Responses to questions posed by members of Living Skies Regional Council, January 2021

Prepared by:
Kira Tarasevici, Manager, Pension and Benefits
Alan Hall, Executive Officer, Ministry and Employment

March 2021

1. The fund suggested by Alan to help relieve the financial stress for retirees/pensioners is the Compassionate Assistance Fund . . . . Two concerns with this plan as a long-term relief fund are: a) the fund appears to be for short term relief not for ongoing relief, as would be required by pensioners for whom the increase will be of ongoing concern. b) it is our understanding that the fund could not possibly fund benefits premiums for needy retirees for the rest of their lives – it just isn't that big a fund. Therefore, what other long term relief options are there; or has the church considered what they might be?

   - You are correct: the primary purpose of the Compassionate Assistance Fund short-term is single-incidence relief for members of the pension plan.
   - There is, currently, one on-going insurance support being provided. There is capacity for more, though the fund could not provide on-going subsidies for a large number of members or a general subsidy to the plan.
   - If there was greater demand for support, consideration can be given to expanding the capacity and mandate of the Compassionate Assistance Fund.

2. In response to the question of exploring the option of joining with the Anglicans and Lutherans to jointly fund a benefit plan Alan and Kira indicated that theoretically, we will only benefit from a merger if we merge with members who are healthier than ours. This is not likely. If anything, the membership from the potential ecumenical partners will be the same or older than our demographics. While we appreciate the logic of this, would it not be prudent to do some research in this area to see what is possible? At the very least, it would provide statistical support for or against the theory. We also wonder if it would not be prudent to consult even wider with other denominations or faith traditions. We know from Alan that there has been some conversation with the Anglicans and Presbyterians. What about Lutherans, Mennonites, Muslims, etc.?

   - As mentioned previously, theoretically, by pooling together more broadly, it might be possible to lower the costs. This outcome would be dependent upon a critical mass of plan participants with a lower incidence of benefit usage. It does not appear that pooling retiree populations with other mainline churches' retiree populations would bring this outcome. There is limited, if any, economy of scale to be gained if there is no diversification of the plan's demographics.

- At the time of a merger, we would be obligated to disclose our risk and financials, in essence asking others to take our poor risk to lower our cost. Other prospective partners would be looking to reduce their risk, not take on additional risk.
- A broad faith group canvas (perhaps through the Canadian Council of Churches or the Canadian Multifaith Federation) is a possibility. If there was an interest in pursuing a faith-based or charitable sector plan, it would require resources and expertise outside of the capacity and expertise of the United Church benefits team and major funds upfront by all of the parties to capitalize the plan and its risks. And, again, it would have to diversify the age demographic, sharing the retiree higher risk with the lower risk of a younger population.

3. In response to the question, Could the sale of church property be used to subsidize the fund? Or those most in need? Alan & Kira responded Yes, but those funds are disbursed by the community of faith and regional council, not the General Council. The proceeds of sales are not assets of the General Council to allocate (other than property directly owned by the General Council which is not much compared to what is held by congregational trustees). There are many calls on the proceeds, making it unlikely that a reserve generating a least $1 million dollars a year could be secured. Would it be beneficial for the church to explore a way to create a church wide fund for the purposes of funding a portion of the unfunded liability of the pensioners benefit plan? We realize that the sale of church property is the responsibility of the community of faith and the regional council. However, there is a strong suggestion that a portion of all such proceeds be given to M&S. Could not the same procedure be adopted for funding this plan? Or is it time to make changes so that the whole church benefits from the sale of church property?

   - Under the Model Trust Deed in The United Church of Canada Act, the regional council is entitled to the proceeds of property sales. Only Parliament could take that right away from regional councils and give it to the General Council. The United Church has no power on its own to do that. For congregations that are still in existence, regional councils have right of approval over the use of the sale proceeds rather than a direct right to those proceeds. This, too, is enshrined in the Model Trust Deed as part of the regional council's right to approve property transactions. It would not be legal for the General Council to set policy about the use of sale proceeds unless Parliament of Canada first amended The United Church of Canada Act to take away the regional council's right to make decisions about property sales. Regional councils may always choose to give sale proceeds to the General Council. Nothing is stopping them from doing that now. They just cannot be forced under current Canadian law.
   - A caution with the establishment of a separate fund is the risk of it being deemed by Canada Revenue Agency a Retirement Compensation Arrangement. Such arrangements attract onerous tax consequences, requiring withholding tax of 50% on contributions going in. Administration costs would also be substantial, in order to comply with annual Canada Revenue Agency filing requirements. Tax experts advise that Retirement Compensation Arrangements are usually appropriate only for high income earners.

