk.	• The insurer retains liability for all members who become disabled while the insurer's policy is in-force. In the event of termination of the insurance agreement or the Plan itself, disabled participants will continue to receive benefits. Only in the event of the insurer's bankruptcy would benefit payments be at risk.
Cost	• The Agency's cash cost relates to cash payments for disabled members and overhead, plus the administrative cost of GWL. The Agency must also account for the reserve costs. The Agency charges a "premium equivalent" for groups wishing to enroll in the program.	• Insurers charge a premium which covers cash payments, future reserve requirements, and administrative overhead. Typically, insurers require 15%-20% of premiums to fund their administrative and profit requirements.
Compliance	• Responsibility of the Plan Sponsor	• Responsibility of the insurer
Interest on Reserves	• All interest is retained by the Plan Sponsor	• As part of negotiation, it may be possible for the insurer to share some of the profit on reserves with the Plan Sponsor.

Experience-rated Refund Accounting

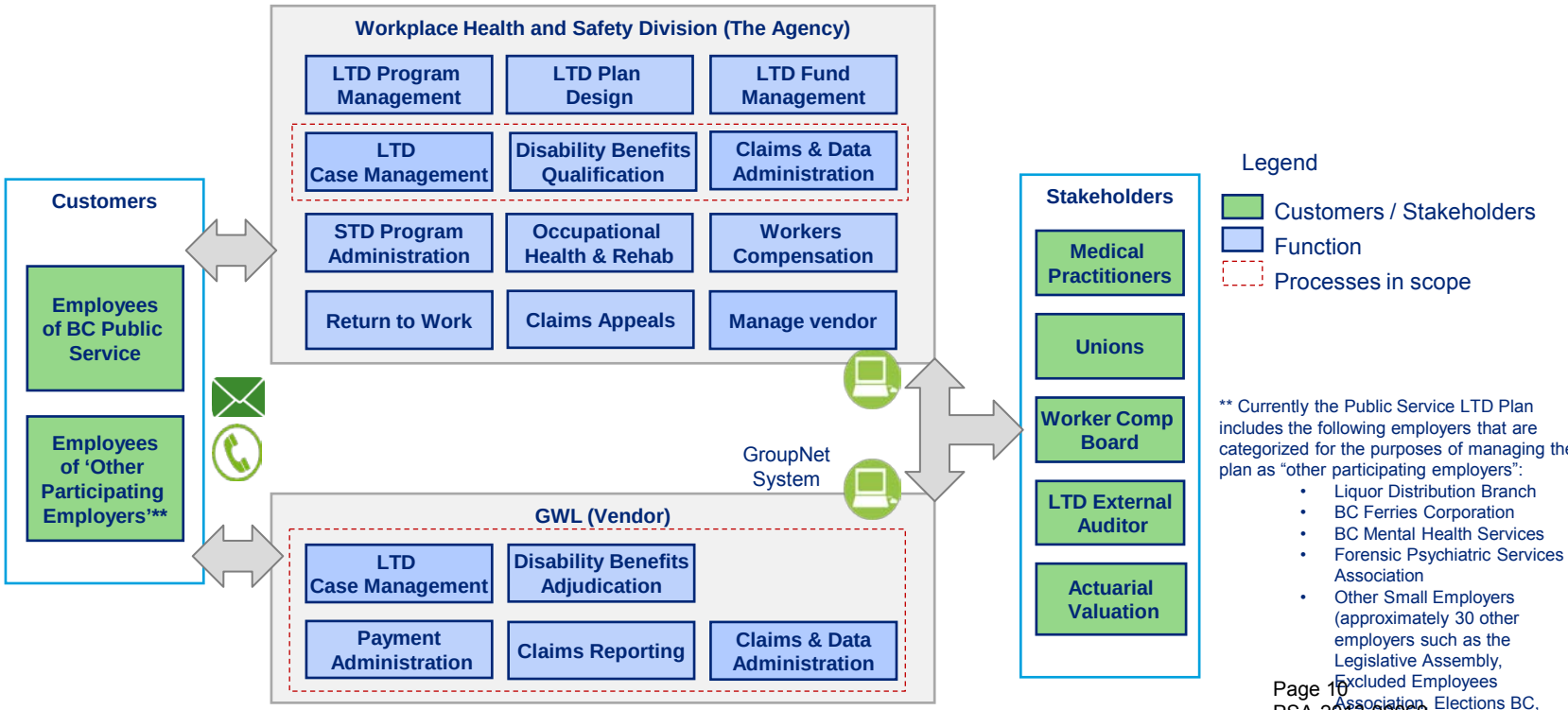
Morneau Shepell have described below an additional insured model – experience-rated refund accounting.

	Experience-rated Refund (Insured)
Risk	• In an experience-rated refund approach, the plan sponsor assumes a moderate amount of risk with more financial control than under a fully insured approach. • Differs from a fully insured approach in that an annual accounting is performed and any surplus that arises is refundable (after contingent reserves are fully funded) and any deficit is repayable over time (typically over five years). • If the plan terminates and at that time is in a deficit position, the plan sponsor is not required to repay the deficit (unless a hold harmless agreement is in place).
Payment	• Payment is made by the insurer.
Management of claimants	• The insurer retains all claimant management responsibilities. • Like a fully insured approach, separating the return to work function for LTD from the STD and Workers' Compensation may risk a less effective overall ability to limit disability durations.
Funding of reserves	• The insurer is responsible for setting aside reserves and typically managing investments in those reserves.
Appeals	• The insurer retains final decision authority . As such, the current approach for the Agency which involves a medical appeal panel/arbitrator making the final decision on appeals could not be continued .
Plan termination	• In the event of plan termination, the insurer retains the responsibility of payment of any LTD claims which were approved while the policy was in-force. Disabled employees will continue to received LTD benefits, provided they continue to satisfy the contractual requirements.
Cost	• The insurer will establish a premium sufficient enough to maintain the necessary cash payments, future reserves requirements, and other expenses , including premium tax (2% in BC, if applicable). • The basis of establishing future reserves, retention expenses, and interest credits/charges are negotiated with the insurer at the annual renewal or after expiry of a rate guarantee period. • Risk and profit charges are typical additional retention expenses charged by the insurer compared to a self-insured approach.
Compliance	• Responsibility of the insurer.

Overview of Current State LTD Service Delivery Model – Self Insured Model

Self-Insured LTD Service Delivery Model

- The current state LTD service delivery model is representative of a self insured model, in which the Agency maintains the role of "insurer" and holds primary responsibility of the program and Great West Life provide a select group of LTD functions. This is not common practice in the US but it is a common model in Canada and found in many Provincial Governments.
- The Agency has an integrated rehabilitation and return to work function that addresses STD, workers' compensation and LTD. The benefits of this model is that it focuses on rehabilitation and return to work to help reduce the number of employees that become dependent on LTD and consequently significantly reduces the overall costs of LTD. The Agency also reports that the integrated model has been successful in minimizing the number of STD days and reducing the number of new cases going on LTD.
- The unions approve of the current claims appeals process where they have some control in the adjudication process by appointing one of their doctors to the CRC. Any changes to this approach (i.e. where the decision moves to the insurer under the fully-insured model) would require a negotiation with the union.



** Currently the Public Service LTD Plan includes the following employers that are categorized for the purposes of managing the plan as "other participating employers":

- Liquor Distribution Branch
- BC Ferries Corporation
- BC Mental Health Services
- Forensic Psychiatric Services Association
- Other Small Employers (approximately 30 other employers such as the Legislative Assembly, Excluded Employees Association, Elections BC, Oak Bay Lodge)

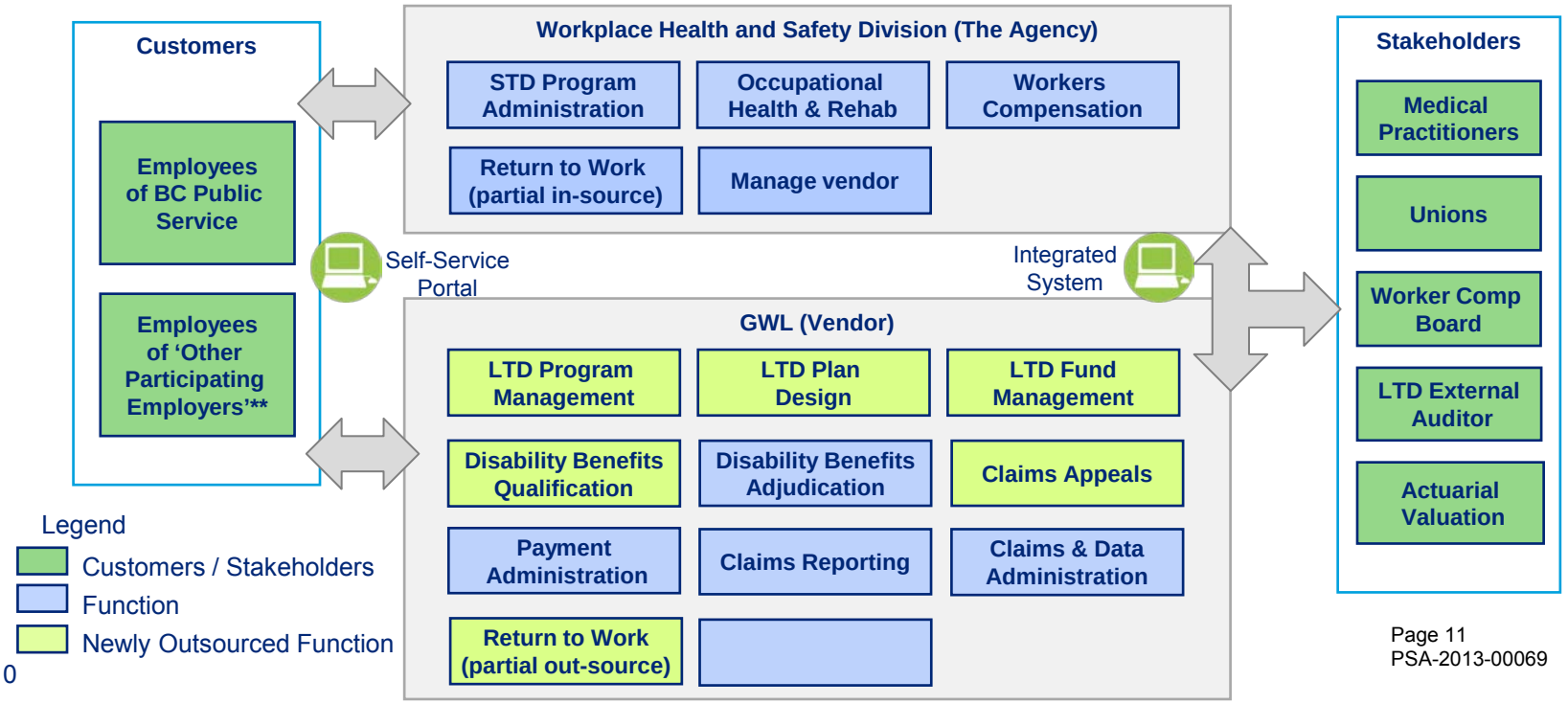
Alternative LTD Service Delivery Model – Typical Fully Insured Model

Fully Insured LTD Service Delivery Model - Return to Work partially outsourced

Below is a typical design of a fully-insured LTD program. Under such a funding arrangement, it is common that several more components of the program currently delivered by the Agency would be carved-out to the insurer e.g. LTD program management, plan design, fund management, some return to work, claims appeals and disability benefits qualification.

- **Claims Appeal Process:** The extent to which the insurer has control over the final decision in the claims appeals process affects the level of risk and ultimately costs that they might have to bear.
  - As the appeals process stands today, the decision remains out of the employer's control as it is subject to the Appeal Board, and ultimately the Labour Relations Board, whose decision prevails. In the self-insured model today, the Agency as the insurer, bears any resulting liability and costs.
  - In a fully insured model, the carrier would be accountable for any resulting liabilities and costs associated with the appeals decision and yet has no control over the decision process. As such they may find this an unacceptable level of risk to insure.
- **Return to Work:** Aspects of return to work planning for STD and WCB cases are still retained within the Agency.

In order to provide a full and comprehensive analysis and recommendations on LTD practices and outsourcing vs insourcing the full service delivery model and costs should be analyzed. This would include STD, OCH, rehabilitation, return to work and WCB since the success of these programs have an impact on LTD.



Risk Sharing Model for the Agency

The risk sharing assessment involved comparing the three basic risk sharing/underwriting arrangements available to plan sponsors and relative advantages and disadvantages for each. Morneau Shepell conclude this section with commentary on the current landscape in Canada and the efficacy of the Agency's risk sharing arrangement.

Category/Element	Summary
Landscape in Canada	The subject of self-insuring LTD plans has created notable debate in the insurance industry, particularly after the recent publicity surrounding the solvency challenges of Nortel Networks Corporation (Nortel) and their difficulties in continuing to provide LTD benefits to disabled employees. Given Nortel and other similar situations in the past, the landscape in the Canadian market place has changed. Most notably, in the Economic Action Plan 2012 the Federal government announced they will begin introducing legislation (Bill C-38) to require federally regulated private sector employers to insure, on a go-forward basis, any LTD plans they offer. While the Canadian Life and Health Insurance Association (CLHIA) has supported the elimination of self-insured plans, other stakeholders such as the Canadian Institute of Actuaries have taken a less polarizing position and have suggested other options such as requiring pre-funding, increasing priority status for disabled employees, and greater disclosure to employees of financial metrics, for example.
Conclusion	Based on our observations, the characteristics (e.g. size and maturity of the group, predictability of claims, stability of membership, etc.) of the plan, and the Agency's ability to manage short-term risk volatility, the current self-insured risk sharing model remains valid for the Agency. While the landscape in Canada is changing with respect to the ability to self-insure LTD plans, Morneau note that the Agency has already adopted some practices to minimize their risk, such as proper and continuous funding of the plan, optimizing investment returns, establishing policies for contribution rate setting and funding, and developing membership agreements with participating employers, to name a few. Furthermore, the current appeals process would likely not be possible outside of the current self-insured model. Morneau caution that if these practices were removed or materially changed, the risk sharing model should be revisited as the Agency may increase their risk exposure and follow the path of other plans that later experienced financial challenges, particularly those who managed their programs on a 'pay-as-you-go' basis. As current actuaries to the Agency's LTD plan, Morneau also performed a high-level analysis of the current contribution levels and estimate the additional financial cost to move to a fully insured plan would be approximately 15% higher or $5.7 million annually for the entire program under normal market conditions.

Quantitative Benchmarking

Eight plan sponsors with members/employees ranging from 10,000 to 60,000 were selected from Morneau Shepell's database to participate in the study based on similar characteristics to the Agency such as size, industry, and complexity of program. The participants were located across Canada and underwritten either on an ASO or insured basis by various insurance carriers (five in total).

Category/Element	Summary
Qualifications	Morneau appreciate that the overall program management of LTD plans are complex and the performance of these plans are a result of multiple factors. The focus on quantitative elements such as claims administrator expense charges, while important, does not represent the entire equation and should be observed with caution. Other elements, such as quality of the claims administration and level of focus on prevention, early intervention, and return-to-work strategies, may arguably have a greater impact on disability program performance, but have been excluded from this benchmarking study. It is our understanding the qualitative elements of the Agency's LTD plan is currently performing positively with goals for continuous improvement. While not a direct metric, this may be supported by the strong termination experience observed in the actuarial valuations. Should this change due to a sudden deterioration of the quality of claims management services, Morneau would anticipate a significant increase in cost to the LTD program. For example, if expected terminations decreased by 10% due to the above, the increased financial cost to the plan would be approximately $4 million annually from additional contributions or $12 million in actuarial liabilities.
Assumptions	While every effort has been made to standardize the observations, Morneau appreciate each of the participants, including the Agency, is unique in the approach taken to administering and delivering the LTD plan. As such, the comparison does not recognize differences in the administration delivery model or the additional resources from other external stakeholders (e.g. participating employers), or the number/complexity of plans administered by each participant. In order to ensure optimal standardization between participants, a number of assumptions were made. Furthermore, each of the charges are reviewed independently within the framework of the report, but it is important to acknowledge that overall charges to a plan should be reviewed holistically. For example, an insurer may decrease claims administration expenses while inflating general administration expenses.

Summary of Benchmarking Results

As shown below, GWL's LTD expenses as charged to the Agency are generally competitive. Only two groups have lower overall retention costs. The Agency's overall LTD expense charges were 30.8% lower than the average.

A summary of the results are provided as follows:

Cost Element	Summary Result
Claims Administration	4.9% above the mean
General Administration	71.9% below the mean
Profit Charge	55.7% below the mean
Risk Charge	Not applicable, versus other participant groups
Interest Return on Reserves	46.5% above the mean
Premium Tax	Not applicable, versus other participant groups
Other Costs	As incurred, which is similar to other participants
Total Expense Charges	30.8% below the mean

Category /Element	Summary
Total Expense Charges with Interest on Reserves	One of the key advantages of self insuring LTD plans is the ownership of reserves and the opportunity for an optimal rate of return on investments, which can be used to mitigate operating costs for the program. As such, Morneau have illustrated the impact of investment income from reserves on total expense charges for each participant in the benchmarking survey. As shown below, the Agency's position further improves once this is taken into consideration.

Risk Sharing Review and Benchmarking Assessment - Summary of Recommendations

During the benchmarking Assessment and risk sharing review, a number of opportunities were identified by Morneau Shepell that should be considered to assist in the ongoing management of the plan and the future tendering process. These are summarized below:

Category	Recommendations
1. Self-insuring	The Agency's current self-insured risk sharing model remains valid based on current operating practices and Morneau Shepell recommend maintaining the current arrangement.
2. Change in risk sharing	If current practices are removed or materially changed, the risk sharing model should be revisited as the Agency may increase their risk exposure and follow the path of other plans that later experienced financial challenges, particularly those who managed their programs on a 'pay-as-you-go' basis.
3. Governance	The Agency may wish to consider providing additional disclosure to members regarding funding, expanding governance practices like those typically used by health and welfare trusts (e.g. trust agreement and trustee appointments), and adopting these within the current self-insured model to further mitigate financial risk of the program.
4. General Administration Change	The Agency may wish to explore a flat per monthly charge which would minimize the impact on increasing claims on expense charges.
5. Claims Administration Change	The Agency may also wish to explore a flat per monthly Claims Administration charge, or alternatively, a flat charge per claims administrator, which provides a more accurate metric.
6. Pooling Protection	During the tendering process, the Agency may wish to explore the cost of pooling protection for catastrophic situations (e.g. pandemic), if possible to minimize risk and HST/GST expenses, if applicable.
7. Interest on Reserves	Morneau Shepell recommend maintaining the current practice relating to investment of reserves as it optimizes the opportunity for investment income which assists in offsetting the LTD program costs.

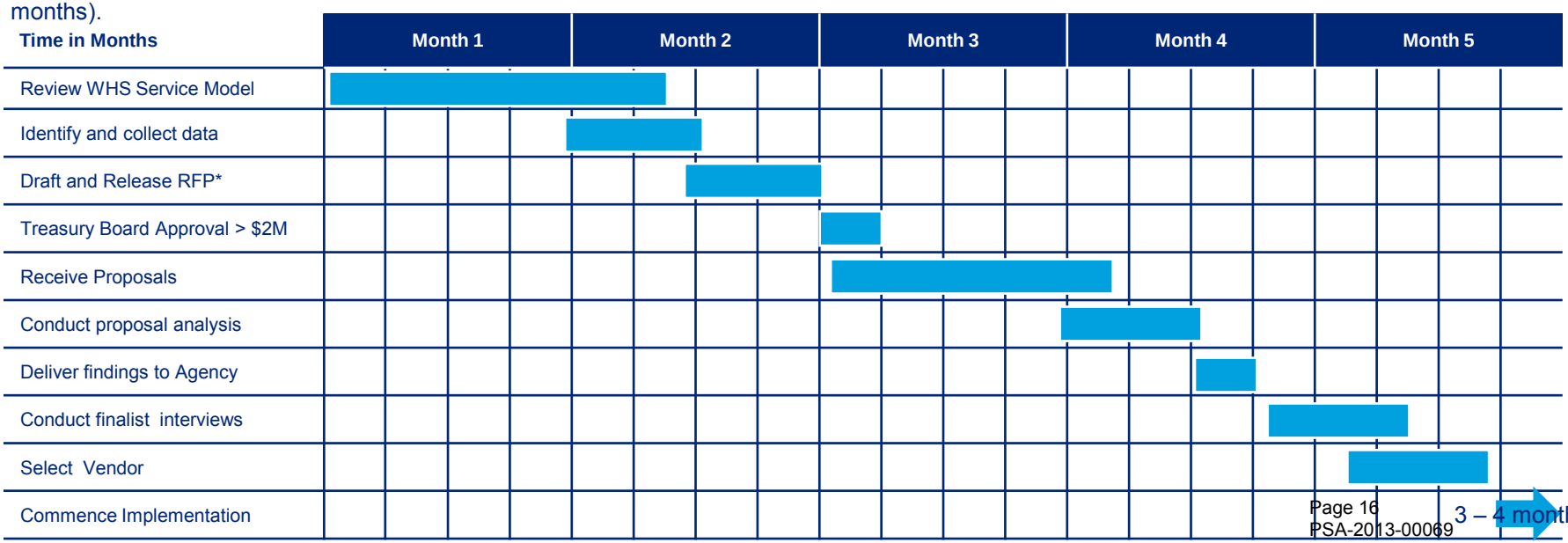
Next Steps: Define Future Desired State and RFP Considerations

The Agency should proceed with the RFP process, considering alternative service delivery models. Key steps include:

1. Review the end to end WHS service delivery model to determine desired future state and possible sourcing mix
2. Define the specifications for services. This will incorporate the current service model, desired future state, and specifications around alternative service models. Consider an independent party (either in the Agency or external) to run the process.
3. Collect and format any data needed by the bidders. Such data will include metrics around plan utilization (claims, approvals, denials, IMEs, meetings, and so on). In addition, if fully-insured services are sought, additional demographic details will be required for bidders to accurately assess the risks and develop proposals.
4. Determine if a "reserve buy-out" is to be considered. If so, additional detail is required concerning all current LTD claimants.
5. Develop RFP according to the specifications. Consider adding questions on options for the administration of pre-existing condition rules.
6. Analyze proposals and down-select to semi-finalists.
7. Seek best and final offers and down-select to finalists.
8. Interview finalists and simultaneously negotiate contracts (escrow until award).
9. Select winner and implement.

The RFP process is usually a 3-4 month process but this may be very aggressive timeline for the Agency, if any of the additional considerations on the next slide are taken into account. Implementation is also 3-4 months for complex clients like the Agency. The Agency may also need to consider a period of overlap between the existing service provider and a new provider (in the event of a change) in order to ensure service continuity to participants. Below is an illustrative timeline to undertake the RFP process.

The Agency should consider extending the current agreement with GWL to cover the RFP process and assessment of proposals (e.g. another 6 months).



Additional Considerations

The Agency should take into account some additional considerations before embarking on the RFP process.

1. Strategic decision to continue to manage risk	The Agency should consider whether it wishes to continue to manage the risk of LTD in a self-insured model or whether they would consider other risk sharing models with insurers in the future.
2. Appropriate timing to move to a fully-insured model	The Agency is currently going through a collective bargaining agreement with the Union which will not be complete for another two years. To introduce a fully-insured model now may be difficult to negotiate at this time. An alternative strategy may be to issue an RFP that considers a self-insured model for the initial length of the contract (recommended 3 years with annual renewal options for the next 2 years) but provides the possibility for a fully-insured model once the agreement with the Unions has been completed.
3. Possible further extension of GWL contract	The time required to gather data and do a full analysis of the service delivery model could mean a further extension to the GWL contract whereas going with a self insured RFP may fit the current contract expiration date.
4. Hold carrier discovery meetings	The Agency should host “discovery meetings" with potential carriers to test the market’s ability to provide solutions regardless of approach. This will provide the market with an opportunity to understand the Agency's perspective and desired future state and show an openness towards other vendors to participate in the RFP process.
5. Performance against similar organizations	The Agency has already conducted some benchmarking studies with similar organizations (e.g. Healthcare Benefits Trust and Yukon Health Services) and is embarking on other studies. It would be beneficial for the Agency to determine performance of its overall service delivery model (not just LTD) against similar organizations using key outcome/performance metrics that speak to the quality of the service such as disability duration, no. on LTD per thousand, average no. of STD days prior to determining its desired future outsourcing mix. This will provide the Agency with information on current performance relative to peers and the possible opportunities or risks of moving to a fully insured model with more outsourcing.
6. Current labour relations environment	There are risks associated with changing LTD arrangements given the current labour relations environment. The Agency would need to successfully negotiate with the unions, to take them out of the existing final appeals process that rests with a third party ‘tribunal’.
7. Limited number of carriers in Canada	Compared to the LTD market in the US, there are a limited number of carriers in the Canadian market. This may constrain the carriers’ ability to provide alternative risk-sharing arrangements or outsourcing mixes.

Background and Approach

Background and Objectives

- In 2007, the BC Public Service Agency (the Agency) commenced a five-year service agreement with Great West Life (GWL) to provide a claims processing service for Long Term Disability (LTD) benefits. This Services Agreement was a part of an ongoing relationship dating back to beyond 30 years.
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- The report summarizes the findings and recommendations of these key review areas and also provides further recommendations and a proposed approach and timeline for conducting the RFP process.

- *Note 1: Morneau Shepell have covered the Assessment of Current Risk Sharing and Benchmarking of LTD Provider Administration Expenses within this report. This content is represented in this report as a separate section with this same title. In the Executive Summary the Morneau Shepell findings and recommendations have been highlighted on slides 4 and slides 11 to 14 and the description of an additional experience-rated refund accounting model is provided on slide 8.*
- *Note 2: Deloitte has covered the contract review and how this has been operationalized, a high level process and service assessment, comparisons of the current self insured model versus a typical fully insured model and recommendations for a proposed approach and timeline for the RFP process.*

Approach

The approach to conducting the health check of the LTD Services Agreement is summarized below.

- Conduct a review of the 2002, 2009 Services Agreement and its schedules A & C
- Review and assess contract structure and establish a rating against leading practice
- Review and assess the operationalization of the contract and establish a rating against leading practice

- Assess current process and service delivery model through interviews with key stakeholders
- Carry out a separate LTD claims process maturity assessment to determine the current and desired service provision
- Compare the service delivery model for LTD claims against other service delivery options

- Collect benchmarking data and compare the Agency LTD costs with similar Canadian organizations and leading practices
- Conduct a high level competitive analysis of the market, examining market leading LTD vendors, with a mix of self-insured and insured, public and private sector participants
- This part of the approach was conducted by Morneau Shepell

- Identify key areas for improvement and considerations to improve service delivery
- Develop key sourcing strategy recommendations and considerations for contract renewal

- Provide a proposed approach / sourcing strategy for the RFP

- Set out the key steps for proceeding with an RFP and timeline

LTD Contract Review

LTD Contract Review

In the following table the Agreement has been reviewed by Article and the extent to which each compares against leading practices has been determined. An indicative rating of the current contract maturity against leading practice has been provided.

Article	Contract Review Findings	Leading Practice	Rating
1. Definitions	• The contractual definitions shown are limited to the following: Actual benefit payments, claims, plan, proposal, request for proposal, service, STIIP and term.	• Leading practice is to incorporate the Plan as an amendment and define the terms of the Plan either in the Plan document or the service agreement. LTD includes many concepts that require clear definition. Deloitte must assume these are adequately defined in the Plan documents (which are outside the scope of our review).	
2. Term	• The term is defined as 5 years (4/1/2007 - 3/31/2012) plus a 1 year extension.	• The normal length of a contract is 3 years, with the option to extend year by year for up to 5 years, if so desired by the client. 5 years is not beyond market norms for LTD service agreement however, continuous renewal for successive 5 year periods without a competitive marketing exercise is not considered leading practice.	
3. Short Term Illness and Injury Plan (STIIP)	• The contract discusses services for STD plan if the Agency elects to engage GWL to perform them. From discussions with the Agency, this language was included based on Union requirements to allow for the option of STD outsourcing.	• If GWL is not performing this service then it's arguable that this language does not belong in the contract. If there are no Union requirements, Deloitte suggest that future contracts remove this section if this is not among the scope of services provided.	
Articles 4 – 13 were not reviewed			
14. Termination	• The contract stipulates a 60 day termination for convenience with the ability to be invoked by either party, and a 30 day termination for breach of agreement. • The contract document contains no provision for transition to a new service provider (although this was corrected by adding such language to the 1 year contract extension agreement).	• 60 days notice of termination by GWL for convenience leaves insufficient time for the Agency to transition to a new carrier. Suggest lengthening the timeframe (90 or more days) or eliminating GWL's ability to terminate except in cases of breach or non-payment. • In practice, the Agency extended the contract for one year in 2012 to ensure sufficient time for the RFP process and possible transition.	

 Strong  Weak

LTD Contract Review

In the following table the Agreement has been reviewed by Article and the extent to which each compares against leading practices has been determined. An indicative rating of the current contract maturity against leading practice has been provided.

Article	Contract Review Findings	Leading Practice	Rating
15. Indemnification	• The contract employs a two-way indemnification provision using an "any actions or omissions" standard.	• Indemnification provisions typically include a "negligence" standard. The provisions of the GWL contract appear quite lenient, allowing for "any actions or omissions" which may not favor the Agency or GWL. The Agency's attorneys must opine on the level of indemnification desired.	
Articles 16-23 were not reviewed			
A. General Requirements	• 1. GWL will provide LTD administration according to the "process and interpretations" provided by the Agency.	• The Plan should be incorporated in an appendix and key components of the process should be summarized in the body of the contract. Leaving the "process and interpretations as provided by the PSA" is ambiguous and creates risk for vendor. These should be as provided by the Plan, and according to the administrator's interpretations. The Agency should provide the design of the Plan and guidance with respect to plan intent only. Building in contractual flexibility can lead to the potential for abuse.	
	• 2. GWL will use standard processes and incorporate the Agency's "operational philosophy".	• This language is non-standard and ambiguous. It would appear to allow for the Agency or GWL to alter standard operating procedures to reflect the Agency's "philosophy." However, such flexibility creates potential risks in the injection of subjective interpretation and the adoption of non-leading practices.	

LTD Contract Review

In the following table the Agreement has been reviewed by Article and the extent to which each compares against leading practices has been determined. An indicative rating of the current contract maturity against leading practice has been provided.

Article	Contract Review Findings	Leading Practice	Rating
3. Electronic exchange of data	• Describes the interchange of data between GWL and the Agency "in a form suitable to both parties" but fails to present details on what data is shared, frequency, etc.	• There is opportunity to better define this area of the contract in accordance with the Agency's desired state. Greater detail with respect to electronic data interchange will assist in streamlining work and reducing the of duplication of effort between GWL and the Agency.	
4. Vancouver service office requirements	• The contract makes general statements about making mutually agreed-to changes in Vancouver claims office.	• Rather than leave this generally defined, it is recommended the contract should clearly define the language around mutually agreed to changes and outline specifications required for local office staffing. The contract may be specific to staffing in terms of throughput (claims per person, calls per person) and provide expectations with respect to continuity of service.	
Basic Service Requirements			
	• 5. a - Claim adjudication, including participant entitlement considering work and pre-existing illness history.	• In leading practice, contracts typically contain exclusion language and define how the administrator will operationalize administration of exclusions. While the definition of exclusions may be in the Plan document, it is recommended this is also included in the agreement, as well as the steps required to operationalize exclusions.	
	• 5. b - determination of amount payable and checking this for accuracy	• It is recommended a greater level of detail is provided outlining the process for accuracy checking. It appears that the Agency performs a retrospective check of accuracy of payments. The contract should reference the current or desired process and inform how discrepancies will be handled in the event of an error.	

LTD Contract Review

In the following table the Agreement has been reviewed by Article and the extent to which each compares against leading practices has been determined. An indicative rating of the current contract maturity against leading practice has been provided.

Article	Contract Review Findings	Leading Practice	Rating
	• 5. c - issuing checks	• Aligned to leading practice the contract should stipulate bank account funding requirements and obligations, reconciliations and requirements with respect to claimant address information. The Agency has noted that increased efficiency may be gained by moving payments into their payroll system - if this option is explored, GWL would provide advice only, and the Agency would cut checks (this should lower fees).	
	• 5. d - claims control practices (investigations, IMEs, medical report review, follow-up)	• It is recommended the contract define the general criteria for investigations and IMEs, or reference back to Plan document if this is handled therein. As IMEs should not be a profit driven exercise the contract should not create an incentive for inefficient use of IMEs. IMEs appear to be part of the $200k annual fee, so interests may be aligned (but further clarification is warranted). In addition, the contract should stipulate the timeliness in which IME results are shared with the Agency's rehabilitation team.	
	• 5. e - identification of rehabilitation candidates and referral	• It is recommended the contract stipulate how GWL will facilitate the rehabilitation or return to work of candidates or how GWL will work with Agency to do so. • From the interviews with the Agency, the contract should be updated to better reflect the current practices and rehabilitation criteria.	
	• 5. f - preparation / printing of claim forms as required	• GWL does not prepare or print claim forms. As such, this should be removed or updated to reflect current or desired practice.	

LTD Contract Review

In the following table the Agreement has been reviewed by Article and the extent to which each compares against leading practices has been determined. An indicative rating of the current contract maturity against leading practice has been provided.

Article	Contract Review Findings	Leading Practice	Rating
	• 5. g - disclosure of claimant file for appeals • The Agency noted in our interviews that they are not always aware of the rationale behind appeal decisions. • Greater clarity was needed around the responsibilities between the Agency and GWL	• It is recommended there should be additional language on the allocation of authority, roles and responsibilities pertaining to claims review and appeals process. It would be of value to define administrative appeals vs. clinical appeals and the process relating to each. • Typical process: Administrator make decisions, offers "level one" independent review, and client owns "level two" final appeal, and in most cases client retains final authority over all decisions if self-insured. Final decision making authority is typically one of the earliest components of advice-to-pay contracts given its critical importance. • In a fully-insured arrangement, final decision authority is retained by the insurance company. Agency would need to renegotiate with unions to adopt such a change.	
	• 5. h - review of claims for successive disability	• Additional language is required either in the contract or in the Plan document around successive disability definition and administration in alignment with the Agency's current or desired practices.	
	• 5. i - process benefit adjustments	• No comments	
	• 5. j - coordinate with other disability income providers	• It is recommended this be defined in greater detail, including what other income is applicable, how GWL will collect this information and apply it.	
	• 5. k - recover overpayments	• Contract should define how GWL subrogates in legal situations. In addition, the contract should stipulate how the Agency will be made whole if it is impractical to recover historical overpayments from the participant if due to GWL's error.	

LTD Contract Review

In the following table the Agreement has been reviewed by Article and the extent to which each compares against leading practices has been determined. An indicative rating of the current contract maturity against leading practice has been provided.

Article	Contract Review Findings	Leading Practice	Rating
	• 5. l - provide medical and legal services	• Additional clarification on this service is warranted.	N/A
	• 5. m - coordinate w/ ICBC benefits	• Additional clarification on this service is warranted.	N/A
	• 5. n - customize practices to reflect Government requirements	• If GWL provides notices to claimants of claim decisions, contract should clearly stipulate this here.	
Additional Service Requirements			
	• 6. a - prepare and print service agreements	• The preparation and printing of service agreements is redundant in practice and it is recommended this is removed from inclusion in the contract.	
	• 6. b - provide statistical reports	• It is recommended the nature of statistical reports is clearly defined in this section with respect to the release of individually identifiable information, when and to whom it is released, and any Agency obligations • Further, from the interviews, it appears that reports may not meet the needs of the Agency at all times. The Agency should include in the RFP process a listing of the desired reports and reporting capabilities to include in any new contract.	
	• Reports include: - monthly check reconciliation - monthly detailed claim listing - monthly disabled life reserve listing - monthly customized download report - any other report that can reasonably be provided	• The listed reports are standard. In addition, the last “any other” language is favorable to the Agency, but is limited by GWL’s reporting capabilities.	
	• 6.c - local service -- customer service support, attendance at meetings	• The Agency has around 3 meetings per year plus additional ad-hoc meetings to discuss greater electronic connectivity. PSA has shared that participants are at times unclear regarding who to call (Agency vs. GWL). Contract should clearly stipulate the appropriate party – Agency vs. GWL - for different customer service requests to ensure a more positive participant experience	
	• 6. d - preparation of booklet "test" and other explanatory materials	• Additional clarification on this service is warranted.	N/A
	• 6. e - clean data provided by the carrier	• Add clarification in the agreement that the carrier’s actuaries should sign off that data is clean and ready for sharing with the Agency.	

LTD Contract Review

In the following table the Agreement has been reviewed by Article and the extent to which each compares against leading practices has been determined. An indicative rating of the current contract maturity against leading practice has been provided.

Article	Contract Review Findings	Leading Practice	Rating
	• 6. e - identify and bring to the Agency adverse trends	• General language is aligned with leading practice. In addition, it is leading practice for the administrator to monitor claims and advise clients of adverse trends on a regular basis. Deloitte would recommend quarterly meetings for a group the size of the Agency with analysis performed at the sub-group level.	
	• 6. f - planning for special projects (e.g. ad-hoc benefit increases)	• General language is aligned with leading practice. In addition, it is leading practice for the administrator to provide ad-hoc planning and consulting-type services to the client.	
	• Added via renewal amendment: Transition	• It is leading practice to have a termination / transition plan. Within the current contract amendment there is risk of payment interruption. It is recommended to assume some degree of overlap during which the new administrator gets up to speed and GWL continues to pay claims for a period of time beyond 3/31. If this is deemed necessary, another contract extension may be required.	
Missing contractual provisions (typical of self-insured LTD contracts)			
	• Recommended to include:	• The contract should include GWL's requirements of the Agency (e.g. eligibility transfer, timely filing of changes, furnish information needed to perform duties, etc.)	N/A
	• Recommended to include:	• Actuarial Services: GWL should be willing to provide cost estimates associated with plan design or policy changes and this should be incorporated into the contract.	N/A
	• Recommended to include:	• Contract should incorporate the LTD Plan (more specifically than by reference). It is recommended the Plan is included as an appendix.	N/A
	• Recommended to include:	• The contract should identify who can act on behalf of the Agency in the role of Plan Sponsor (identify by name or title).	N/A
	• Recommended to include:	• It is recommended that the contract includes additional specifications outlining the use and adoption of technologies in alignment with the Agency's desire for greater electronic data interchange and movement towards electronic claim submissions.. The Agency has indicated a desire for:1) online claim submission, 2) physician ability to submit clinical data online, 3) Agency ability to pull down data from GWL online as needed, 4) movement of paper files to electronic (both current and future). The Agency has noted using 3 systems: DDMA - Disability Data Management Application, Integrated Case Management system for workflow, and Occupational Health Management. There appears to be an opportunity to integrate systems with GWL data feeds and reporting.	N/A

LTD Contract Review

In the following table the Agreement has been reviewed by Article and the extent to which each compares against leading practices has been determined. An indicative rating of the current contract maturity against leading practice has been provided.

Article	Contract Review Findings	Leading Practice	Rating
Schedule B – Fees	• As a part of this health check, MS is reviewing the fees schedule for reasonableness. • In order to assess fees beyond reasonableness, and in direct relation to true market competitiveness it is advised the contract is to put this contract out to bid. • The existing schedule of fees fails to align GWL's interests with those of the Agency. GWL receives a percent of claims paid.	• Leading practice is to pay for administrative services on a per capita basis, not as a percent of claims paid.	
Schedule C - Performance and Service Standards			
	• The contract outlines the Performance and Service Standards are evaluated yearly	• In leading practice, annual evaluation of performance and service standard is standard. However, it is common to see quarterly reports on some metrics (e.g. customer service metrics)	
	• At risk: 5% of GWL's "profit charge" for failure to meet performance in any of 5 categories. If penalties are applied in 3 or more categories, and additional 5% penalty applies, with a maximum penalty of 30%.	• A range of 5% to 30% of the "profit charge" - defined as 0.25% of paid claims, results in amounts at risk equal to range of 0.0125% to 0.075% of paid claims at risk. This level of penalty appears reasonable in a self-insured arrangement. However, it should be noted that GWL has never paid a penalty.	
Categories			
1. Claim responsiveness - turnaround time	• (17 calendar days)	• This metric refers to the time taken only to "respond" to a claim, not the time taken to pay a claim. Deloitte do not have comparable industry metrics but suggest this process could be accelerated.	
2. Claim responsiveness - time to decision	• (50 calendar days)	• This metric refers to the time taken only to make a "decision" on the claim, not to pay the claim. Standard industry practice is to pay claims in 45 days, so this metric should be enhanced in future contract terms.	
3. Overall claims management	• Self-audit of 25 claims per year	• This metric appears low. Standard industry practice is to audit 10% of claims per year, suggesting the need to audit 100-200 claims. Suggest that the provision is acceptable once the number of claims is increased, given that the Agency has final discretion over whether they feel the metric is met.	
4. Financial claims management	• 75 claims audited internally per year with an accuracy goal of 95%	• Standard practice would include 10% of claims (i.e.100-200) and an accuracy rate of 99%. This metric should be enhanced in the future contract. In addition, it would be a best practice to substitute the findings of an external audit to determine if the metric has been met, in years where an external audit is performed.	
5. Overall account management	• Agency satisfaction on a variety of qualitative service standards	• This performance measure appears acceptable. However, the Agency stakeholders should opine on whether it captures all necessary service expectations accurately.	

LTD Operationalization Assessment

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating
Working relationship and partnering and alignment between client and service provider	• The relationship between the Agency and GWL is relatively mature, with GWL providing carrier services for over 30 years. Both parties felt that the joint approach to the day-to-day management of the contract has worked well, describing it as "two old friends" with transparency and open disclosure between them. There is regular communication between the Claims Teams and Case Managers particular to expedite particular cases, for example when additional information is required as input into CRC reviews. • GWL commented that they appreciated the fact the relationship was such that they could share their ideas on innovation and use the Agency as a sounding board – e.g. sharing their future intent for e-disability. • Whist there have more recently been key meetings held throughout the year that cover potential opportunities for innovation and technology integration, these are not initiated on a regular basis or driven by a formal provision within the agreement. • The Agency staff noted that they found that GWL staff are very approachable, quickly respond to requests and are cooperative in seeking resolution to issues and the communication is open.	• Leading practice demonstrates a positive working relationship which allows for flexibility and responsiveness in service delivery and maintains the balance between the requirement for formal change orders vs. change which can be managed through ongoing performance rigor • Relationship between provider and client is more of a strategic partnering one, where each party has an intentional role and program with accountability for aligning strategies (e.g. IT strategy and future integration, customer strategy and improvements in customer experience). • Where the provider brings its investment and experience with its wider client base to bear and brings these insights and new developments to the Agency for consideration.	