4. In response to the question about being able to opt out of the plan, Alan and Kira in part indicated that If we allow voluntary withdrawals from the plan at any point, this would be detrimental to the plan as members with light use would leave and heavy users would stay. Is this based on industry data or how has it been determined that this is what will happen? We would question this belief based on the various responses we have had from pensioners/retirees who are in a variety of health situations (from very healthy to people with many underlying conditions), and who would opt out if given the chance. We wonder if there has ever been a survey of what would happen if this was an option, as it is in other retiree benefit plans? What was included in Alan & Kira's response is a rationale by the industry for what they are wanting to do, not a belief backed by data.

   - Adverse selection is an established underwriting insurance principle. This is confirmed by our external benefits consultants and evident widely on the internet. Given an opportunity to opt out, industry experience demonstrates that the following will happen:
     - healthy members under financial duress leave -- plan does not gain anything on the loss of claims, instead the cross subsidization that these members provided is now lost, driving the cost up for those who remain;
     - healthy members who do think the plan is "worth" it but have low claim history, leave, taking their cross subsidy with them and, again, driving costs up;
     - unhealthy members under financial duress leave -- this would be "beneficial" to the plan, as in lowering claims, but highly detrimental to the member who is now without supplemental coverage.
   - It is the plan's practice to allow members to leave the plan under certain financial hardship situations.
   - Members who leave are unlikely to obtain comparable coverage at this cost in the open market, leaving them unprotected.

5. In response to the question of will the plan be sustainable beyond 5 or 10 years, Alan and Kira indicated that: We are looking at the demographics to ensure sustainability as the pensioner population is still growing and to prepare for a point in time when the population declines. Plan reliance on subsidies by diminishing numbers of congregations with active (non-retired) staff while the retired member populations grow makes the plan unsustainable. Thus, the decision by the Executive that the plan must be sustained by plan member premiums. We understand that the plan will not be sustainable once the subsidy is no longer available, and hence the need to raise the premium. However, our question was more about how do we know that the plan will continue to be sustainable into the future after the premium is increased. The first part of their response answers this, as does this from their response to another question: Currently there are over 2500 pensioners in the Health and Dental plan and we've not hit the peak yet, so the pensioner plans continued existence is likely for the foreseeable future. It will be a long time before we are faced with the group being too small to operate on a group basis. Our question is: how do you know that we are not already at the peak of retirees joining the plan? On what statistical analysis is this based? We are halfway through the baby boomer generation, which is driving both member participation and higher costs to the plans. It would appear there are fewer of this generation to join than have already joined by this point. In addition, given the increased cost, many may choose not to join. As we noted in the opening to this letter, many of us would not have joined if we had

known the true cost of the plan. The rate of pensioners joining in the past may not be a good rate to rely on in the future. In addition, if you believe that the "healthy" pensioners would be the ones to opt out of the plan (as noted in their response to the option for us to opt out now), leaving only the "less healthy" to fund the plan, then why would the "healthy" retiree want to join the plan upon retirement?

- The volume of members of the plan is not particularly significant. It is the diversity of the membership demographics that affects the plan experience. A retiree plan will inherently be an older demographic which typically has a higher draw on health care resources. This will not change if the plan membership is one thousand or five thousand. A larger pool would diversify the risk to a limited extent, and likely restrain some of the volatility, but it would not fundamentally change the risk.
- The decision of the Executive of the General Council was to achieve sustainability by equating the premiums collected to the amounts claimed. This would eliminate the underfunding of the pensioner health and dental plan. In the next five years the premium increases will be relatively large in order to close the gap between the amounts that are collected and those that are paid out to members. After that is achieved, on a yearly basis the costs for the past year would be re-assessed and, depending on the experience, the future rates will fluctuate to maintain equilibrium.