 Strong  Weak

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating

Consideration for cost savings, technical, operational and management improvements	• Overall the annual costs are estimated at: Drug, dental, disability costs at $240m a year, plus an estimated $100m of lost productivity. Selected components of these costs are:
	  • STD - $36m
	  • LTD - $29m
	  • WCB - $3m to $4m.
	• The Medical Director's target is to achieve another $20m cost saving per year (source: Medical Director, the Agency).
	• Current volume of activity is approximately 1,700 active claims, with 400-500 new claims on average per year. Much of the claims process efforts seem to be continually passing information between GWL and the Agency. From our interviews, it was felt that GWL could take greater responsibility for exchange and integration of information, documents and processes, with recognition that there would not be a common case system shared between the two entities.
	• Manager does all checking of STD using TimeOnline, however TimeOnline does not interact with LTD.
	• GWL can provide access to self-reporting tools but access is limited to employees who are part of a pooled organization. Smaller organizations such as Freshwater Fisheries and BC Oil and Gas cannot access these.
	• The Agency indicated that any resource savings as a part of process improvements would result in freeing up resources in WHS to do other value add work. The lean event in September 2012 is also aimed at determining efficiencies in the retained organization and improve the customer experience.
	• As part of the appeals process both GWL and the Agency undertake a high manual workload and generate significant paperwork in relation to the creation of 5 hard copy appeals case packages for the CRC meetings.
	• All Government Employee Union members appeal if their claim is turned down by GWL as there is no cost on their part, and they continue to receive benefits until the adjudication by the CRC (which could mean an extension of benefits for 6 months).
	• The reconciliation process carried out by the Agency is a very manual process which checks the benefits payments made by GWL. The process is subject to errors as cases can go back several years which requires checking and reconciling each salary change and benefit increase.
	• There is a desire to continue an integrated approach to case management, where the manager is connected throughout the lifecycle of the case, from STD, LTD and/or return to work, rehabilitation.
		• In leading practice, it is typical for organizations to outsource the LTD claims process based on a business case for obtaining a desired balance between cost savings, technical and operational management improvements and risk sharing. The spectrum of provision can be from self insured to fully insured.
		• At the beginning of any new outsourcing arrangement, the following procedures should be in place to evaluate cost saving vs. improvements:
		- Identify data to be collected and the method to for data collection
		- Collect, aggregate and analyze data
		- Identify source of insufficiency (i.e. cost saving, technical improvements) benefited from outsourcing
		- Identify potential opportunity to redistribute resources to achieve balance.
		• The individual opportunities for cost savings and improvements identified as part of this study have been noted on the process map and covered in our recommendations.
			N/A

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating
Consideration for cost savings, technical, operational and management improvements	• GWL noted the following challenges or issues with the current process: 1. Time to collect information to adjudication of the claim is on average 183 days in 2010/11. There may be opportunities to reduce this period to avoid a 'cash gap' to the client in which often the customer dissatisfaction is directed at GWL. 2. There is an opportunity to request and receive the attending physician's complete chart notes as part of the initial application form. 3. The current LTD plan provisions for pre-existing conditions are complex and work intensive. Often, 50 – 60% of claims require investigation into pre-existing conditions. Current Agency plan provision is that an employee shall not be entitled to LTD benefits if they have received treatment during the ninety (90) day period prior to the date of hire unless the employee has completed twelve (12) consecutive months of service after the date of hire during which time the employee has not been absent from work due to disability. Under these provisions, there is a considerable time delay as the employee's employment records are requested from TELUS and any absences (often spanning several years) must be investigated to ensure the employee has completed twelve (12) consecutive months of service after the date of hire during which time the employee has not been absent from work due to illness or disability. • There is some duplication of work (data entry and administration), mostly caused by the non integration of the systems. e.g. after 210 hours of STD a potential applicant will get and sends a hard copy of the form into the Agency staff who then enter data into DDMA and check eligibility / dates. The Agency then sends a copy of the form to GWL. GWL then carries out a similar data entry again into their system. Therefore multiple administration staff on both sides enter the same data into separate databases.	• The individual opportunities for cost savings and improvements identified as part of this study have been noted on the process map and covered in our recommendations. • This pre-existing condition provision is quite different from the industry norm. The main difference between the two provisions is that the typical provision in the industry requires 90 days treatment free or 12 months of continuous employment. The 12 months of continuous employment can be confirmed/researched in a much shorter period of time rather than going back years into an employee's employment record to ensure an absence has not been due to the original condition that is being treated. • Deloitte recommend exploring alternatives to the current pre-existing condition provision for the next collective bargaining agreement negotiations.	N/A

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating

Audit	• GWL Winnipeg Office carries out an annual self audit on the Agency claims where 25 claims are reviewed . Typically the sample claims are less than 4 years old and are randomly spread across the claim lifecycle, e.g. new ones and at different stages of the process.
	• GWL also conducts 15 benefit calculation audits per month per Disability Claim Administrator (DCA).
	• There is also an annual financial audit carried out by Hayes Stuart Little and Company. This is a requirement by the Office of the Auditor General.
	• The audit processes have been operationalized well – but the number of claims currently audited are not industry standard practice.
		• Service levels are audited annually for clarity, correctness, and adequacy. The service levels are verified for annual applicable statutes, regulations, security requirement, and obtained feedback from relevant stakeholders. A formal procedure is defined for the audit process.
		• Number of claims to be audited should be 10% of all claims. (1000 – 2000 claims per year i.e. between 100 – 200 claims)
		• Audit provisions grant the right to audit annually, cyclically and on an ad hoc basis. All audit provisions are exercised by a third party. Audit privileges include all of the following:
		  • Price
		  • Scope
		  • Contract Performance
		  • User Satisfaction.
			

Benchmarking	• There is a view that GWL leverages the Agency's contract to demonstrate market penetration and this has led to them undercutting other bidders – approximately 50% cheaper (based on previous RFP for the LTD claims administration process. The benchmarking study suggests the Agency is receiving value for money and this will ultimately be addressed by the RFP process. • Interviewees noted that benchmarking of the claims process against the Canadian market has been considered a challenge, given the uniqueness of how the claims process has been operationalized and with the Agency being self-insured. • The Agency has an opportunity to participate in a public sector benchmarking exercise and plans to do so this year. The Agency has also participated in the review of the Nova Scotia plan design to support a benchmarking exercise of the current Agency plan. • In the interview with the Director Disability and Rehabilitation, Workplace Health and Safety, it was noted that there is a desire for a greater understanding of The Agency's performance against peers, such as the Saskatchewan Government. Key metrics might be disability duration, no. on LTD per thousand etc. • See the LTD benchmarking assessment section for benchmarking results.	• Refer to the benchmarking assessment section	N/A

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating
Performance and Service Standards	Current service standards that GWL report on a quarterly basis are: • Service Target - On average the turnaround for correspondence will be seventeen calendar days. • Service Target - On average claim decision within 50 calendar days of receipt of initial claim forms. Whilst STD is out of scope for this report, some key performance achievements were noted from the interview with the Medical Director who oversees all medical aspects of STD and LTD some performance achievements: • Number of STD days per year is an average of 8.5 days per FTE, this has remained flat over the last 4 years – which is 2 days below the benchmark for similar organizations and is against the general trend of the average no. of STD days increasing. • On average at the Agency, there are 8.9 new case per 1000 employees per year, compared with a similar organization - Healthcare Benefits Trust at 30 per 1000 employees per year and Yukon Health Services, 20 per 1000 employees per year. • For the Agency, 2/3rds of those on LTD return to work before the 2nd year is completed. • Most of our interviewees felt that the claims process is mature and a good model, with high case conclusion rates. The Medical Director noted that the real opportunity for cost saving is placing a focus on returning to work faster, through an emphasis on rehabilitation, particularly as STIIP comes directly out of the payroll budget. • Most interviewees felt the service standard of 17 days for turnaround of correspondence was too long, considering the majority of claims require an additional medical within 60 days turning it into a very long process. The suggested goal in the Agency is to turnaround correspondence in 14 days. • It was felt that more routine requests could be handled in a shorter period of time (through triaging the requests and expediting the simpler cases) or that more case managers might be needed. • Interviewees also noted that it would be better if GWL could respond to additional information requests (such as more medical information e.g. MRI results) more rapidly than the 17 day standard. As a result more information could be brought forward and submitted to the Claims Review Committee (CRC) for adjudication.	• All appropriate processes are benchmarked and have been consistently monitored and improved. • Best practices continuously evaluated and baselines regularly re-created. • Performance monitoring is continuous and used in performance management of the contract. • There is formal system in place to identify potential problem types periodically, with analysis and documentation of the preventive actions taken place every time.	

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating
Penalty framework	• Item G5, G6 & G7 of the service agreement relates to penalties. If the performance standards are not met in any of the 5 categories, then there is a financial penalty of 5% of the administrator's profit charge for each category. If the administrator fails in 2 or more categories then there is an additional 5% penalty (e.g. if there is failure in 3 categories, total penalty would be 20%). The penalty is up to a maximum of 30%. • To our knowledge from these interviews, penalties have not been evoked.	• In leading practice Service Levels are defined with an expectation of continually being met. Not meeting a Service Level would be considered failing to meet defined expectations and accommodate significant penalties. • The definition of performance standards can be improved to align more with leading practices.	

Change Order Process and agreement flexibility	• In interviews, the Agency expressed that the relationship with GWL was such that changes could be discussed on an as needed basis and GWL were very responsive to their requests.
	• The scope of services and provisions are not routinely updated and no formal policies and procedures exist to update the agreement with changes in scope and client needs.
		• In leading practice, provisions exist within the contract and scope to allow for change and the periodic review and renegotiation of :
		  • Scope
		  • Price
		  • Services and Service Levels
		  • Transaction Volumes
		  • Key Performance Indicators (KPIs)
		  • Terms & Conditions
		• Processes are established to communicate clearly to end users and smoothly add services to their contract.
		• In addition to formalizing chances to the contract, a degree of flexibility also generally exists within the agreed contract to absorb reasonable fluctuations from both the customer and provider without renegotiation.
			

Fees and Pricing Structure	• The payment model is set out in Schedule B of the Service Agreement. Actual costs will be covered by the benchmarking assessment. • Generally, new claims accepted are charged at $800 and roughly 50% less for new claims denied. This model effectively incentivizes GWL to increase the number of claims they handle, not seek to decrease claims.	• This is an uncommon pricing structure in current leading practice agreements. Typically leading practice for most organizations would be where they pay a fee based on the number of employees covered by the plan.	

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating

Governance model clearly defined, roles and responsibilities articulated	• A review of the LTD process highlighted that there have been ongoing concerns raised by the Plan's Auditors, Legal Counsel Treasury Board Staff and OAG about the absence of a formal governance structure and decision making process, particularly as it relates to the financial management of the fund.
	• There is a working governance model in place to manage the LTD claims process. As part of the Manager, Disability Benefits Administration is responsible for the Plan Administration with the Director, Disability and Rehabilitation responsible for the overall program. All the Workplace Heath and Safety team report into the Director Disability and Rehabilitation, Workplace Health and Safety, who in turn reports into the Medical Director.
	• There is a Quarterly LTD internal Board meeting with the Head of the Agency as the Trustee. Legal council determined that there was no legal basis to set up an independent and external Board as the Head of the Agency has full accountability for the administration of the LTD fund. As input into the meetings, the Board receives:
	  • Actuarial assessments
	  • Financial statements from GWL (not previously formally monitored) to create more financial discipline around the plan
	  • External audit results and reports - from GWL and the external audit, carried out on behalf of the OAG by Hayes, Stewart Little.
	• There is an annual Board review of the internal GWL audit.
	• On an ad hoc basis there are additional meetings between GWL and the Agency to discuss future options around greater electronic access, further automation and service initiatives.
	• Service review meetings between GWL and the Agency are less structured and happen on an ad hoc basis approximately 2 to 3 times a year.
		• In an agreement exhibiting leading practice, it is typical to formally define the structure of the governance model and interfaces with the provider organization. The agreement would typically detail the following:
		• Joint planning and management sessions
		• Interfaces between the provider and the contract management group defined
		• Performance reporting for each meeting
		• Meeting frequencies
		• Roles and responsibilities
		• Service Standards Development
		• Billing / Reconciliation
		• A formal process is implemented to periodically review the structure in order to make necessary changes.
			

Clear Definition of Roles and Responsibilities	• Roles are set up so that GWL play an independent role as an adjudicator of claims (they are an independent party to make decision on applications). • Knowledge is shared across the Agency and GWL teams at the time of applying for LTD and they interact throughout the claims processing period. • Schedule A of the Services Agreement sets out what the administrator will do but there is no RACI matrix setting out a clear distinction of roles, interfaces and handoffs of the process between GWL and the Agency. • A workflow diagram has been developed by the Agency, but not shared with all the Agency's team and GWL.	• In leading practice, roles and responsibilities are formally defined and updated periodically. • It is recommended the Agency create a RACI (Responsible, Accountable, Consulted and Informed) matrix to clearly define roles to reduce duplication of effort across the Disability Benefits Administration group and the provider.	

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating
Residual organization designed to support service delivery model	• Disability Benefits Administration Team is 16 FTEs, with part time oversight from 1 Director and 1 Medical Director. The estimated resource allocation to LTD claims administration is broken down by role as following : Corporate Advisor — 25% of 3 FTEs Contract Manager — 25% of 1 FTE Disability Claims Analysts — 100% of 2 FTEs Disability Claims Administrators — 70% of 3 FTEs Subrogation Corporate Advisor — 100% of 1 FTE Program Manager — 50% of 2 FTEs Claims Analyst — 50% of 2 FTE Office Manager — 20% of 1 FTE • Whilst our investigation did not include a detailed activity analysis of the LTD claims process, however anecdotally both GWL and the Agency mentioned there was some duplication of activity, e.g. the Agency checks some of GWL benefits calculations. The planned Lean event in September 2012 will highlight opportunities for improvements in process, people and systems.	• Residual organization is designed to provide support to achieve its outsourcing objective. In leading practice the residual organization is periodically reviewed in alignment with outsourcing arrangements to determine if the planned objectives are achieved, and whether corrective action needs to be taken.	

Innovation and improvement Initiatives	• The contract does not specifically provide for the future provision of new electronic delivery systems.
	The Agency Perspective
	• The Agency feels that in regards to innovation GWL has focused historically on other types on benefits claims e.g. health and dental claims rather than LTD, but this is changing.
	• The Agency would welcome more automation of claims, with the introduction of an online portal that they can access for specific data and that claimants might also access to understand the status of their claim and provide personal data. Currently claimants can download the application form but have to submit physically.
	• In the last year the Agency redesigned the LTD Application form to improve the data collection at the beginning of the process.
	GWL Perspective
	• GWL felt there have been several continuous improvement initiatives since 2005, although these have been limited in the last 12 months. Recent improvement examples include:
	  • Open Claims and Service Delivery activity report which has been in place for the last 12 months
	  • They have been undergoing a $30M systems upgrade
	  • They have started faxing of claim information letters to the union (twice a week)
	  • They are also considering imaging systems, and online access for the application form.
	  • Online reporting for the last 10 years – but have only provided the Agency with reports in the last year.
	• GWL uses electronic adjudication of health and dental claims and plans to extend this to LTD (timescale for roll out to the Agency is not specified).
	• They have recently adopted the HL7 transaction standard so that they will be able to participate in online communication with the public health system.
	• They shared their electronic disability claim communication and self service experiences with the Agency in March 2012 and would want to introduce these services as soon as possible.
		• As a part of leading practice, formal reward and recognition programs are created to encourage innovation and the identification of value creation opportunities. The program is communicated throughout all levels of the organization.	

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating

Technology / Systems integration and alignment	• Systems between GWL and the Agency are not yet integrated which results in a high number of handoffs.
	
	BC Government Disability Management Administration System (DDMA)
	• DDMA system is accessed by DBA and Corporate Advisors and used for both STIIP and LTD claims. DBA staff convert paper claim information from GWL to DDMA system.
	• OHR staff access their own system for medical information – there is a need to keep medical info in a separate system.
	• Return to Work Specialists and Occupational Health and Rehabilitation Providers – follow up with claimant to ensure progress in treatment and liaise with the employer to assist with return to work plans. If they need more medical advice, they go to OHN's.
	• Ideally access to data would be restricted based on user rights e.g. Corporate Advisor and Return to Work Specialist would see no medical information, OHNs have access to medical information.
	
	Great-West Life GroupNet System
	• GWL's Disability Claims Reporting (DCR) system is an online tracking tool that provides claim assessment details, claim management information, financial payment, diagnosis trends and time service measurement. The Disability Benefits Administration has access to this system 24 hours a day, 7 days per week.
	  • Accessed by 5 DBA staff
	  • Not available to OHR staff – OHR staff (OHN's) only interested in medical information
	  • Shortcoming – the information does not provide the type of detailed claim information to support the Agency's Corporate Advisor or Return to Work Specialist
	
	• GWL's e-disability initiative was shared with the Agency in March 2012. The aim of this initiative is to integrate data through an e-portal and enable different views based on user access rights.
	• Currently, the imaging of documents is underway – this would allow the Rehabilitation Officer to have all the information to meet with their client.
	• Additionally, GWL are now accepting online claims from physiotherapy: but this yet to be provided to the Agency. GWL said they could already provide this, once they have determined the Agency's requirements and have been able to accommodate privacy guidelines for employee data.
	
	• The Agency expressed the desire for greater integration in case management – or at least integrated views of each case, connecting DDMA and GroupNet Systems.
		• There is a overall platform / self-service portal in place (e.g. MyHR is extended for STD and LTD access) that is leveraging on existing technologies and information. It provides a 'single point of entry' for all kind of information that is relevant for the employees, both from a information gathering, sharing and initiating point of view.
		
		• HR and LTD are monitored using the same software solution and platform. The solution will act as a common/shared database. There is full integration between the different components, without any 'physical' interfaces in between.
		
		• Case management and supporting documentation is integrated into a common view across GWL and the Agency based on agreed user access rights.
		
		• The Agency needs to define the future vision and phased approach for technology systems integration, and outline corresponding requirements in the RFP.
		
		• The ability to meet technology integration requirements in the RFP can be considered a differentiating factor of in vendor selection. It is recommended the Agency determine evaluation criteria based on key requirements and define weightings to depict the relative importance of each requirements, and communicate this to vendors.
			

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating
Automation and information exchange	• There are further opportunities for automation by increasing email exchange and enabling employees to have access to the status of their claim through an integrated portal. • Some data is still managed on separate excel spreadsheets each month – e.g. YTD file which lists the benefits paid to an individual in a particular month. The Agency finds this useful as it provides detail about the individual. At one time, it was intended to load this data into the Agency systems but this has not happened. • TimeOnline does notify the Agency when time of STD switches to LTD. • The agency expressed the desire to have a better exchange of documents to support rehabilitation process. • An online claim submission process for LTD application started in 2011, however the vast majority of employee applications are still received in paper format.	• LTD claims applications and notifications are web based, and an e-portal is used for the exchange of information.	
Data Analytics and Reporting	• Agency interviewee's mentioned the desire to have more customized reports from GWL but felt GWL were responsive to the Agency's ad hoc reporting requests. • Some information is available for download from GWL's GroupNet Systems. This provides information on the disability life reserve amount (an estimate of cost of claim for the life of the claim) which the Agency would like to track in order to determine the potential savings due to interventions that result in return to work. The actuaries also use this data file. • GWL provides quarterly reports on Open Claims and Service Summary. This has occurred since 2011. • The Agency's DDMA also provides reports and users can opt in for specific reports. • Based on our interviews it was felt that GWL is not delivering the analysis you would expected by the Agency. For example, over a year ago, 90% of appeals at the CRC meetings would overturn the GWL decision on eligibility. Whilst it is not clear that the CRC was necessarily making the right decisions either, clearly there was an issue in the process that needed to be investigated. The Agency would have expected GWL to highlight this issue. • The Agency would also expect more trend analysis on the nature of the LTD.	• The carrier is expected to define and track service level performance on a regular basis (monthly or quarterly) • The vendor is expected to establish and track the measurable objective in service level agreements. Additionally, the vendor is expected to measure an engagement objective that influences customer's satisfaction. • Issue analysis is conducted periodically, with analysis and documentation of the preventive actions taken place every time. • Analysis that helps predict trends in LTD claims, and can support improvement of the provision of the service, increased customer satisfaction.	

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating
Skills and Capabilities of the Agency's staff	• An in-depth analysis of capabilities and skills was not a part of scope, however based on the process maturity assessment its is understood that staff are performance managed on a regular basis and performance is measured against job description requirements and some key competencies within this area of expertise. • Some long serving team members have had different roles in the LTD Benefits Administration Team and this has built the internal knowledge of the end to end process.	• The performance management process is based upon a competency model, covering both general and specific skills. The Competency Model outlines performance criteria for each level and is directly linked to promotion criteria.	N/A

Resources, Skills and Capabilities of GWL	• An analysis of the capabilities and skills of GWL staff was not part of this scope. From the interviews with GWL, Deloitte understand there are approximately 200 LTD claims staff, 7 case managers dedicated to the Agency's account with between 4 - 12 years' experience of the LTD plan.
	• GWL have 45-50% of the LTD market share in BC. There are 2 claims offices, in Vancouver and Langley with a total of 200 staff, handling 20,000 individuals claimants.
	• GWL have substantial capability in delivering LTD for the BC government based on their long term experience of dealing with the Agency since the 1970s.
	• GWL have other similar clients where they can bring this experience to bear :
	  • Healthcare Benefits Trust – similar to the Agency
	  • Government of Alberta - where GWL does the adjudication but payment of benefits is done by the Government of Alberta.
			N/A

GWL Training and Loyalty Program	• Based on interviews with GWL, they stated they have training programs and a training coordinator for the LTD claims process for their 200 claims staff. All new hires go through training. • This is a more complex process than health and dental and so GWL have invested in training to encourage retention. • There is some moderate turnover however (level not given).To increase retention by reducing staff's commute, they opened an office in Langley after determining 50% of their staff lived in the Surrey area.	• There is a formal training strategy in place with a clear curriculum for both new joiners as well as a clear 'enhanced' curriculum for existing staff. Training can be triggered by employee initiative as well. • Policies to develop employee loyalty program are defined and implemented, and consistently reviewed	

LTD Operationalization Assessment

In the following table, the operationalization of the Agreement has been reviewed and the extent to which each element has been effectively operationalized in relation to leading practices has been determined. An indicative rating of maturity against leading practice is given.

Dimension	Contract Operationalization Findings	Leading Practice	Rating

Customer Experience	• The Agency benefits administration manager can suspend LTD payments if employee is not participating in rehabilitation – it is important to keep that authority in the process. This means claimants cannot appeal as it is a participation issue, not a medical issue.
	
	• There was no dialogue directly with customers, however in our discussions with the Agency and GWL the interviewees noted that the process is not particularly customer friendly. The following points were noted:
	  • The application form is overwhelming, employee and doctor whilst fill it out in its entirety still have additional information requests from GWL.
	  • It is difficult for the employee to know where their application is in the process and it is unclear who the customer should liaise with.
	  • The process could be improved so the time for the claimant to receive money from GWL is reduced - often people will ask from LTD only after termination from STD, and therefore are getting no money during the time it takes GWL to respond with any additional medical information (up to 2-3 months).
	
	• One point of contact for the customer would be optimal, but given the current structure and split of the process between GWL and the Agency it may not work.
	
	• The Agency noted that Service Level Agreement and performance management could be more customer focused and based on customer satisfaction.
	
	• The Agency conduct customer experience surveys on an ad hoc basis and recently conducted a study to understand the customer experience.
		• Customer satisfaction surveys are conducted on a regular basis (minimum annually) with a constant participant group.
		• Results are promptly shared with provider, end-users and relevant stakeholders annually with a constant set of users.
		• Survey questions remain constant over time to ensure that results can be compared over time.
		• Action items to improve are created, shared with end-users and monitored on a monthly basis until complete.
			N/A

LTD Service Delivery Model Review

Alternative Approaches to LTD Funding and Delivery (US Practice)

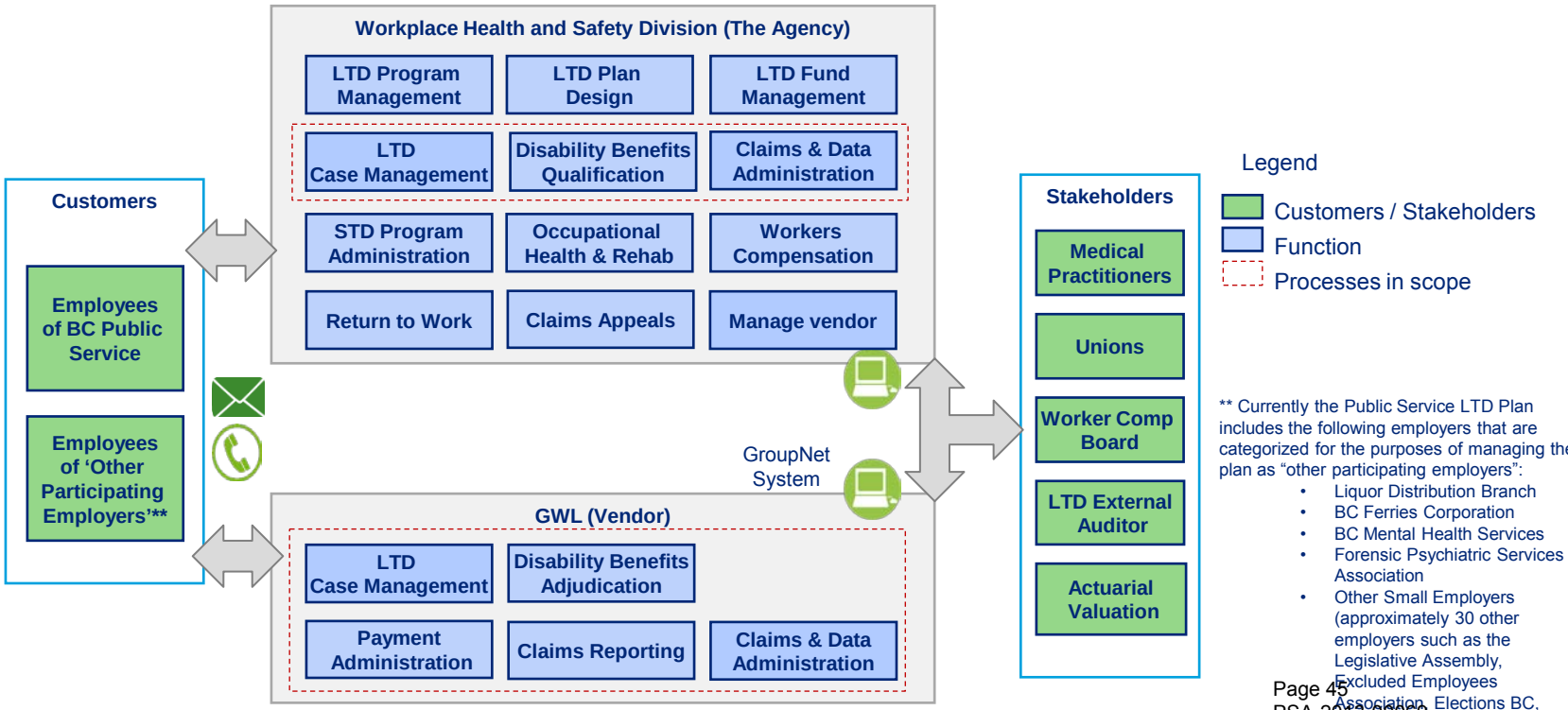
In the US, it is less common to fund LTD on a self-insured basis than on a fully-insured basis, even for large employers. In Canada, there are more self-insured plans (reported by Morneau) though the legislation landscape is changing. In the table below some of the differences between insured and self-insured arrangements in the US have been described.. Each model has different strengths and weaknesses.

	Self-Insured	Fully-Insured
Risk	• In a self-insured arrangement, such as that employed by the Agency, risk is kept by the organization and sufficient funds must be on hand for the payment of LTD claims. • In this case, the Agency has taken the role of "insurer" in that the Agency offers LTD benefits through this self-insured arrangement to various groups, at a "premium equivalent rate" and does not charge back actual expenses to the groups.	• In a fully-insured arrangement, 100% of the risk is transferred to the insurer, in return for payment of premiums. • The insurer is responsible for ongoing payment and management of the plan and for setting aside funds for future reserve liabilities. • In the event that the insurer is terminated, disabled employees remain the liability of the insurer in perpetuity.
Payment	• In the case of Agency, payment is made by GWL. However, in self-insured situations, payment can be made by the client as well, with "advice" as to how much is due. In this case, services provided by the administrator are described as "advice to pay"	• Payment is made by the insurer.
Management of claimants	• Primarily the responsibility of the administrator, although a mixed model can exist where the Plan Sponsor takes on certain responsibilities. • Affords the ability to integrate return to work for STD, LTD and Workers' Compensation.	• The insurer retains all claimant management responsibilities. • **Risk:** Separating the return to work function for LTD from STD and Workers' Compensation may risk a less effective overall ability to limit disability durations.
Funding of reserves	• The Plan Sponsor retains the liability for future annuity payments for all disabled members. • In the case of the Agency, this liability must be managed and accounted for and was around $350M in 2011.	• The insurer is responsible for setting aside reserves and managing investments in those reserves.
Appeals	• Final authority is retained by the third-party Appeals Committee (in the case of the Agency) or the Plan Sponsor (in other cases).	• The insurer retains final decision authority. • **Risk:** The agency would need to successfully negotiate with the unions out of the existing final appeal process that rests with a third party 'tribunal'.
Plan termination	• In the event of plan termination, the Plan Sponsor retains the responsibility for payment of claims. In the case of bankruptcy or plan termination, future payments are at risk.	• The insurer retains liability for all members who become disabled while the insurer's policy is in-force. In the event of termination of the insurance agreement or the Plan itself, disabled participants will continue to receive benefits. Only in the event of the insurer's bankruptcy would benefit payments be at risk.
Cost	• The Agency's cash cost relates to cash payments for disabled members and overhead, plus the administrative cost of GWL. The Agency must also account for the reserve costs. The Agency charges a "premium equivalent" for groups wishing to enroll in the program.	• Insurers charge a premium which covers cash payments, future reserve requirements, and administrative overhead. Typically, insurers require 15%-20% of premiums to fund their administrative and profit requirements.
Compliance	• Responsibility of the Plan Sponsor	• Responsibility of the insurer
Interest on Reserves	• All interest is retained by the Plan Sponsor	• As part of negotiation, it may be possible for the insurer to share some of the profit on reserves with the Plan Sponsor.

Overview of Current State LTD Service Delivery Model – Self Insured Model

Self-Insured LTD Service Delivery Model

- The current state LTD service delivery model is representative of a self insured model, in which the Agency maintains the role of "insurer" and holds primary responsibility of the program and Great West Life provide a select group of LTD functions. This is not common practice in the US but it is a common model in Canada and found in many Provincial Governments.
- The Agency has an integrated rehabilitation and return to work function that addresses STD, workers' compensation and LTD. The benefits of this model is that it focuses on rehabilitation and return to work to help reduce the number of employees that become dependent on LTD and consequently significantly reduces the overall costs of LTD. The Agency also reports that the integrated model has been successful in minimizing the number of STD days and reducing the number of new cases going on LTD.
- The unions approve of the current claims appeals process where they have some control in the adjudication process by appointing one of their doctors to the CRC. Any changes to this approach (i.e. where the decision moves to the insurer under the fully-insured model) would require a negotiation with the union.



** Currently the Public Service LTD Plan includes the following employers that are categorized for the purposes of managing the plan as "other participating employers":

- Liquor Distribution Branch
- BC Ferries Corporation
- BC Mental Health Services
- Forensic Psychiatric Services Association
- Other Small Employers (approximately 30 other employers such as the Legislative Assembly, Excluded Employees Association, Elections BC, Oak Bay Lodge)

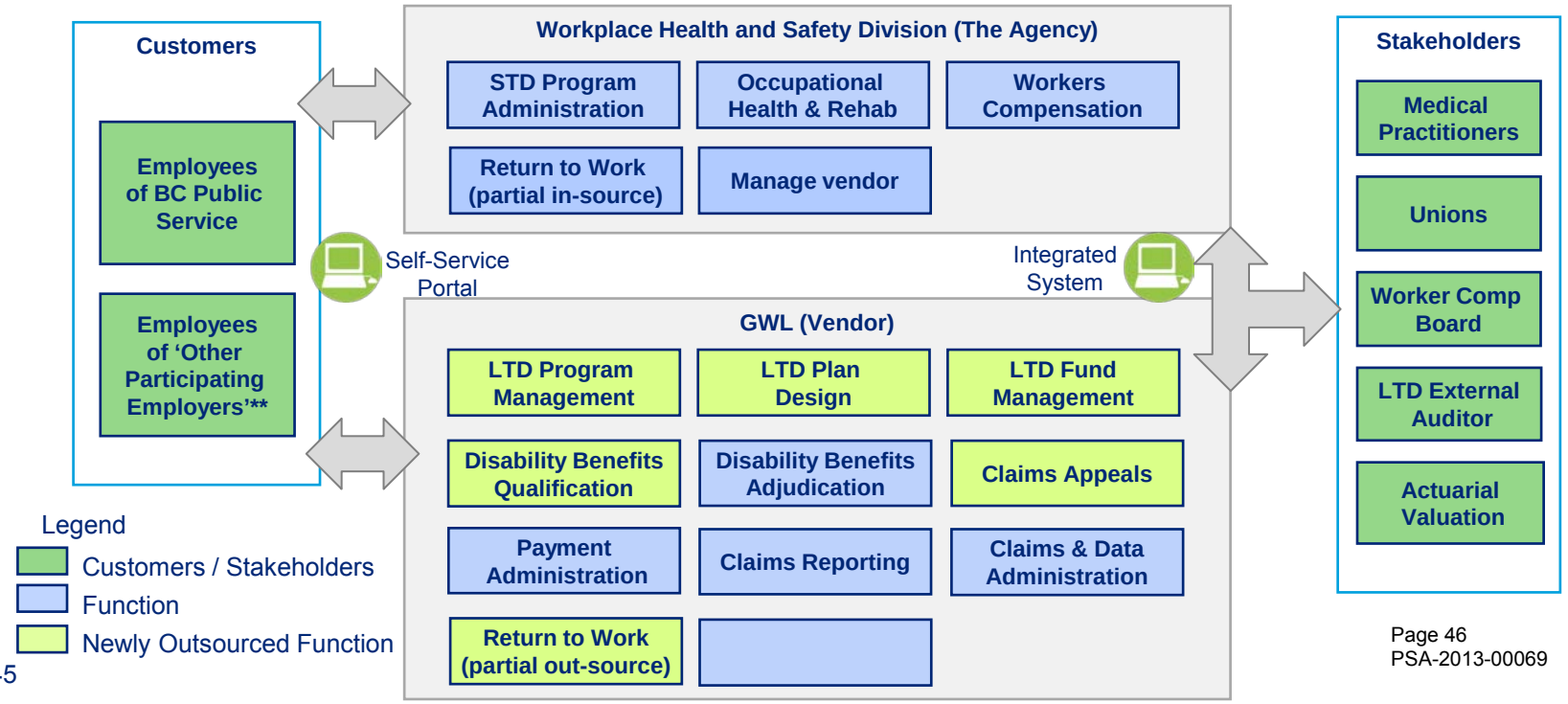
Alternative LTD Service Delivery Model – Typical Fully Insured Model

Fully Insured LTD Service Delivery Model - Return to Work partially outsourced

Below is a typical design of a fully-insured LTD program. Under such a funding arrangement, it is common that several more components of the program currently delivered by the Agency would be carved-out to the insurer e.g. LTD program management, plan design, fund management, some return to work, claims appeals and disability benefits qualification.

- **Claims Appeal Process:** The extent to which the insurer has control over the final decision in the claims appeals process affects the level of risk and ultimately costs that they might have to bear.
  - As the appeals process stands today, the decision remains out of the employer's control as it is subject to the Appeal Board, and ultimately the Labour Relations Board, whose decision prevails. In the self-insured model today, the Agency as the insurer, bears any resulting liability and costs.
  - In a fully insured model, the carrier would be accountable for any resulting liabilities and costs associated with the appeals decision and yet has no control over the decision process. As such they may find this an unacceptable level of risk to insure.
- **Return to Work:** Aspects of return to work planning for STD and WCB cases are still retained within the Agency.

In order to provide a full and comprehensive analysis and recommendations on LTD practices and outsourcing vs insourcing the full service delivery model and costs should be analyzed. This would include STD, OCH, rehabilitation, return to work and WCB since the success of these programs have an impact on LTD.



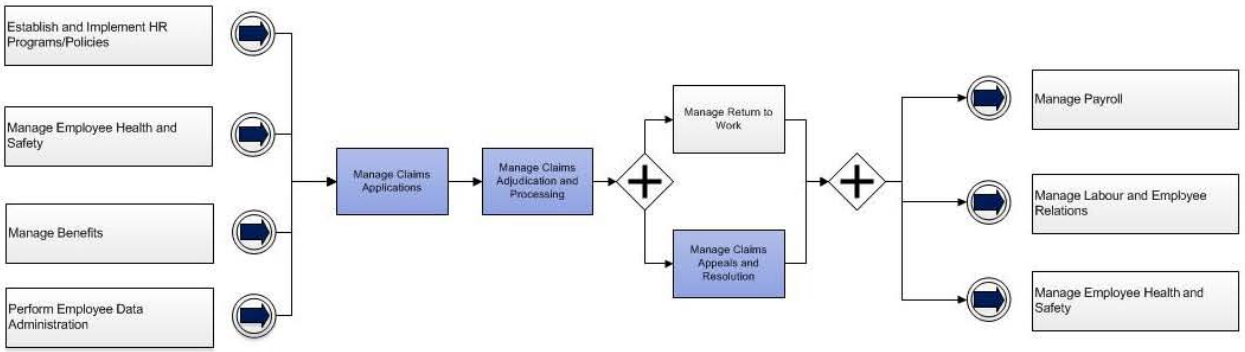
LTD Process Maturity Assessment

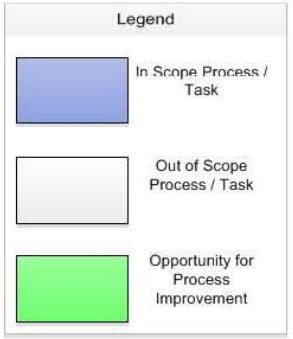
CURRENT STATE HIGH LEVEL PROCESS MAP: LONG TERM DISABILITY CLAIMS

Deloitte.

Summary: Manage the on-going process of analyzing Long Term Disability benefit eligibility and communicating changes to employees. Record employee election changes due to such events and pass information to providers for coverage and payment purpose.
This Manage Long Term Disability Claims high level Process map demonstrates the current state British Columbia Public Service Agency (BC PSA) and Great West Life (GWL) operate to deliver Long Term Disability (LTD) benefits across BC Government and associated bodies.

Manage Long Term Disability Claims





Suggest High Level Workflow
This document outlines the current state High Level Process Flow with regard to managing Long Term Disability Claims at BC PSA. It outlines The current framework for managing LTD activities and covers the following areas:
- Manage Claims Applications
- Manage Claims Adjudication and Processing
- Manage Claims Appeals and Resolution

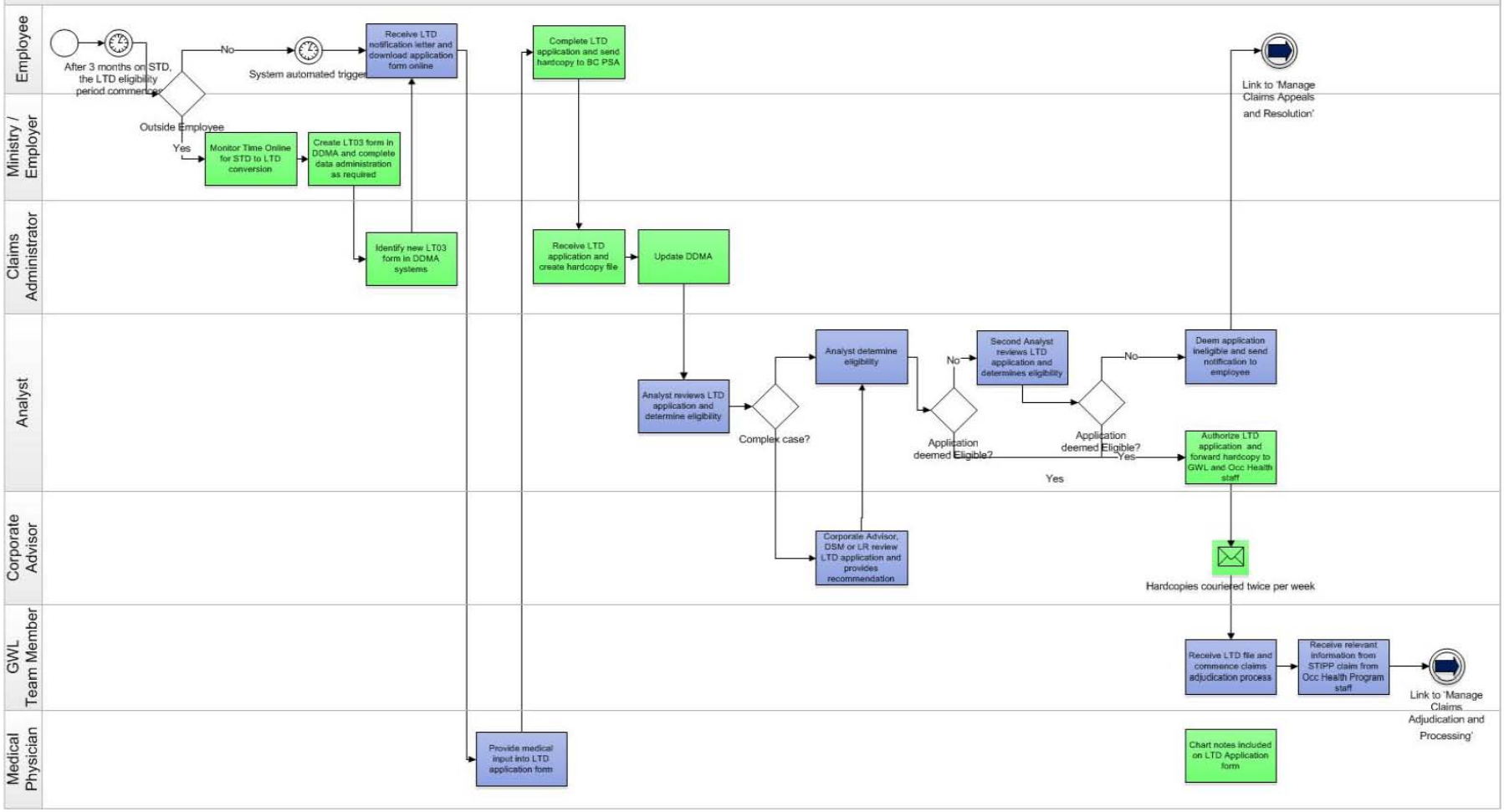
The LTD process has been mapped to provide a high level end to end view of the process and highlight where there are opportunities along the process. Throughout the process, the split between GWL and the Agency has been defined, and specific opportunities for improvement have been highlight in green.

Current State High Level Workflow: Manage Claims Applications

Deloitte.

Workflow Description: This is the overall Process flow for Manage Claims Applications and outlines the current state activities and accountabilities specifically related to the administer disability claims according to BC PSA policy, receiving disability requests and reviewing eligibility, and forwarding claims to provider for adjudication.
Scope: This workflow is part of the Manage Long Term Disability Claims Process.
Systems: DDMA and GroupNet

Manage Long Term Disability Claims > Manage Claims Applications



Improvement opportunities commentary:

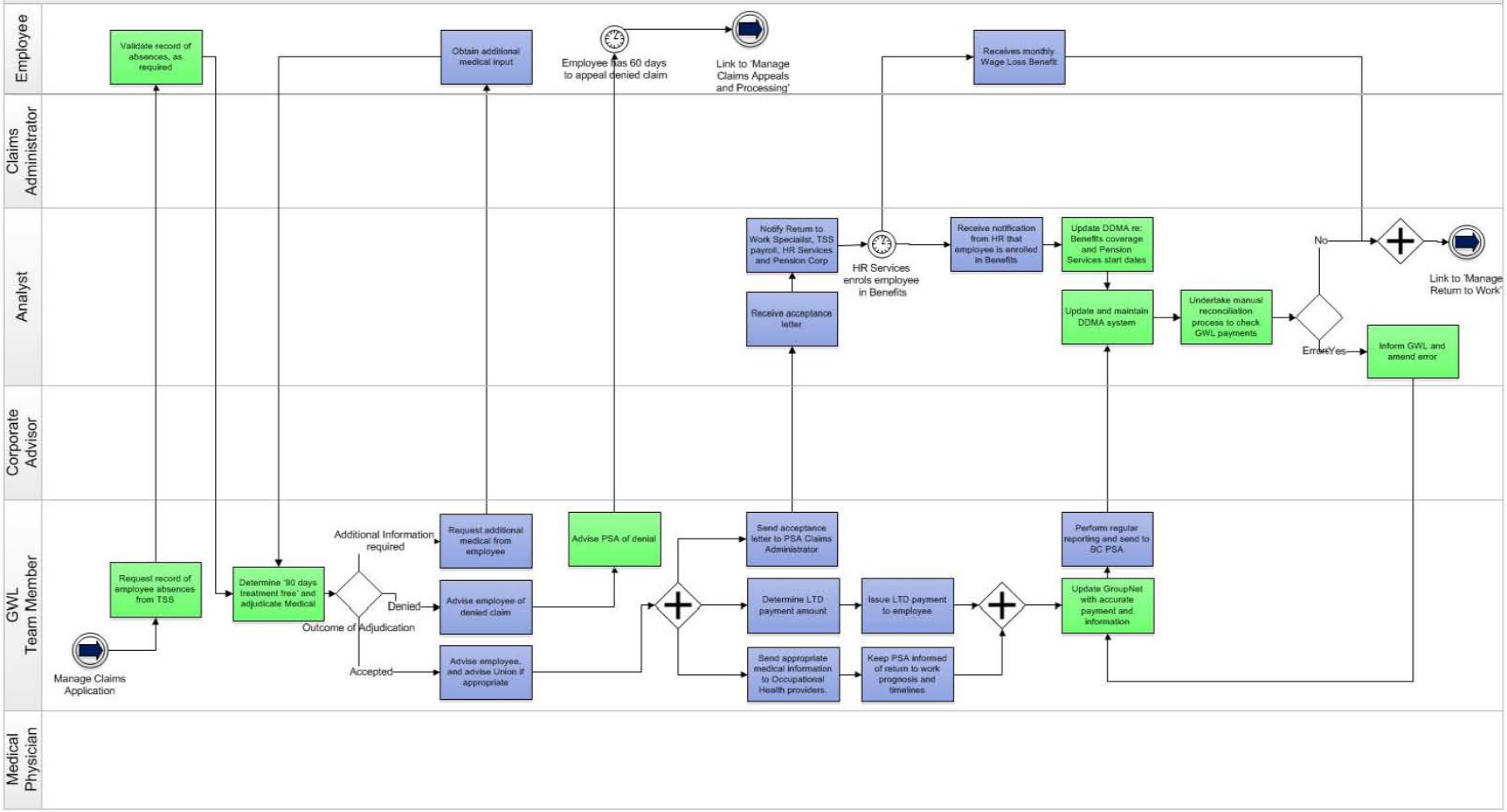
- Automate LTD notification across all employment bodies, and eliminate manual checking of STD to LTD conversion and creation of LT03 form
- Enable LTD application form to be sent via email and create an online form to reduce data administration
- Information exchange between the Agency and GWL is dependent on mail courier of hardcopies of LTD application, there is opportunity to convert to electronic data exchange

Current State High Level Workflow: Manage Claims Adjudication and Processing

Deloitte.