6. In response to the question about doing a survey of pensioners and their situation, Alan and Kira indicated: No, a survey of this nature has not been undertaken. Nor would it be of particular value in informing or determining the plan premium. As noted earlier, the current plan reimbursed plan members $4.8 million dollars in 2020. If members, particularly members with lower pensions, do not have additional sources of retirement income to cover this level of reimbursement the plan benefits would have to be reduced substantially. The cost driver is claims members are making against the provided benefits, not the administration or a profit motivation. Our purpose in asking about the survey was to determine how far reaching the financial impact of increased premiums will be on pensioners. Such a survey would gather more than statistics, but rather the stories behind those statistics. This would not be to determine the plan premium, but rather to determine a way to assist those most affected by this increase. The survey would be one way of assessing what kind of pastoral response is needed to such a significant increase. At the moment we see no pastoral response, only a very clinical and business-like response.

   Given the reality of shrinking main-line churches, would the United Church of Canada be wise and more generous to retirees to simply end the plan (for retirees) in the coming year (before all the fee raises), so that retirees would be freed-up to find their own plans?

   - Providing insurance products is not a core mission of the United Church. Closing the plan is not an unreasonable consideration given that it is not a plan that benefits all retirees.
   - If the plan was closed, however, the members who are relying on it currently or think they may elect it at retirement, would have to turn to the open market for supplemental coverage. While anecdotally it is stated that there are much better plans available at lower costs, our research, and the experience of our benefits consultants, is that this is not so. It is unlikely that the members would be able to find comparable plans that are less expensive. Only some public sector retirement plans offer subsidized health benefits which may be less expensive

- Insurance carriers commonly offer conversion plans with and without undergoing a medical. From a market review, we have obtained the following initial quotes that did not require a medical:
  - CARP - Canadian Association for Retired People - for a 65 year old, 3-star product (top level without evidence of insurability) $525 maximum for drugs annually, monthly premium 214$ for a couple.
  - Manulife - a comparable plan to ours - $189 per member, $300+ for a couple (attached)
- A survey could be undertaken. However, if there is no option available to offer a denomination-funded plan for all retirees, or substantial on-going subsidization for some or all participants with smaller pensions, a survey might not be a pastoral outreach, but create expectations that cannot be met.

7. How has the number of years that a pensioner is part of the benefit plan changed over the past two or three decades? And how has this impacted the plan? We live longer, we have access to more (and costlier) treatments and drugs.

   - The attributes you are citing, in addition to inflation, are primary reasons for why retiree plans are so expensive. And so rare these days. From the pension experience, we know that our members have historically had higher than average longevity. This has always been a risk factor for which has been accounted in our actuarial projections. The objective of our plan is to remain self-supported, where the members are paying for what is being consumed for as long as they are members of the plan.

8. What about the impact of dependants/ surviving spouses living longer, etc?

   - Same as above.

9. Is the plan self-sustaining after five years when retirees only are considered? What is the impact of fewer active members who are paying into the plan and the shrinking number of employing units - i.e. pastoral charges?

   - The active member and retired member plans are separate, with different benefits, and each independently funded. The objective of the retiree group health plan is to be self-supported, where the members are paying for what is being consumed without reliance on subsidy. Thus, the number of active members and the number of communities of faith (employers) will not impact the sustainability of the retiree plan. However, when membership in the plan declines, so will the liabilities, or costs, of the plan. The issue you raise is more relevant to the active member plan and is currently under review.

10. What have been changes in terms of the number of persons taking early retirement - or those that would like to? And how has this impacted the plan?

    - The rates of early retirement have actually declined significantly in the last ten years, from 47% in 2010 to 30% in 2020. It is important to note, however, that the bulk of these early retirements are at 63 and 64 years of age. It is increasingly common for members to retire after age 65 or even as late as 71.

- Theoretically, the plan would benefit from younger, healthier members. With a significant number of late-in-life entries to the plan and, thus, shorter service, early retirement is not likely to be a significant mitigating factor for our retiree plan.

11. Is reducing the maximum annual benefit another way of reducing the premium?

    - Yes

12. Is it possible to offer different deductible amounts from which people could choose, as a way of reducing the premium?

    - Administratively speaking different deductible amounts would prove challenging, increasing administration costs. But yes, increased deductible amounts would lower the cost of the plan while increasing the costs to the higher users of the plan.