Workflow Description: This is the overall Process flow for Manage Claims Adjudication and Processing and outlines the current state activities and accountabilities specifically related to the adjudication of claims, updating employee's records based on outcome of approval process, the ongoing management and payment of successful claims, and monitoring claim status for the period of the disability claim.
Scope: This workflow is part of the Manage Long Term Disability Claims Process.
Systems: DDMA and GroupNet

Manage Long Term Disability Claims | Manage Adjudication and Processing



Improvement opportunities commentary:

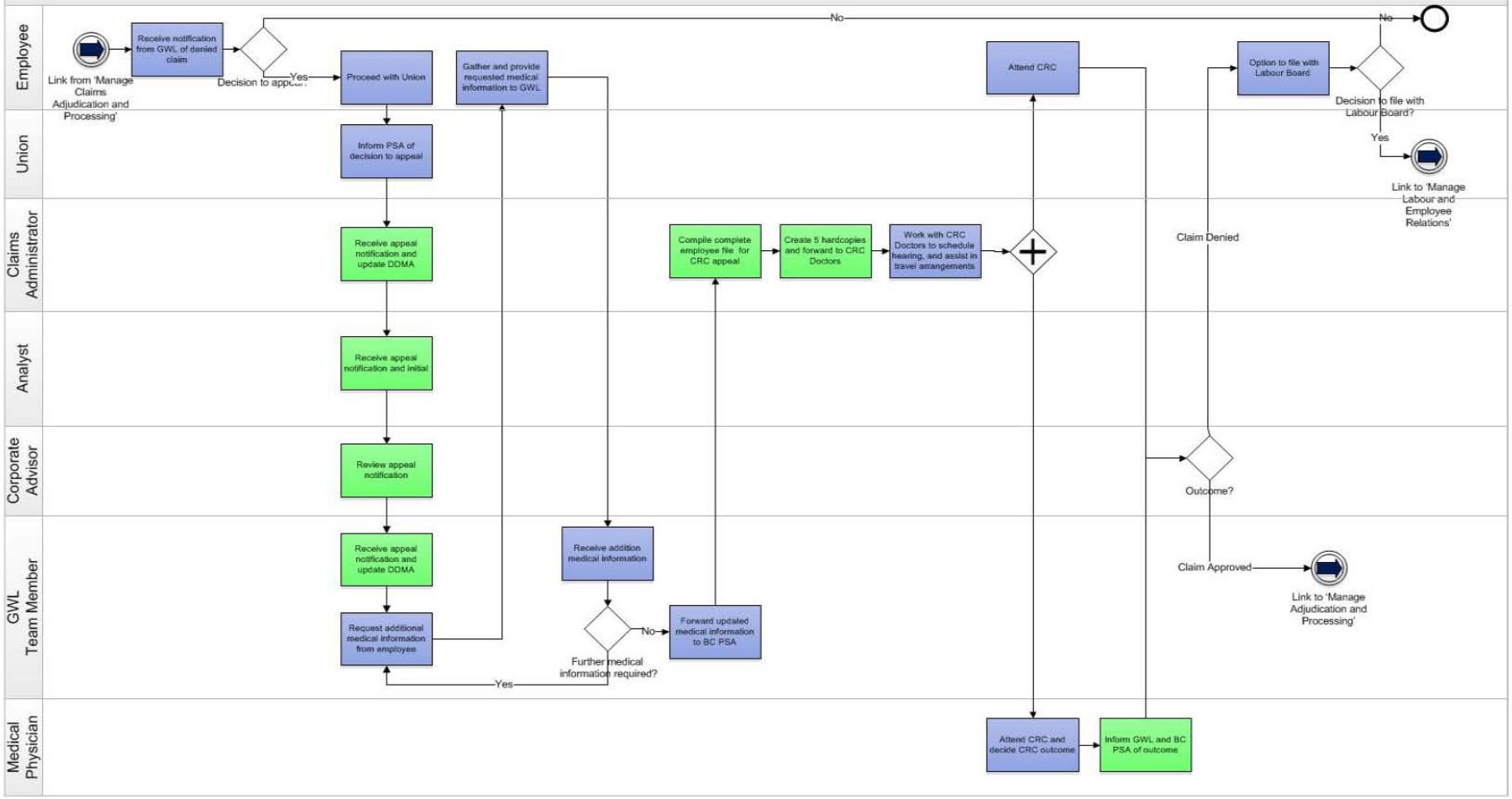
- Review eligibility criteria regarding employee absences over 12 month period and update requirements
- Automate error checking process, and formalise the Agency and GWL process and procedure in handing of errors
- Integration of DDMA and GroupNet systems to allow improved information exchange

Current State High Level Workflow: Manage Claims Appeals and Resolution

Deloitte.

Workflow Description: This is the overall Process flow for Manage Claims Appeal and Resolution and outlines the current state activities and accountabilities specifically related to managing the claims appeals, CRC committee process and resolutions of claims.
Scope: This workflow is part of the Manage Long Term Disability Claims Process.
Systems: DDMA and GroupNet

Manage Long Term Disability Claims > Manage Claims Appeals and Resolution



Improvement opportunities commentary:

- Review handovers in the appeal notification process and clarify roles, responsibilities and accountabilities
- Improve information exchange between GWL and the Agency in relation to medical information
- Convert employee files to electronic versions to reduce manual workload
- Formalise CRC outcome notification process

Shape Definitions and Standards of Use

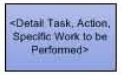
Deloitte.

Summary: The below shapes represent the standard shapes used within the Deloitte high level Process Workflows and Process Maps.

Manage Long Term Disability Claims

Start Event: Indicates where the workflow starts. There is only one start event in a workflow

End Event: Indicates where the workflow ends / is complete. There can be more than one end event in a workflow



Task: Represents actions or specific work performed. To start with a verb.

Sub Task: Activity containing sub-parts that can be expressed as a work flow. This connects to another work flow which breaks that activity down in more detail.

Represents an opportunity for improvement in task, actions or specific work performed.

Exclusive OR gateway: Contains one sequence flow in and more than one sequence flow out, representing an exclusive decision. Only one of the output sequence flows is to be followed.

Parallel gateway or and AND gateway: Represents concurrent activities, taking place in parallel. Activities are enabled to start at the same time; it doesn't matter which activity happens first. There is no need to label a parallel gateway or the sequence flows connecting them.

Inclusive OR gateway: Used when there is more than one possible course of events. Conditions are added to the gateways. If the condition is true then that branch of activity will be activated. One path, some paths or all paths may be followed.

Time start event: Signifies the workflow is run on a predetermined schedule, either once off or recurring.

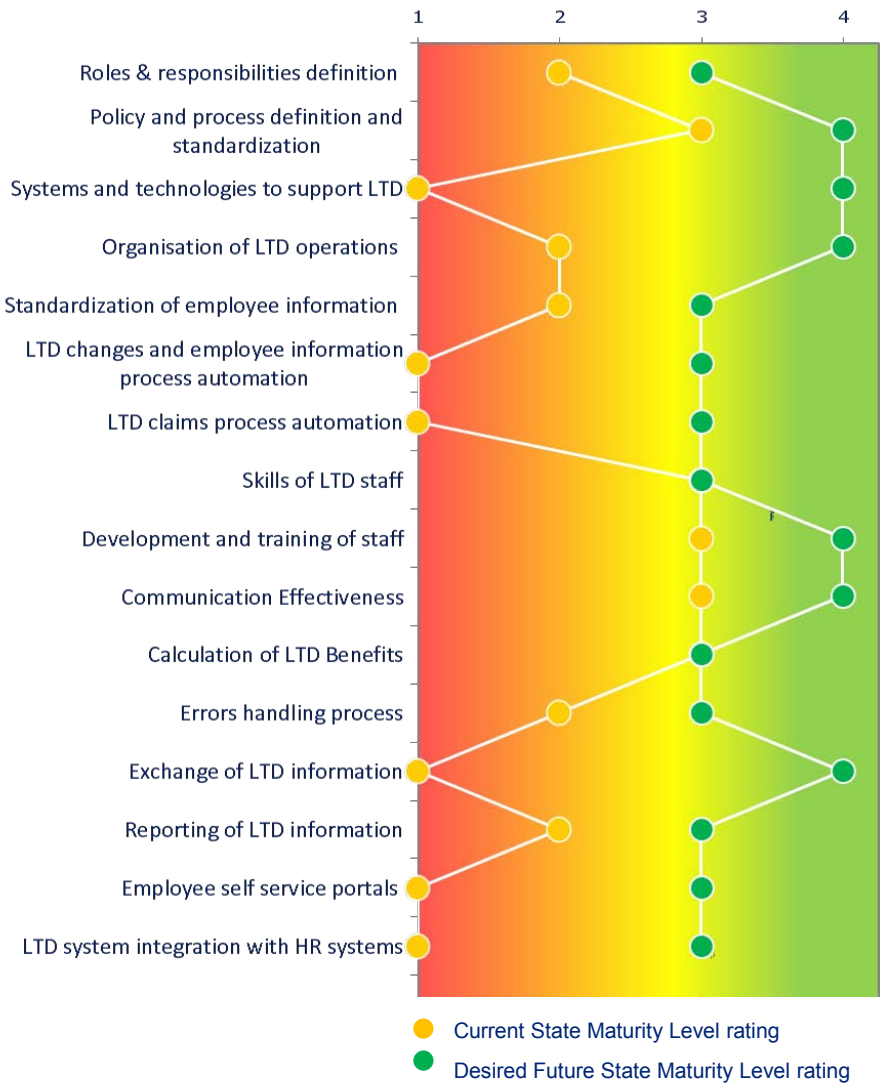
Arrow: Shows inbound and outbound links to other high-level activity workflows

Sequence flow: Shows direction of activity flow and used to link all shapes within the high-level activity work flow.

Swimlane: Used to indicate who performs each task, representing roles and/or organisational units.

LTD Process Maturity Assessment Summary

Deloitte's high level assessment of the LTD Process Maturity was based on information gathered in our discussions with the Agency.



Legend

1. Developing
2. Defined
3. Advanced
4. Leading

- In addition to the contract review, Deloitte conducted a high level maturity assessment of the LTD process in isolation. Findings are based on information gathered throughout our analysis and in stakeholder interviews.

- The current state maturity of the LTD process ranges from developing in some areas to advanced in others, and on average is generally defined.
- A consistently high rating by PSA for desired future state (either advanced or leading) indicates there is both a strong desire and the opportunity to improve process maturity across the end to end process.
- The most significant opportunities for improvement include:
  - Systems and technologies to support LTD, including systems integration between GWL and the Agency
  - Process improvements in changes to employee information and claims handling
  - Effective and efficient exchange of LTD information between the Agency and GWL
  - Establishment of employee self service portals.

- The recommended next steps:
  - Conduct a detailed Lean process review and define improvement initiatives to address identified gaps
  - Detail improvement requirements in RFP specifications
  - Align improvement initiatives with future state service delivery model.

LTD Process Maturity Assessment

The maturity of the LTD claims process has been assessed at a high level against the Deloitte LTD maturity model, based on stakeholder input from the Agency. In all dimensions, the current and future state has been rated.

	Developing	Defined	Advanced	Leading
To what extent have the roles & responsibilities in terms of LTD been defined in the organization (split between the Agency & GWL)?	Roles and responsibilities have not been clearly defined, and are blurred within the overall finance departments responsibilities.	Roles and responsibilities have been defined at the operational level, insufficient communication and enforcement of responsibility.	Roles and responsibilities have been defined at the operational level, clearly communicated and enforced. Roles and responsibilities are not aligned with overall Finance, Workplace Health and Safety and the Agency goals and GWL goals respectively.	Roles and responsibilities have been defined and enforced at the operational level, and are well aligned with overall Finance, Workplace Health and Safety and the Agency goals and GWL goals respectively.
To what extent are policies and processes regarding LTD clearly defined and standardized?	Processes are not documented and/or consistent across the different divisions/units of the organizations.	Processes have been defined on an 'activity-level', covering the main steps within an LTD process. These processes are described on a (rather high) level that would comply to all divisions/units within the organization.	Processes have been defined on an 'task' level, indicating roles and responsibilities for each of the different tasks for each of divisions/units within the organization.	Processes have been defined and harmonized across the organization. These processes are defined on a task-level with clear roles and responsibilities and key performance Indicators assigned to it.
To what extent are the Agency staff (WH&S team) and LTD processes supported by adequate systems and enabling technologies?	The WH&S team maintains a complex and expensive collection of independent, single-purpose software programs and databases	WH&S team is moving in the direction of integrating its technology systems to reduce costs.	WH&S team has an integrated technology infrastructure, but its relative lack of value-adding reporting capabilities limits the usefulness of the data to transactional and compliance monitoring activities.	There is a single, cost effective LTD technology infrastructure in place that is accessible to line managers, employees, HR, and third parties, as appropriate. Includes a sophisticated reporting capability that translates HR/LTD data into clear and meaningful information.
How are the LTD operations organized throughout your organization?	LTD operations are decentralized with uncoordinated and unsynchronized LTD timescales and calendars between decision making parties.	LTD operations are decentralized but with harmonized and coordinated LTD timescales between decision making parties	LTD operations are centralized or outsourced, and LTD timescales and calendars are uncoordinated and unsynchronized between decision making parties.	LTD operations are centralized or outsourced, with coordinated and synchronized LTD timescales between decision making parties.

Current State Maturity Level rating

Desired Future State Maturity Level rating

LTD Process Maturity Assessment

The maturity of the LTD claims process has been assessed at a high level against the Deloitte LTD maturity model, based on stakeholder input from the Agency. In all dimensions, the current and future state has been rated.

	Developing	Defined	Advanced	Leading
How standardized is employee information across the organization?	There is limited cross organization transparency related to employee information and the information is not standardized.	Employee information is standardized but transparency is limited due to non integrated systems.	Employee information is standardized and contained in a limited number of sources with basic transparency through drill down functionality.	Employee identification is standardized and all employee information maintained in a single, common database shared by human resources and LTD.
How automated are the processes in regard to changing LTD and employee information?	All changes to employee and LTD information is manual and passes several layers of potential bottlenecks.	Changes to employee and LTD information is manual but based on standard formats and processes.	Changes to employee and LTD information is through largely automated processes but not fully integrated and web based.	Employees update their own personnel profile and direct deposit information by using wed-based self-service technology.
How automated is LTD claims processing, administration and notification of LTD outcomes?	LTD claims applications and notifications are on paper based, and are received physically in the mail.	LTD claims applications and notifications are on paper based, however email functionality can be used (scanned application form and email notifications).	LTD claims applications and notifications are electronic based, and exchange of information is predominantly email based.	LTD claims applications and notifications are web based, and an e-portal is used for the exchange of information.
How do you assess skills of your LTD staff?	There are no standard performance criteria and performance process available.	There are some informal performance evaluations, but without clear criteria. Feedback is given on a case by case basis and is tracked by the direct supervisor.	Performance management is based on job description requirements and some key competencies within this area of expertise. A clear criterion for promotion exists.	The performance management process is based upon a Competency model, covering both general and specific skills. The Competency Model outlines performance criteria for each level and is directly linked to promotion criteria.

Current State Maturity Level rating

Desired Future State Maturity Level rating

LTD Process Maturity Assessment

The maturity of the LTD claims process has been assessed at a high level against the Deloitte LTD maturity model, based on stakeholder input from the Agency. In all dimensions, the current and future state has been rated.

	Developing	Defined	Advanced	Leading
How do you develop your staff (development plan, training etc.)?	There are no training courses and learning strategy/programs in place in the organization.	There are some training courses available to meet specific requests or topics. They are managed on a 'case by case' basis.	There is an informal training strategy for new joiners within the department or to update staff on updates. Training can be triggered to some extent by employee initiative.	There is a formal training strategy in place with a clear curriculum for both new joiners as well as a clear 'enhanced' curriculum for existing staff. Training can be triggered by employee initiative as well.
How do you ensure consistent communication?	Employee communications are very limited and typically administrative or compliance-related.	Communications are more regular, but the messaging can be unclear depending on the author or subject.	A communication strategy promotes clear and consistent messages to update employees on crucial business issues.	The communication strategy ensures clear, consistent communications about important business events and challenges; it pro-actively addresses employee concerns.
How automated are the processes of calculating LTD benefits payments etc.?	Calculations of LTD benefits payments are manual and time-consuming and the number of errors material.	Recurring LTD benefits payments are automated but still requires a number of manual interventions.	Recurring LTD benefits payments are automated and the number of manual interventions limited.	Necessary LTD benefits payments are automated based on established rule sets and procedures.
How are errors being handled?	Errors are numerous and their handling manual. Frequent in non-standard cases, activities and payments.	The number of errors are limited to a few types but their handling still manual.	Errors are limited to certain specific types and their handling is automated for non complex cases, based on pre defined procedures.	Non complex errors are eliminated. Complex errors are limited and their handling automated based on established procedures.

Current State Maturity Level rating

Desired Future State Maturity Level rating

LTD Process Maturity Assessment

The maturity of the LTD claims process has been assessed at a high level against the Deloitte LTD maturity model, based on stakeholder input from the Agency. In all dimensions, the current and future state has been rated.

	Developing	Defined	Advanced	Leading
How is information regarding LTD exchanged and shared?	Data exchange of LTD information is time-consuming, manual and difficult and restricted amongst users.	Data exchange of LTD information is automated but relies on users manual adjustments to get it into consistent form.	Data exchange of LTD information is automated for specific information and is available upon users request.	Data exchange of LTD information is automated, available from a common data source available online and can be accessed by granted users for self-service analysis.
How are LTD reports generated?	LTD reports are generated manually on an ad hoc basis, and information is not user friendly.	LTD reports are generated manually at fairly regular intervals, and information is moderately user friendly.	LTD reports are generated automatically at regular intervals, however separate systems generate different reports, and information is user friendly.	All subsystems are interfaced and there are system-generated LTD reports at set intervals, and information is user friendly.
To what degree are you using employee self service portals (for benefits and HR)?	There are no technologies in place to enable employees to review and/or change particular data.	There are some technologies in place to enable employees to view and/or change particular data. Only the 'front-end' is automated. Back-end follow up and handling are still a manual process.	There are leading edge technologies in place (portal, employee self service tool) that enables the employee to review and/or change particular data. Both 'front-end' and 'back-end' follow up and handling are automated to a maximum extent.	There is a overall platform in place (employee desk) that is leveraging on existing technologies and information. It provides a 'single point of entry' for all kind of information that is relevant for the employees, both from a information gathering, sharing and initiating point of view.
Is the LTD system integrated with the HR system?	HR and LTD are monitored by separate software solutions without any point of integration between these systems. Data is re-entered manually in both systems if applicable.	HR and LTD are monitored by separate software solutions with 'delayed' integration between these systems. Data is send across in a dedicated timeframe (e.g.. overnight).	HR and LTD are monitored by separate software solutions with a 'real time' integration between these systems. Data is sent across at the moment that the change is made.	HR and LTD are monitored using the same software solution and on one and the same platform. The solution will act as a common/shared database. There is full integration between the different components, without any 'physical' interfaces in between.

Current State Maturity Level rating

Desired Future State Maturity Level rating

Assessment of Current Risk Sharing and Benchmarking of LTD Provider Administration Expenses

Overview

As part of ongoing efforts to ensure the efficiency and cost competitiveness of the Long Term Disability (LTD) program, Morneau Shepell was engaged by the BC Public Service Agency (the Agency) to assess their current self-insured risk sharing model and conduct a benchmarking of the underlying LTD claims adjudication and administration expenses (also referred to as “retention charges”) with their current provider, Great-West Life Assurance Company (GWL).

Eight plan sponsors with members/employees ranging from 10,000 to 60,000 were selected from Morneau Shepell’s database to participate in the study based on similar characteristics to the Agency such as size, industry, and complexity of program, for example. The organizations selected as participants have not been identified for confidentiality purposes. However, the characteristics of the participant group are as follows:

- Five public sector and three private sector participants
- Participants are located across Canada including, British Columbia, Alberta, Ontario, and Maritime provinces
- Four participants are self-insured and four are insured (refund accounting)
- Includes five major insurance companies in Canada

As is customary, the results of the benchmarking study will be shared with the participants in the form of a spreadsheet summary.

Results of the benchmarking study have been tabulated by participant group and the raw data is summarized within Appendix B of this report. The body of this report focuses on the quantitative comparative analysis of the expense charges reported by each participant.

Assessment of Current Risk Sharing

Continuum of Risk Sharing with Insurers

There are essentially three basic risk sharing/underwriting arrangements available to plan sponsors in the group insurance market place in Canada for LTD plans. In practice, the appropriate method of underwriting will depend on the nature of the risk, the plan sponsor's comfort level with assuming risk, and the size and maturity of the group itself.

The key to prudent management of the funding of a plan is to select the most appropriate method of underwriting given all of the relevant factors impacting the plan's performance. For larger plan sponsors, a greater degree of predictability with respect to claims experience is often realized. This characteristic enables larger organizations to consider a broader range of underwriting alternatives due to the reduction of volatile claims experience.

Below, is an illustration demonstrating the relationship between the underwriting arrangements and risk. In addition, Morneau Shepell have provided a description of the features and characteristics of these methods in the following slides:

Underwriting Methodologies

Underwriting Method	Description
Fully Pooled	Under this approach, the insurer establishes premium rates and the plan sponsor's responsibility is limited to the payment of premiums. A rate basis is established based on blending some portion or all of the plan sponsor's experience with that of the insurer's overall experience for their book of business. Because the plan sponsor's risk is minimized, this method is the safest and most conservative method of funding. The plan can be terminated or transferred to another insurer without any obligation or accountability from the plan sponsor to the insurer. No refund is available when experience is better than expected.

Relative Advantages	Relative Disadvantages
• All risk resides with the insurer and the responsibility of the plan sponsor is limited to payment of premiums • Management of the program is simplified • Provides the greatest level of security for disabled members given minimum continuing capital and surplus requirements (MCCSR) and regulatory requirements of insurance institutions	• Ongoing financial cost of the program is generally highest • May have difficulty in obtaining an insurer to underwrite the plan (depending on the nature of risk) • Least amount of flexibility/control with respect to delivery model and program operations (e.g. likely unable to accommodate current appeals process)

Underwriting Methodologies

Underwriting Method	Description
Administrative Services Only (ASO)	This approach places all of the risk with the plan sponsor. The plan sponsor is responsible for all claims plus the negotiated plan expenses. Contribution levels are generally established by the plan sponsor and determined based on past experience and future expectations. The cost of the plan is directly determined by the level of claims charged to the plan plus associated expenses. This method presents the highest risk of all methods, as the plan sponsor is fully responsible for all claims payable. However, the plan sponsor also retains full control over all aspects of the financial management of the plan, including establishment of reserve levels, if desired, and control over the investment aspects of the established funds. Unlike the first approach, no provincial tax is payable. If a plan sponsor wishes to limit its exposure under an ASO approach, stop loss coverage can be implemented for a premium or pooling charge. Essentially the risk of catastrophic claims beyond the stop loss level will be transferred back to the insurer. Stop loss coverage is often considered for basic life or LTD coverage. In general, stop loss coverage for LTD protects against large claims exceeding a certain threshold (e.g. 150% of total paid contributions) or duration (e.g. after five years).

Relative Advantages	Relative Disadvantages
• Ongoing financial cost of the program is generally lowest • Able to provide benefits that are difficult to underwrite • Greatest amount of flexibility with respect to delivery model and program operations	• All risk resides with the plan sponsor • Least amount of security for disabled members • Additional operational responsibilities for plan sponsor (e.g. quality of claims administrator, governance, monitoring financial health of plan, etc.)

Underwriting Methodologies

Underwriting Method	Description
Experience-rated, Refund Accounting	This approach is a compromise between the two previous methods. The plan sponsor assumes a moderate amount of risk with more financial control than under a fully pooled approach. Each year, the premiums are established by the insurer based on past experience. All claims incurred, including funds necessary to maintain reserves and fund expenses are charged against the paid premiums each year. Any surplus that arises is refundable and any deficits are repayable over time, on an on-going basis. However, if the plan is terminated and at that time is in a deficit position, the plan sponsor is not required to repay the deficit (unless a hold harmless agreement is in place). The insurer must negotiate the level of reserves, expenses, and interest credits each year with the plan sponsor. The insurer therefore is fully accountable for each component at all times. A complete financial accounting is provided each year, which reconciles the activity of the plan. Provincial premium tax (2% in BC) is payable on the total of incurred claims plus expenses.

Relative Advantages	Relative Disadvantages
• Insurer is responsible for liabilities on wind-up of the plan (unless a hold harmless agreement is in place) • Ability to share in and access surplus funds when experience is better than expected • Moderate flexibility with respect to delivery model and program operations	• Ongoing financial cost of the program is generally higher than ASO (e.g. no premium tax, cost of capital, and risk charges) • Investment income from reserves are limited • Insurer has ultimate control of the program (including claims appeals process)

Current Risk Sharing for the Agency

	Observations
Landscape in Canada	The subject of self-insuring LTD plans has created notable debate in the insurance industry, particularly after the recent publicity surrounding the solvency challenges of Nortel Networks Corporation (Nortel) and their difficulties in continuing to provide LTD benefits to disabled employees. As such, the review of the risk sharing arrangement is a timely exercise for the Agency. Given Nortel and other similar situations in the past, the landscape in the Canadian market place has changed. Most notably, in the Economic Action Plan 2012 the Federal government announced they will begin introducing legislation (Bill C-38) to require federally regulated private sector employers to insure, on a go-forward basis, any LTD plans they offer. This decision likely resulted from input from a number of stakeholders, most notably insurance industry representatives such as the Canadian Life and Health Insurance Association Inc. (CLHIA), who have lobbied openly for the elimination of self-insured LTD plans which was documented in their policy paper titled Protecting Canadians' Long Term Disability Benefits in September, 2010. Furthermore, the insurance industry has responded slowly to assist in the ongoing management of self-insured plans. For example, when Bill C-13 was introduced in 2011, which required Canadian employers that self-insure their disability plans to remit Canada Pension Plan (CPP) contributions for disabled employees, initial responses from insurance companies were generally ineffective in providing complete solutions for plan sponsors. It is our understanding the recent changes in legislation does not impact the Agency; however, provides an indication of market direction. While the CLHIA has supported the elimination of self-insured plans, other stakeholders such as the Canadian Institute of Actuaries have taken a less polarizing position and have suggested other options such as requiring pre-funding, increasing priority status for disabled employees, and greater disclosure to employees of financial metrics, for example.
Current Risk Sharing	The current underwriting arrangement for the Agency with GWL is ASO. As such, the Agency is responsible for the cost of claims and pays GWL a fee for claims administration services. In the current scenario, the Agency also performs annual actuarial valuations to determine the total liabilities of the plan and has established appropriate contribution rates for participants to ensure adequate funding. The assets of the plan are invested with a professional investment manager (i.e. BC Investment Management Corporation) to ensure optimal investment rates of return. The Agency also has developed some governance practices, such as a funding policy, that assists in the viability of the plan. As a result of these and other current practices, the overall funding ratio (i.e. assets vs. liabilities) as at December 31, 2011, of the LTD plan is 102%, which demonstrates generally strong performance, particularly in a volatile investment market.

Current Risk Sharing for the Agency

	Observations
Conclusion	Based on our observations, the characteristics (e.g. size and maturity of the group, predictability of claims, stability of membership, etc.) of the plan, and the Agency's ability to manage short-term risk volatility, the current self-insured risk sharing model remains valid for the Agency. While the landscape in Canada is changing with respect to the ability to self-insure LTD plans, Morneau Shepell note that the Agency has already adopted some practices to minimize their risk, such as proper and continuous funding of the plan, optimizing investment returns, establishing policies for contribution rate setting and funding, and developing membership agreements with participating employers, to name a few. Morneau Shepell caution that if these practices were removed or materially changed, the risk sharing model should be revisited as the Agency may increase their risk exposure and follow the path of other plans that later experienced financial challenges, particularly those who managed their programs on a 'pay-as-you-go' basis. The Agency may also wish to consider further steps, such as additional disclosure to members regarding funding, expanding governance practices like those typically used by health and welfare trusts (e.g. trust agreement and trustee appointments), and adopting these within the current self-insured model to further mitigate financial risk of the program.

Financial Cost of Underwriting Change

Morneau Shepell believe the current self-insured risk sharing arrangement is the most long-term cost effective model for the Agency . This is due to the additional charges applied by underwriters to insure the plan, which are currently not applicable to the Agency and the additional margins insurers typically include in developing their disability claims reserves. As current actuaries to the Agency's LTD plan, Morneau Shepell performed a high-level analysis of the current contributions (net of deficit recovery) of the LTD plan as at December 31, 2011, and provided an approximate cost that Morneau Shepell would anticipate an insurer to quote on an insured basis. Please note that Morneau did not obtain actual quotations from insurers, and the illustration is an estimate based on our insurance industry experience and the additional margins Morneau Shepell would expect insurers to incorporate for disability claims reserves.

As shown below, Morneau Shepell estimate the additional financial cost to move to a fully insured plan would be approximately 15% higher or $5.7 million annually for the entire program under normal market conditions.

	Public Service Agency		Liquor Distribution Branch		BC Ferries Corporation		BC Mental Health Services		Forensic Psychiatric Services Association		Other Small Employers		Total	
	$1,000's	% of payroll	$1,000's	% of payroll	$1,000's	% of payroll	$1,000's	% of payroll	$1,000's	% of payroll	$1,000's	% of payroll	$1,000's	% of payroll
Current Rate	$29,392	1.64	$2,522	2.68	$2,921	2.27	$713	4.05	$316	1.55	$2,013	1.17	$37,877	1.73
Insured Premiums	$33,801	1.89	$2,900	3.08	$3,359	2.61	$820	4.66	$363	1.78	$2,315	1.35	$43,558	1.99
Change in Cost	$4,409	0.25	$378	0.40	$438	0.34	$107	0.61	$47	0.23	$302	0.18	$5,682	0.26

Benchmarking of LTD Provider Retention Expenses

Summary of Findings

As shown below, GWL's LTD expenses as charged to the Agency are generally very competitive. Only two groups have lower overall retention costs. The Agency's overall LTD expense charges were 30.8% lower than the average.

A summary of the results are provided as follows:

Cost Element	Summary Result
Claims Administration	4.9% above the mean
General Administration	71.9% below the mean
Profit Charge	55.7% below the mean
Risk Charge	Not applicable, versus other participant groups
Interest Return on Reserves	46.5% above the mean
Premium Tax	Not applicable, versus other participant groups
Other Costs	As incurred, which is similar to other participants
Total Expense Charges	30.8% below the mean

Methodology and Approach

The comparison was completed using the financial information collected for each participant and the financial data from the actuarial valuation of the Agency's LTD plan for the period ending December 31, 2011 (annualized). In other words, the report shows what costs would be for the Agency if the expense charges for each participant were applied to the Agency's financial data, which assists with standardization of results.

The average (mean) retention charge of all participants was calculated. For comparison purposes, each participant's retention charge was then compared in relation to the mean average. In the illustrations to follow, the average is represented as 0%. Participants with lower retention charges than the mean average are below 0% and those with higher retention charges than the mean average are above 0%.

For your reference, Morneau Shepell have provided the actual expense charges for each participant in Appendix A.

Morneau Shepell provided comparisons based on total expense charges and also separated the metrics by following categories:

- Claims administration charge
- General administration charge
- Profit charge
- Risk charge
- Interest return on reserves
- Premium Tax
- Other costs such as independent medical exams (IME), subrogation, travel costs, etc.

Qualifications

Morneau Shepell also appreciate that the overall program management of LTD plans are complex and the performance of these plans are a result of multiple factors. The focus on quantitative elements such as claims administrator expense charges, while important, does not represent the entire equation and should be observed with caution. Other elements, such as quality of the claims administration and level of focus on prevention, early intervention, and return-to-work strategies, may arguably have a greater impact on disability program performance, but have been excluded from this benchmarking study.

It is our understanding the qualitative elements of the Agency's LTD plan is currently performing positively with goals for continuous improvement. While not a direct metric, this may be supported by the strong termination experience observed in the actuarial valuations. Should this change due to a sudden deterioration of the quality of claims management services, Morneau Shepell would anticipate a significant increase in cost to the LTD program. For example, if expected terminations decreased by 10% due to the above, the increased financial cost to the plan would be approximately $4 million annually from additional contributions or $12 million in actuarial liabilities.

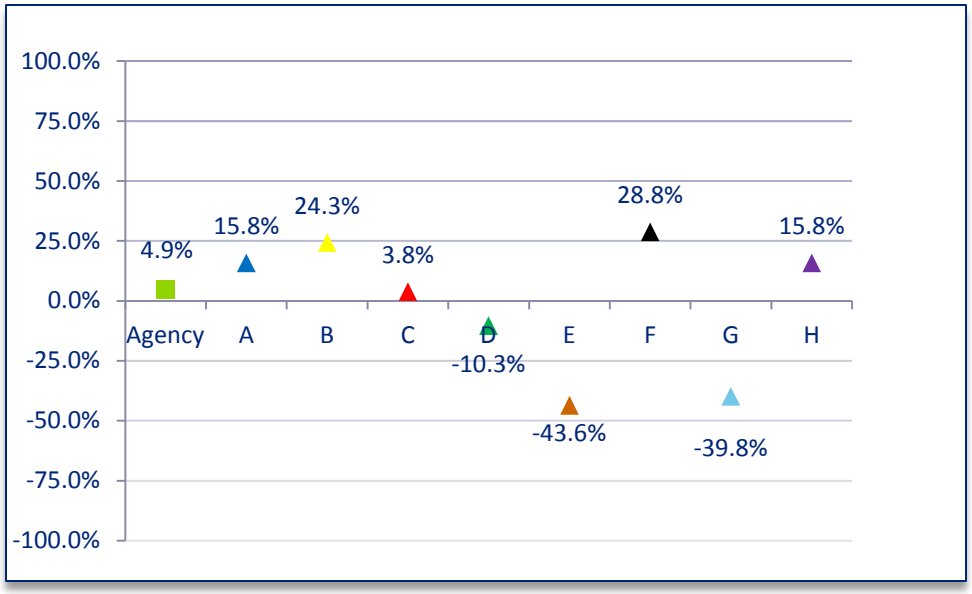
Assumptions

While every effort has been made to standardize the observations, Morneau Shepell appreciate each of the participants, including the Agency, is unique in the approach taken to administering and delivering the LTD plan. As such, the comparison does not recognize differences in the administration delivery model or the additional resources from other external stakeholders (e.g. participating employers), or the number/complexity of plans administered by each participant.

In order to ensure optimal standardization between participants, a number of assumptions were made, as summarized within the following table:

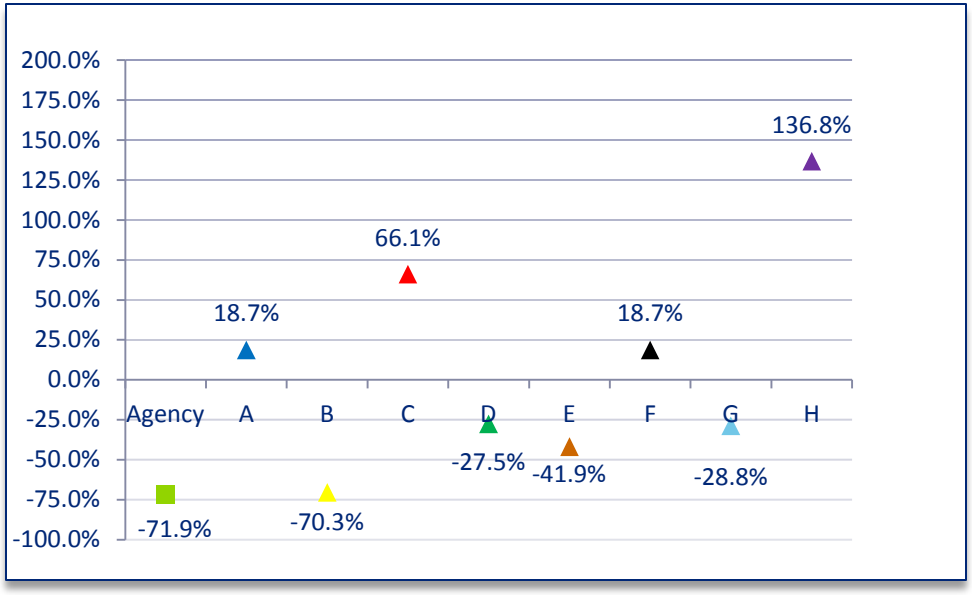
Metric	Description of Assumption	Applicable to Participant
All	Paid premium value is equivalent to paid contributions	Where charge is a function of paid premiums
Profit Charge	CFR assumed to be fully funded	F - used profit charge value of 0.175% of paid premiums
General Administration	Claims assumed to be submitted electronically	A – used value of 1.0% of paid premiums
Claims Administration	Claims assumed to be paid electronically	B, C, G – assumed paperless method
Taxes	Premium taxes for refund accounting groups assumed to be as per provincial legislation	A, B, F, G – used value of 2.0% of paid premiums
Profit & Risk Charge	If value is stated as shared/combined, then applied 50% of value to each metric	F – used value of 0.175% of paid premiums for each metric
Interest Return on Reserves	Estimated based upon 2011 financial figures. Actual rates used for insured programs are estimated based upon parameters outlined within the participants' financial agreement. For ASO participants, value used is from the most recent actuarial valuation.	All participants

Claims Administration Charge



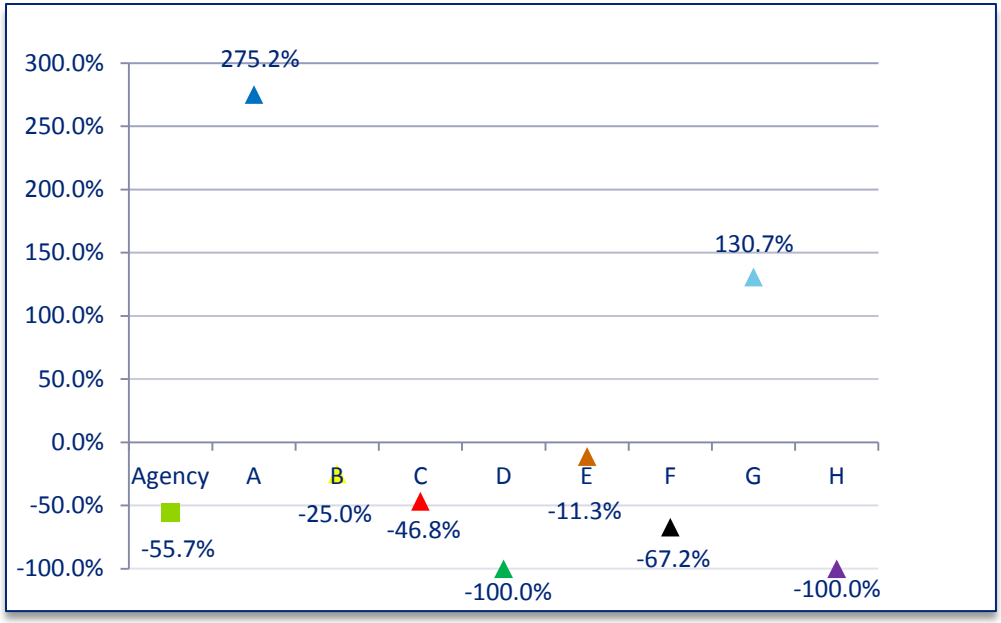
- The claims administration charge for the Agency is 4.9% above the average. The average claims administration was calculated at $1,442,594. Using the standardized data and the Agency's claims administration factors, the Agency's claims administration charge calculated to $1,513,532.
- The Agency's claims administration cost value is the median for this particular metric, with four participants higher and an equal amount lower. The lowest participant's claims administration charge is 43.6% below the mean average.
- For participants A and F, the claims administration charge is a percentage of paid claims. Participant E's claims administration charge, which is the lowest, is a flat monthly charge. For all other groups, the claims administration charge is a function of the number of new claims and open claims, in varying capacities.

General Administration Charge



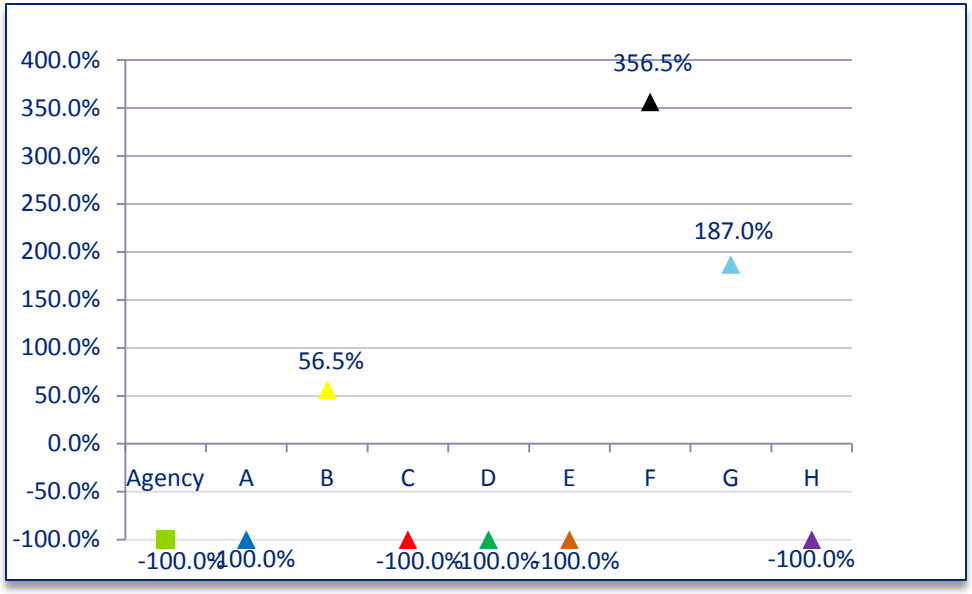
- In terms of the general administration charge, the Agency is the lowest of the participants, at 71.9% below the mean average of $372,265. The highest, H is 136.8% above the mean.
- Of note, is that two of the participants (B and G) are below the mean average and underwritten on an insured basis. The other groups which are below the mean average are underwritten on an ASO basis.
- Participants D and E employ a flat per monthly charge for general administration. These groups are also ASO.

Profit Charge



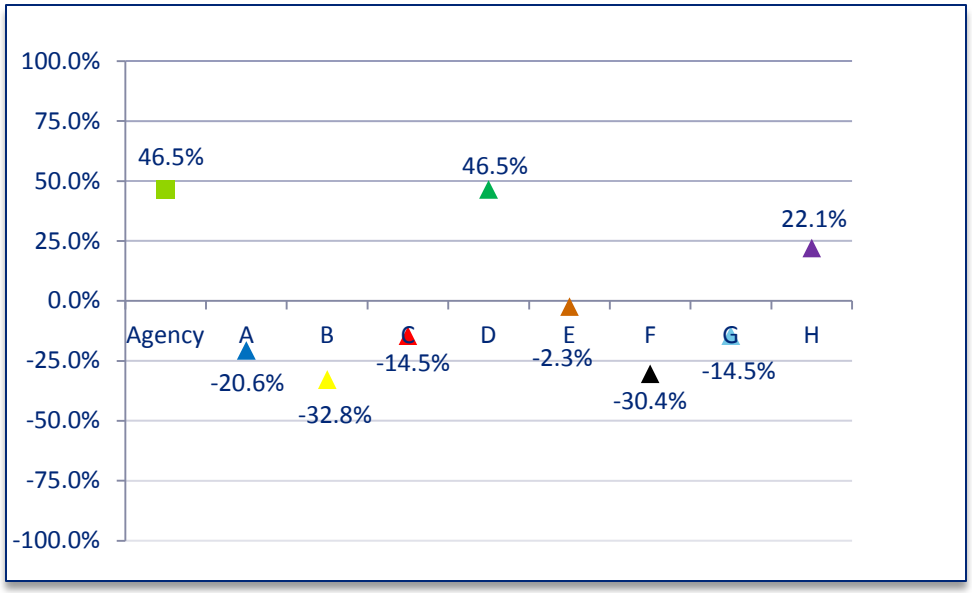
- The Agency's position is the fourth lowest of all groups.
- Morneau Shepell note that the graph results are skewed for all groups shown below the mean average because of the influence of participant A, which is 275.2% above the mean average and underwritten on an insured basis.
- The Agency's profit charge is $104,447, compared to the mean average of $235,604.
- Morneau Shepell note that participant F has a combined profit and risk charge, so values have been split equally between these two metrics.

Risk Charge



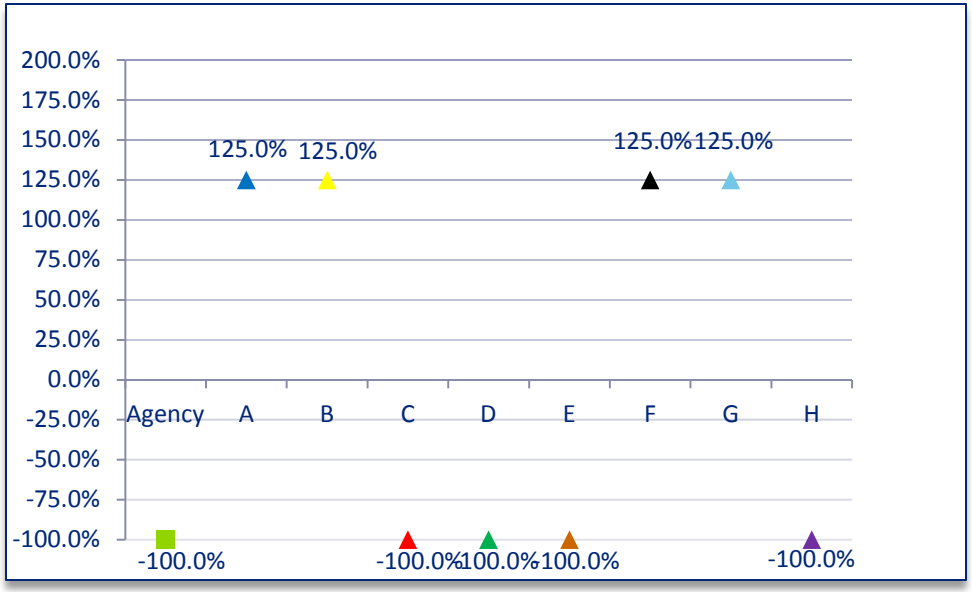
- Three participants, B, F and G, specifically identified a risk charge as a component of total retention charges.
- The Agency was in line with the majority of the groups in that no risk charge is applied against the plan.
- Risk charge(s) are expenses charged by an insurer for the additional risk they are assuming and typically included in plans underwritten on an insured basis.

Interest Return on Reserves



- The Agency is tied with participant D for the highest (most favourable) position.
- This represents the highest rate of return on reserves when compared to the mean average of the other participants.
- Morneau Shepell note that the participants with the lowest rate of return (bottom three) are all underwritten on an insured basis.
- In contrast, the top three participants are all ASO.

Premium Tax



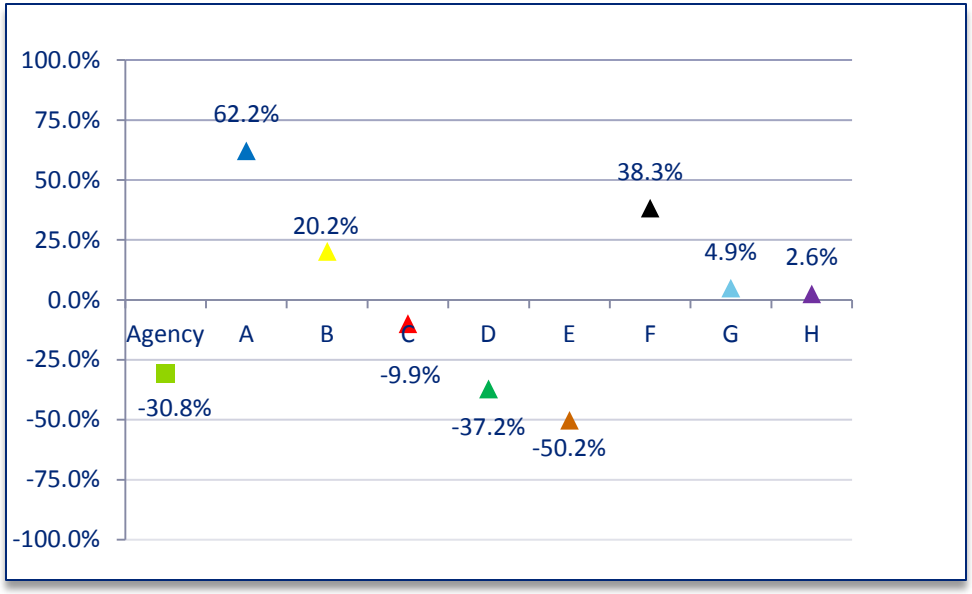
- Premium tax is payable on insured LTD plans as per provincial legislation. For the purpose of the above comparison, a premium tax value of 2.0% of paid premium, which is applicable for BC, has been used across all applicable participants.
- This charge is not relevant for plans underwritten on an ASO basis, which include the Agency, as well as participants C, D, E and H.
- Participants A, B, F and G incur the premium tax charge. Based upon the standardized data, this would amount to $883,973 for the participants affected.

Other Expenses

A variety of other expense charges were also reviewed during the benchmarking study. For the most part, the insurer/provider charged the participant the cost of the expense on an “as incurred basis”, which is the case for the Agency. There were minimal deviations from this protocol, but some exceptions did exist. For your review, Morneau Shepell have summarized the deviations from the norm (billing “as incurred”) within the table below:

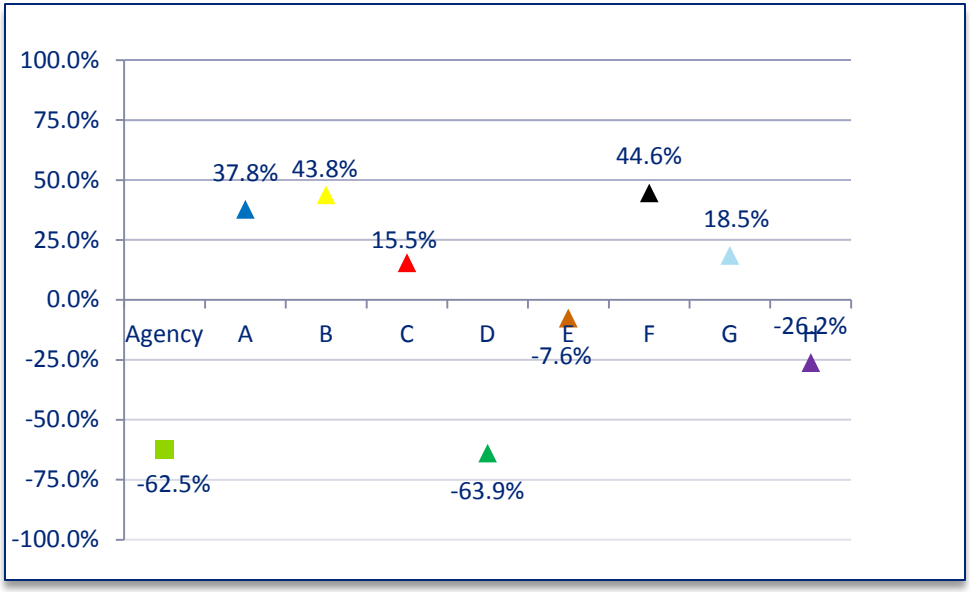
Metric	Deviating Participant(s)	Deviation
IME’s (Independent Medical Examinations)	Participant A	+ 5.0% handling
Subrogation	Participant A Participant B	+ 5.0% handling 10% of amount to max $5,000
Travel Costs	Participant A Participant E	+ 5.0% handling + 5.0% handling
Special Expenses	Participant A	+ 5.0% handling
Other Costs	Participant A Participant F	Additional +0.35% of premiums for third party expenses related to plan governance Legal, Surveillance and Medical Consultant Expenses - Actual expenses to a cap of 2.3% of LTD premium , sub-cap of $20,000 per individual

Total Expense Charges no Interest (on Reserves)



- For the purpose of this comparison of total risk charges, claims administration, general administration, profit and risk charges, other costs, and premium taxes are included.
- Pooling charges, on the other hand, are not included, nor is the effect of interest rates on reserves for this particular comparison.
- The Agency is the third lowest in terms of total expense charges, and is 30.8% below the mean average.
- Participant E scored the lowest total expense charge at 50.2% below the mean average.
- Participants underwritten on an insured basis (A, B, F and G) have the highest total expense charges.

Total Expense Charges with Interest (on Reserves)



- For the purpose of this comparison of total risk charges, claims administration, general administration, profit and risk charges, other costs, premium taxes and interest rates on reserves are included.
- Pooling charges, on the other hand, are not included.
- The Agency is the second lowest once effects of interest return on reserves is accounted for.
- The four lowest participants, A, B, F and G are all underwritten on an insured basis, the remainder are ASO.

RFP Considerations, Approach and Timeline

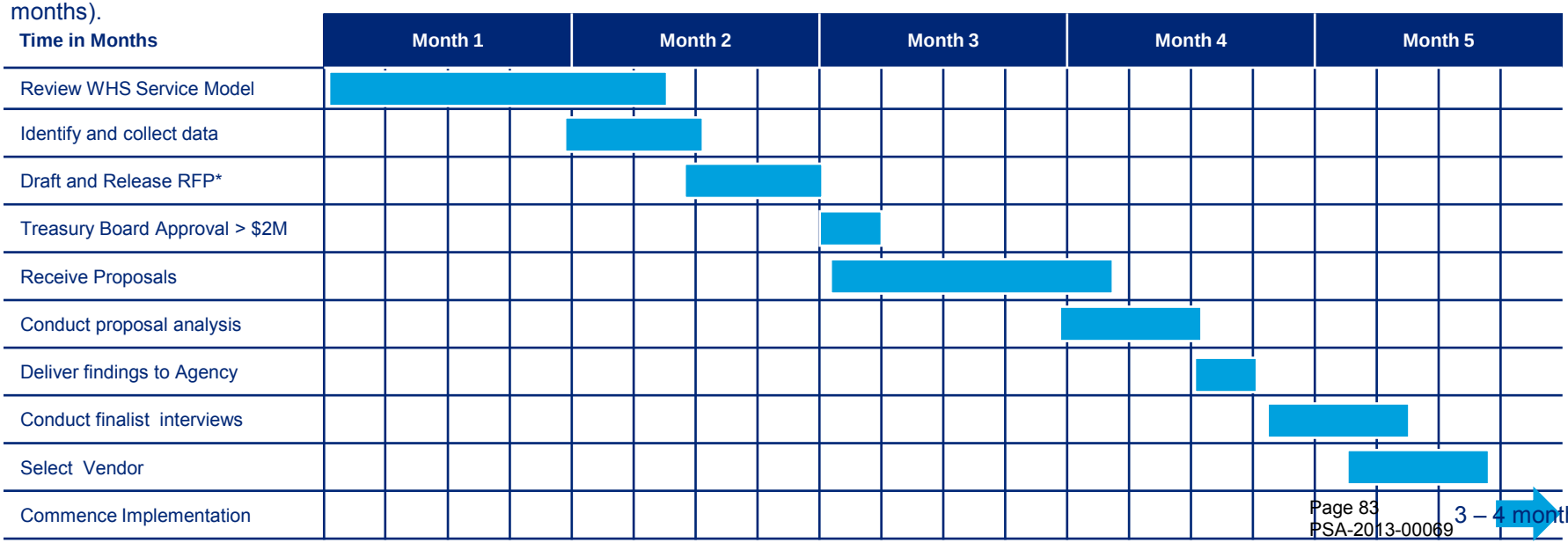
Next Steps: Define Future Desired State and RFP Considerations

The Agency should proceed with the RFP process, considering alternative service delivery models. Key steps include:

1. Review the end to end WHS service delivery model to determine desired future state and possible sourcing mix
2. Define the specifications for services. This will incorporate the current service model, desired future state, and specifications around alternative service models. Consider an independent party (either in the Agency or external) to run the process.
3. Collect and format any data needed by the bidders. Such data will include metrics around plan utilization (claims, approvals, denials, IMEs, meetings, and so on). In addition, if fully-insured services are sought, additional demographic details will be required for bidders to accurately assess the risks and develop proposals.
4. Determine if a "reserve buy-out" is to be considered. If so, additional detail is required concerning all current LTD claimants.
5. Develop RFP according to the specifications. Consider adding questions on options for the administration of pre-existing condition rules.
6. Analyze proposals and down-select to semi-finalists.
7. Seek best and final offers and down-select to finalists.
8. Interview finalists and simultaneously negotiate contracts (escrow until award).
9. Select winner and implement.

The RFP process is usually a 3-4 month process but this may be very aggressive timeline for the Agency, if any of the additional considerations on the next slide are taken into account. Implementation is also 3-4 months for complex clients like the Agency. The Agency may also need to consider a period of overlap between the existing service provider and a new provider (in the event of a change) in order to ensure service continuity to participants. Below is an illustrative timeline to undertake the RFP process.

The Agency should consider extending the current agreement with GWL to cover the RFP process and assessment of proposals (e.g. another 6 months).



Additional Considerations

The Agency should take into account some additional considerations before embarking on the RFP process.

1. Strategic decision to continue to manage risk	The Agency should consider whether it wishes to continue to manage the risk of LTD in a self-insured model or whether they would consider other risk sharing models with insurers in the future.
2. Appropriate timing to move to a fully-insured model	The Agency is currently going through a collective bargaining agreement with the Union which will not be complete for another two years. To introduce a fully-insured model now may be difficult to negotiate at this time. An alternative strategy may be to issue an RFP that considers a self-insured model for the initial length of the contract (recommended 3 years with annual renewal options for the next 2 years) but provides the possibility for a fully-insured model once the agreement with the Unions has been completed.
3. Possible further extension of GWL contract	The time required to gather data and do a full analysis of the service delivery model could mean a further extension to the GWL contract whereas going with a self insured RFP may fit the current contract expiration date.
4. Hold carrier discovery meetings	The Agency should host “discovery meetings" with potential carriers to test the market’s ability to provide solutions regardless of approach. This will provide the market with an opportunity to understand the Agency's perspective and desired future state and show an openness towards other vendors to participate in the RFP process.
5. Performance against similar organizations	The Agency has already conducted some benchmarking studies with similar organizations (e.g. Healthcare Benefits Trust and Yukon Health Services) and is embarking on other studies. It would be beneficial for the Agency to determine performance of its overall service delivery model (not just LTD) against similar organizations using key outcome/performance metrics that speak to the quality of the service such as disability duration, no. on LTD per thousand, average no. of STD days prior to determining its desired future outsourcing mix. This will provide the Agency with information on current performance relative to peers and the possible opportunities or risks of moving to a fully insured model with more outsourcing.
6. Current labour relations environment	There are risks associated with changing LTD arrangements given the current labour relations environment. The Agency would need to successfully negotiate with the unions, to take them out of the existing final appeals process that rests with a third party ‘tribunal’.
7. Limited number of carriers in Canada	Compared to the LTD market in the US, there are a limited number of carriers in the Canadian market. This may constrain the carriers’ ability to provide alternative risk-sharing arrangements or outsourcing mixes.

RFP Approach

Point of View

Among Long Term Disability vendors, there are significant differences in pricing arrangements, claim management process, technology, tools, and service standards. The Agency's competitive marketing approach should take into consideration all "points of differentiation" to identify the appropriate vendor that meets the Agency's needs in the short and long term.

Methodology

Phase 1: Planning / Data

- Strategic Planning
- Data Collection
- Bid Specifications

Phase 2: Identify Plans and Release RFP

- Request for Proposal Development and Distribution

Phase 3: Identify "Short List"

- RFP Response analysis, scoring, of select RFP areas and finalist selection

Phase 4: Comprehensive Review

- Conduct comprehensive analysis of finalists
- Identify areas of proposals to negotiate (financial/service)

Phase 5: Report to Agency Team

- Presentation of findings and analysis to internal Agency team
- Includes advantages / disadvantages with finalists
- Summary of financial offers

Phase 6: Orals/BAFO Negotiation

- Service Agreement review and negotiation
- Development of appropriate service level agreements
- Final pricing negotiation

Phase 7: Provider Selection by Client

- Selection of optimal vendor
- Notification and written confirmation of offers

Phase 8: Implementation

- Ensure programs implemented are representative of plan designs proposed and contracts are reflective of BAFOs

Summary of Recommendations

Key Sourcing Strategy Considerations and Recommendations

- RFP Considerations
- LTD Contract Review
- LTD Operationalization Assessment
- LTD Process Maturity Assessment

Key Sourcing Strategy Considerations and Recommendations

The following slides set out the key sourcing recommendations that arise from the LTD contract review and other operational recommendations. The Agency should take these into account when conducting their end of term planning analysis for the Agreement and when preparing the RFP.

Dimension	Key Considerations
RFP Considerations	• The Agency should proceed with the RFP to determine current market offerings and the competiveness of GWL. GWL should compete with all other bidders for the best possible leverage. The additional considerations on slide 16 of this report will need to be taken into account when defining the sourcing strategy in the short and longer term. • Use the RFP process to determine the competitiveness of the current agreement with GWL and to determine the differences in cost between the current service delivery model and an alternative service delivery model (i.e. fully insured). • Use the RFP process to inform and help determine the complexity involved for the Agency to move to a potential fully-insured model in case the regulatory environment changes in the next two years. • Articulate the data exchange and technology systems integration vision and the intent for a phased approach and include in the RFP. • Determine weightings for the business requirements depending on their relative priority – i.e. the ability for a provider to bring automation and technology integration may be used as a necessary distinction between bidders. • Consider an independent, third party (e.g. from the Agency's Business Performance Division or another external partner) to lead the RFP effort and analysis. • Extend the current agreement with GWL , to cover the period required by the Agency conduct the RFP process and assess the providers' proposals (e.g. another 6 months). • Select the best value bidder and funding arrangement based on RFP results.
Additional contractual provisions to be considered for a typical self-insured model	• The contract should include GWL's requirements of the Agency (e.g. eligibility transfer, timely filing of changes, furnish information needed to perform duties, etc.) • Actuarial Services: GWL should be willing to provide cost estimates associated with plan design or policy changes and this should be incorporated into the contract. • Add clarification in the agreement that the carrier's actuaries should sign off that data is clean and ready for sharing with the Agency. • Contract should incorporate the LTD Plan (more specific ally than by reference). Deloitte suggest adding the Plan as an appendix. • The contract should identify who can act on behalf of the Agency in the role of Plan Sponsor (identify by name or title). • Include additional language allowing for the adoption of new technologies. The Agency desires greater electronic data interchange and electronic claim submissions. These specifications should be built into the contract moving forward. The Agency has indicated a desire for: 1) online claim submission 2) physician ability to submit clinical data online, 3) Agency ability to pull down data from GWL online as needed, 4) movement of paper files to electronic (both current and future).

Key Sourcing Strategy Considerations and Recommendations

The following slides set out the key sourcing recommendations that arise from the LTD contract review and other operational recommendations. The Agency should take these into account when conducting their end of term planning analysis for the Agreement and when preparing the RFP.

Dimension	Key Considerations
Termination	• Lengthen the timeframe beyond 60 days for termination to allow for sufficient transition time or eliminate provider 's ability to terminate except in cases of breach or non-payment.
Short-Term Illness Disability Plan (STIIP)	• Possibly include STD as an option in the RFP to compare with in-house provision of this service • If not, remove the language for STIIP in future agreements
General requirements – Administration of the plan	• The plan should be incorporated in an appendix and key components of the process should be summarized in the body of the contract
Standardize processes and align to operational changes	• Set out in the agreement what the standard operating procedures are and the mechanism for keeping aligned with the operational requirements of the Agency – make provision for accommodating provisions, based on service requirement changes. • Develop and share supporting process maps across the provider and the Agency and review on a regular basis for continuous improvement opportunities
Basic service requirements: 5.g: disclosure of claimant file for appeals	• There should be additional language on the allocation of authority in the agreement. Initial decisions, review, appeals process. Administrative appeals vs. clinical. Roles and responsibilities are not clearly defined. • Final decision making authority is typically one of the earliest components of advice-to-pay contracts given its critical importance.
Fees and pricing structure	• Fee and pricing structure could be amended to standard industry practice of payment on a per capita basis, not as a percent of claims paid

Key Sourcing Strategy Considerations and Recommendations

The following slides set out the key sourcing recommendations that arise from the LTD contract review and other operational recommendations. The Agency should take these into account when conducting their end of term planning analysis for the Agreement and when preparing the RFP.

Dimension	Key Considerations
Time to pay a claim	• Consider including a standard industry practice metric – time to pay a claim rather than responsiveness rates to respond to client, time to decisions. Industry norm is 45 days to pay a claim

Audit	• Overall claims management
	  • Standard industry practice is to audit 10% of claims per year, suggesting the need to audit 100-200 claims. Increase the number of claims audited to 100 – 200 per year.
	• Financial claims management
	  • Currently 75 claims audited internally per year with an accuracy goal of 95%. Standard practice would include 10% of claims (i.e.100-200) and an accuracy rate of 99%.
	  • This metric should be enhanced in the future contract. In addition, it would be a best practice to substitute the findings of an external audit to determine if the metric has been met, in years where an external audit is performed.

Additional improvements noted as part of the process maturity assessment	**Manage claims applications** • Automate LTD notification across all employment bodies, and eliminate manual checking of STD to LTD conversion and creation of LT03 form • Enable LTD application form to be sent via email and create an online form to reduce data administration • Information exchange between the Agency and GWL is dependent on mail courier of hardcopies of LTD application, there is opportunity to convert to electronic data exchange **Manage claims adjudication and processing** • Review eligibility criteria regarding employee absences over 12 month period and update requirements • Automate error checking process, and formalise the Agency and GWL process and procedure in handing of errors • Integration of DDMA and GroupNet systems to allow improved information exchange **Manage claims appeals and resolution** • Review handovers in the appeal notification process and clarify roles, responsibilities and accountabilities • Improve information exchange between GWL and the Agency in relation to medical information • Convert employee files to electronic versions to reduce manual workload • Formalise CRC outcome notification process

Key Sourcing Strategy Considerations and Recommendations

The following slides set out the key sourcing recommendations that arise from the LTD contract review and other operational recommendations. The Agency should take these into account when conducting their end of term planning analysis for the Agreement and when preparing the RFP.

Dimension	Key Considerations
Partnering and Governance Model	• Provide specific provision in the new agreement which defines an intentional role and program with accountability for aligning provider and the Agency strategies (e.g. IT strategy and future integration, customer strategy and improvements in customer experience). • Require the agreement to set out the governance model, roles, interfaces and performance reporting and meeting frequency (e.g. quarterly review meeting where the provider brings its investment and experience with its wider client base to bear and brings these insights and new developments to the Agency for consideration. • Review the structure and monitor the operationalization of the governance model and the progress of the strategic partnering relationship by providing feedback on the outcome and effectiveness of the above proposed meetings.
Roles and Responsibilities	• Articulate both the provider's role and the client's role in the Agreement • Develop a responsibilities matrix (RACI) that defines responsibility, accountability, consultation and involvement for both GWL, The Agency and Ministries

Cost savings, technical, operational and management improvements	• As part of the preparation for the RFP, The Agency should revisit the rationale for outsourcing arrangement and look at
	  • Opportunities for redistributing resources internally and transferring tasks to the future provider, based on an agreed service delivery model, where there are potentials for service improvement / cost savings / technical improvements.
	  • Conduct a risk assessment of a revised service delivery model (where the risk-sharing may have changed as a result – e.g. shift from self-insured to fully insured model).

Innovation and improvement initiatives	• In the new agreement, introduce a formal reward and recognition program to incentivize innovation and improvement initiatives. • Create an intentional role and program within both client and provider organizations with accountability.

Technology / systems integration	• The new agreement should make the better integration of systems to facilitate delivery intentional :- Opportunities are:
	  • Provide a 'single point of entry' for all kind of information that is relevant for the employees, both from a information gathering, sharing and initiating point of view.
	  • Case management and supporting documentation is integrated into a common view across GWL and the Agency, based on agreed user access rights. This provides an integrated approach to case management, where the manager is connected throughout the lifecycle of the case, from STD, LTD, rehabilitation and return to work.

Electronic exchange of data	• The provision of electronic exchange of data needs to be built out in the agreement, based on the Agency's desired state e.g.
	  • LTD claims applications and notifications are web based, and an e-portal is used for the exchange of information.
	  • Reduce duplication of effort and streamline claims administration processing.

Data Analytics and Reporting	• There are opportunities to extend the additional service requirements around data analytics and reporting to specifically include the Agency's future desire for reporting: e.g.
	  • Issue analysis is conducted periodically, with analysis and documentation of the preventive actions taken place every time
	  • Analysis that helps predict trends in LTD claims, and can support improvement of the provision of the service, increased customer satisfaction

Summary of Recommendations

- Assessment of Current Risk Sharing
- Benchmarking of LTD Provider Administration Expenses

Summary of Recommendations

During the project, Morneau Shepell identified a number of opportunities that the Agency may wish to consider to assist in the ongoing management of the plan and the tendering process for LTD claims administration services. Morneau Shepell have summarized their suggestions below:

Opportunity	Recommendations
1. Self-insuring	The Agency's current self-insured risk sharing model remains valid based on current operating practices and Morneau Shepell recommend maintaining the current arrangement.
2. Change in risk sharing	If current practices are removed or materially changed, the risk sharing model should be revisited as the Agency may increase their risk exposure and follow the path of other plans that later experienced financial challenges, particularly those who managed their programs on a 'pay-as-you-go' basis.
3. Governance	The Agency may wish to consider providing additional disclosure to members regarding funding, expanding governance practices like those typically used by health and welfare trusts (e.g. trust agreement and trustee appointments), and adopting these within the current self-insured model to further mitigate financial risk of the program.
4. General Administration Change	The Agency may wish to explore a flat per monthly charge which would minimize the impact on increasing claims on expense charges.
5. Claims Administration Change	The Agency may also wish to explore a flat per monthly Claims Administration charge, or alternatively, a flat charge per claims administrator, which provides a more accurate metric.
6. Pooling Protection	During the tendering process, the Agency may wish to explore the cost of pooling protection for catastrophic situations (e.g. pandemic), if possible to minimize risk and HST/GST expenses, if applicable.
7. Interest on Reserves	Morneau Shepell recommend maintaining the current practice relating to investment of reserves as it optimizes the opportunity for investment income which assists in offsetting the LTD program costs.

Appendix A

Costs and Financials

Stakeholder Consultation

Data and Document Register

Costs and Financials

Cost and Financial Analysis

- This high level analysis examines the process costs and base fees of the Contract for the Term of the Agreement.
- Cost has been based on the total process cost for Long Term Disability, calculated as:

Total Process Cost = Outsourcing cost + internal labour cost

- Analysis of outsourcing costs throughout the time of the GWL contract has been based on the total fees by year throughout the Term of the Agreement.

Assumptions:

- The contract fees for Long Term Disability Claims are a true reflection of the actual outsourcing costs incurred and includes an allocated portion of related systems and overhead costs.
- All FTE and resource estimates as provided by the Agency are a fair and true representation of actual labour costs.
- The year 2004 has been omitted from analysis, due to data unavailability.
- A validation exercise will be undertake to substantiate internal labour estimates and validate process cost actuals.

Cost and Financial Analysis

Retained Organization

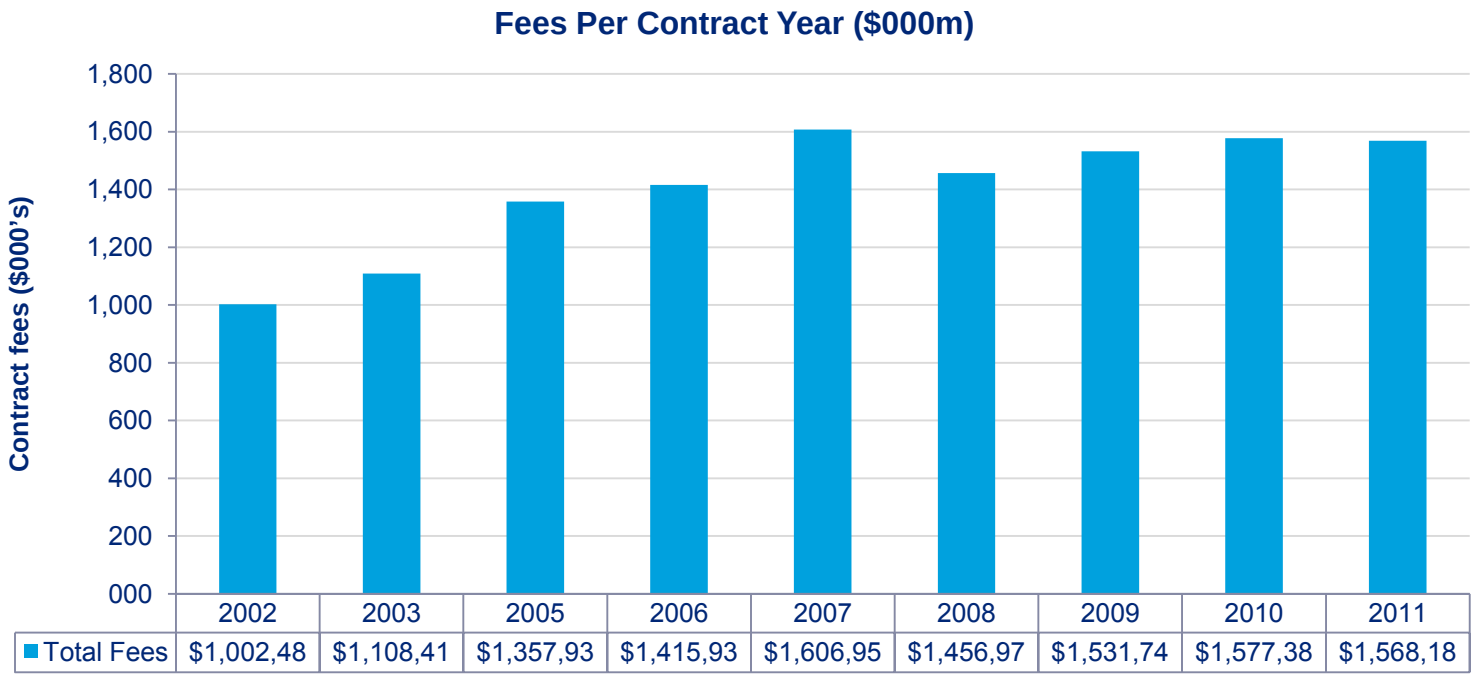
- Estimation of internal labor costs supporting **LTD Process** is based on the estimated number of dedicated FTE's and labour effort, and then converted to cost using a salary approximation.
- Support to the **LTD Claims Administration Process** refers to any activity directly or indirectly supporting the day to day management, operations or delivery of: the contract, services provided by the contract, or any services related LTD claims processing and administration.
- The estimated number of FTEs currently supporting Long Term Disability Claims Administration Process in 2011 is:

Role	% of Effort	Estimated average salary	Labour cost per role
Corporate Advisor	25% of 3 FTEs	$ 76,000.00	$ 57,000.00
Contract Manager	25% of 1 FTE	$ 85,000.00	$ 85,000.00
Disability Claims Analysts	100% of 2 FTEs	$ 47,623.67	$ 95,247.34
Disability Claims Administrators	70% of 3 FTEs	$ 41,310.32	$ 86,751.67
Subrogation Corporate Advisor	100% of 1 FTE	$ 70,000.00	$ 70,000.00
Program Manager	50% of 2 FTEs	$ 70,000.00	$ 70,000.00
Claims Analyst	50% of 2 FTE	$ 47,623.67	$ 47,623.67
Office Manager	20% of 1 FTE	$ 43,711.58	$ 8,742.32
Total Labour Cost			**$ 520,365.00**

Outsourcing Costs Per Contract Year

The outsourcing costs or fees paid per year for Long Term Disability Claims are outlined below.

The Total Fees have increased steadily from a low of $1.00m in 2002, to a high of $1.60m in 2007.



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The total process costs for 2011 is calculated below:

Total Process Cost = Outsourcing cost + internal labour cost

= $ 1,568,189 + $ 520,365

= $ 2,088,554

Outsourcing Costs Breakdown

Contract fees (based on 2009 “SCHEDULE B”)

Item	Expense Basis	2002	2003	2005	2006	2007	2008	2009	2010	2011
General Administration	% of Paid Claims	$ 61,504	$ 69,289	$ 78,395	$ 82,122.87	$ 88,557.47	$ 92,936.66	$ 98,561.89	$ 103,900.89	$ 107,527.20
Profit	% of Paid Claims	$ 76,880	$ 77,604	$ 103,481	$ 108,401.81	$ 116,895.02	$ 92,936.66	$ 98,561.89	$ 103,900.89	$ 107,527.20
New & Accepted Claims	Charge per claim	$ 293,430	$ 188,400	$ 224,480	$ 225,600.00	$ 261,466.00	$ 247,126.00	$ 241,868.00	$ 259,554.00	$ 264,960.00
Annual Ongoing	Charge per claim	$ 343,158	$ 520,800	$ 620,780	$ 670,752.00	$ 727,494.96	$ 734,550.00	$ 742,849.80	$ 757,374.72	$ 763,110.00
Ongoing Claims	Charge per claim	$ 114,390	$ 143,150	$ 174,000.00	$ 172,584.00	$ 169,735.00	$ 163,925.00	$ 173,885.00	$ 178,865.00	$ 177,642.00
Variable Reimbursements cost	Up to a maximum of **$200,000.00** per year (or such greater amount as may be approved in advance in writing by the Agency and notified in writing to the Administrator) for independent medical examinations, vocational assessments, and medical reports	$ 90,509	$ 88,732	$ 155,496.03	$ 155,411.34	$ 242,707.99	$ 124,177.01	$ 172,626.34	$ 172,509.10	$ 143,043.77
Additional Variable Reimbursements cost	Administration for other special expenses, as incurred, such as printing, surveillance charges, legal fees, and special projects	$ 22,612	$ 20,440	$ 1,284.31	$ 1,064.23	$ 94.29	$ 1,325.66	$ 3,396.49	$ 1,283.00	$ 4,378.50
Total Contract Fees	**Total of the above per year**	**$ 1,002,483**	**$1,108,415**	**$ 1,357,935.23**	**$ 1,415,936.25**	**$ 1,606,950.73**	**$ 1,456,976.99**	**$1,531,749.41**	**$ 1,577,387.60**	**$1,568,188.67**

Item	Expense Basis	2002 per claim	2003 per claim	2005 per claim	2006 per claim	2007 per claim	2008 per claim	2009 per claim	2010 per claim	2011 per claim
General Administration	% of Paid Claims	0.20%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Profit	% of Paid Claims	0.25%	0.28%	0.33%	0.33%	0.33%	0.25%	0.25%	0.25%	0.25%
New & Accepted Claims	Charge per claim	varied from $246 - $345 dependent upon time of year and if a decision has been made	$ 400.00	$ 460.00	$ 470.00	$ 478.00	$ 478.00	$ 478.00	$ 478.00	$ 480.00
Annual Ongoing	Charge per claim	$295 x 9/12 of a year	$ 350.00	$ 400.00	$ 408.00	$ 415.00	$ 415.00	$ 415.00	$ 415.00	$ 417.00
Ongoing Claims	Charge per claim	varied from $246 - $295	$ 350.00	$ 400.00	$ 408.00	$ 415.00	$ 415.00	$ 415.00	$ 415.00	$ 417.00

Stakeholder Consultation

Stakeholder Consultation

During the course of our review Deloitte met with the following stakeholders.

	Name	Role	Date
1	Rhonda Gluns	Manager, Disability Benefits Administration, , Workplace Health and Safety	TBD
2	Janet Graham	Program Manager, Workplace Health and Safety	28/06/12
3	Dr. William Lakey	Medical Director, Workplace Health and Safety	27/06/12
4	Jan Scholz	Corporate Advisor, Workplace Health and Safety	28/06/12
5	Rita Bal	Disability Claims Analyst, Workplace Health and Safety	10/07/12
6	Sheldon Staszko	Director Disability and Rehabilitation, Workplace Health and Safety	27/06/12
7	Lynda Tarras	Head of the BC Public Service Agency	09/07/12
8	Gwen Cuelen	Account Executive Great West Life	05/07/12
9	Fred Smith	Regional Director Great West Life	05/07/12
10	Lise Gascoine	Great West Life	05/07/12
11	Bruce Richmond	Executive Director , BC PSA	11/07/12
12	Cathy Freshwater	Project Manager, BC PSA	10/07/12
13	Deborah Fayad	ADM, Ministry of Finance	26/07/12
14	Dean Skinner	Ministry of Finance	26/07/12

Data and Document Register

Data and Documents Register

During the course of our review Deloitte received the following Documents

Document Title	File	Received From	Date
GWL Service Agreement Apr 1 1996	.pdf	Rhonda Gluns, BC PSA	20/06/2012
GWL Service Agreement Oct 2002	.pdf	Rhonda Gluns, BC PSA	27/06/2012
Amendment to Original Service Agreement (2009)	.pdf	Rhonda Gluns, BC PSA	20/06/2012
Extension (2011)	.pdf	Rhonda Gluns, BC PSA	20/06/2012
Org Chart - Workplace Health & Safety Division	.pdf	Rhonda Gluns, BC PSA	6/07/2012
Salary Structure of roles in Workplace Health and Safety Division	.xls	Rhonda Gluns, BC PSA	7/24/2012
LTD Application Form	.pdf	Rhonda Gluns, BC PSA	6/07/2012
Actuarial Validation – March 31 2011	.pdf	Rhonda Gluns, BC PSA	6/07/2012
Actuarial Validation – Dec 3 2009	.pdf	Rhonda Gluns, BC PSA	6/07/2012
Workplace Disability Benchmarking Collaborative 2007-2008	.pdf	Rhonda Gluns, BC PSA	6/07/2012

Data and Documents Register

During the course of our review Deloitte received the following Documents

Document Title	File	Received From	Date
Activities and Assessment Download	.xlsx	Rhonda Gluns, BC PSA	6/27/2012
Activities and Assessment Summary	.mht	Rhonda Gluns, BC PSA	6/27/2012
Period Summary.pdf	.pdf	Rhonda Gluns, BC PSA	6/27/2012
Service Turnaround Summary	.mht	Rhonda Gluns, BC PSA	6/27/2012
Time to Decision Download	.xlsx	Rhonda Gluns, BC PSA	6/27/2012
Time to Decision Summary	.mht	Rhonda Gluns, BC PSA	6/27/2012
Integrated Disability Case Management Matrix	.docx	Rhonda Gluns, BC PSA	6/27/2012
LTD Process BPD	.vsd	Rhonda Gluns, BC PSA	6/27/2012
Work Functions	.docx	Rhonda Gluns, BC PSA	6/27/2012
Integrated Procedures	.pdf	Rhonda Gluns, BC PSA	6/27/2012
MSP Reconciliation Report Procedures	.pdf	Rhonda Gluns, BC PSA	6/27/2012
Overpayment Procedures	.pdf	Rhonda Gluns, BC PSA	6/27/2012

Data and Documents Register

During the course of our review Deloitte received the following Documents

Document Title	File	Received From	Date
LTD Participation Agreement – Small Employer – Jan 24 2011	.docx	Rhonda Gluns, BC PSA	6/27/2012
LTD Review Discussion Paper	.docx	Rhonda Gluns, BC PSA	6/27/2012
Long Term Disability Administration Services July 2012	.docx	Fred Smith, GWL	07/05/2012
eDisability Project Mar 2012	.ppt	Fred Smith, GWL	07/05/2012
BC Gov Service and Claim Activity Report – Q4 11-12 inl 09-10 and 08-09 Service	.xls	Fred Smith, GWL	07/05/2012
Long Term Disability Plan Regulation	.mht	Fred Smith, GWL	07/06/2012
Period Summary Report – June 2012	.pdf	Fred Smith, GWL	07/27/2012
Service Turnaround Summary	.mht	Fred Smith, GWL	07/27/2012
50028 Disability – Claimant Detail	.pdf	Fred Smith, GWL	07/27/2012

Appendix B

Details of participant groups in comparative analysis for the Benchmarking Assessment

Participant Group	the Agency	A	B	C	D
Metric					
Insurer/Claims Adjudicator	Great West Life	Desjardins Financial Security (DFS)	Sun Life	Sun Life	Medavie Blue Cross
Claims administration	see below	4.0% of paid claims	see below	see below	see below
per new LTD claim	$893	see above	$540	$550	$300
per declined claim	$478	see above	assume same as per new	assume same as per new	assume same as per new
per monthly (paper) cheque	Included in below	see above	$20	$20	see below
per monthly benefit (ongoing)	$415/year	see above	$50	$40	$55/month for claims in first 24 months of disability, $30/month for claims after 24 months of disability
General administration	0.25% of paid claims	1.10% of premium (-0.10% if information is submitted electronically)	0.25% of paid premium	1.48% of paid claims	$22,500/month
Profit charge	0.25% of paid claims	2.0% of annual premiums, assuming CFR is fully funded	0.40% of paid premium	0.30% of paid claims	n/a
Risk charge	n/a	n/a	0.06% of premium	n/a	n/a
Other costs	As incurred	Additional deposit fund 0.35% of premiums for third party expenses related to plan governance	As incurred	As incurred	As incurred
IME's	As incurred	As incurred + 5.0% handling	As incurred	As incurred	As incurred
Internal Rehabilitation Services	As incurred	As incurred + 5.0% handling	$115 per hour	As incurred	As incurred
Subrogation	n/a	As incurred + 5.0% handling	10% of amount to max $5,000	n/a	n/a
Special expenses	As incurred	As incurred + 5.0% handling	As incurred	As incurred	As incurred
Travel costs	As incurred (assumed)	As incurred + 5.0% handling	As incurred	As incurred (assumed)	As incurred
Pooling charges	n/a	n/a	0.05% of premium	n/a	n/a
Interest Rates (on Reserves)	6.0% asset yield assumption	Average annual rate of return of 5 year to 10 year Canada Bonds (3.75%), less 0.50% (2.75%)	Weighted average rate of return of 1 year to 15 year Canada Bonds (3.50%), less 0.75% (2.75%)	3.5% asset yield assumption	6.0% asset yield assumption
Taxes	n/a	As per provincial legislation	As per provincial	n/a	n/a
Other Info					
Underwriting	ASO	Refund Accounting	Refund Accounting	ASO	ASO
CFR requirement	n/a	25% of annual premium	20% of annual premium	n/a	n/a
Pooling limit	n/a	n/a	All benefit amounts	n/a	n/a

*For Participant A used the charges as described within the financial agreement for the highest premium level ($5 M +) to compare against the Agency's plan which has total LTD contributions exceeding $22 M annually.

Participant Group	the Agency	E	F	G	H
Metric					
Insurer/Claims Adjudicator	Great West Life	Desjardins Financial Security (DFS)	Manulife Financial	Sun Life	Not identified per request
Claims administration	see below	$67,854/month	3.9% of paid claims. $429 per new claim.	see below	see below
per new LTD claim	$893	see above	see above	$500	$832
per declined claim	$478	see above	see above	assume same as per new	assume same as per new
per monthly (paper) cheque	Included in below	see above	see above	$20	see below
per monthly benefit (ongoing)	$415/year	see above	see above	$20	$489/year
General administration	0.25% of paid claims	$18,035/month	1% of paid premium	0.60% of paid premium	2.11% of paid claims
Profit charge	0.25% of paid claims	0.50% of paid claims	Combined Profit and Risk Charge - based on CFR Funding; 0-24% = 1%; 25-49% = 0.85%; 50-74% = 0.65%; 75-99%=0.45%; 100% = 0.35%	1.23% of paid premium	n/a
Risk charge	n/a	n/a	see above	0.11% of paid premium	n/a
Other costs	As incurred	As incurred	Legal, Surveillance and Medical Consultant Expenses - Actual expenses to a cap of 2.3% of LTD premium for the entire ISI pool, with a sub-cap of $20,000 per individual institution.	As incurred	As incurred
IME's	As incurred	As incurred	As incurred	As incurred	As incurred
Internal Rehabilitation Services	As incurred	$117 per hour	$114 per hour of time spent by a Manulife specialist.	$115 per hour	$168 per hour
Subrogation	n/a	n/a	n/a	n/a	n/a
Special expenses	As incurred	As incurred	n/a	As incurred	As incurred
Travel costs	As incurred (assumed)	As incurred + 5% handling fee	n/a	As incurred	As incurred
Pooling charges	n/a	$19 per member per month	29% of premium	n/a	n/a
Interest Rates (on Reserves)	6.0% asset yield assumption	4.0% asset yield assumption	Progressive interest roll-over based on insurer's net new money rate (used average 2.85%)	Weighted average yield on 1 to 15 year term Canada Bonds (3.5% assumed)	5.0% asset yield assumption
Taxes	n/a	n/a	As per provincial legislation	As per provincial legislation	n/a
Other Info					
Underwriting	ASO	ASO	Refund Accounting	Refund Accounting	ASO
CFR requirement	n/a	n/a	Based on LTD Qualifying period as follows (based on annualized paid premium less the pooling charge): 3 months = 55.3%; 3.5 months = 55.5%; 4 months = 55.7%; 6 months = 60.4%	25% of annual premiums	n/a
Pooling limit	n/a	5-year durational	5-year durational	n/a	n/a

*For Participant A used the charges as described within the financial agreement for the highest premium level ($5 M +) to compare against the Agency's plan which has total LTD contributions exceeding $22 M annually.