serving those who serve

LUTHERAN CHURCH–CANADA
WORKER BENEFIT PLANS

To: Congregational Treasurers and Institutional Business Managers

From: Dwayne Cleave, Executive Director
LCC Worker Benefit Plans

Date: September 28, 2017

Re: **2018 Employer Rates for pension and benefits**

At its recent meeting, the Board of Managers (BOM) with input from their consultants determined the employer and employee rates that are necessary to fund the worker benefit programs in 2017. The overall net increase to the Group Benefit Plans is 5.8% and will be effective January 1, 2018.

Summary of Changes

Last year there were no rate increases for active members' Basic Life, Extended Health and Dental Plans. This year Basic Life insurance rates increased by 10% reflecting a slightly older population. Increased claim costs under the Extended Health and Dental resulted in a 3% and 4.5% premium increase, respectively, in these plans. Out-of-Country coverage, this year again saw a significant increase (10%) for active members. While the percentage increase for Out-of-Country coverage was large, the cost of this plan represents a small portion of the overall group benefit costs (about $42,000 for the entire active membership). Retiree rates for health and dental have also increased by 3% and 4.5%, respectively, however, retirees will be assuming a large portion of the cost of these plans as they will now pay 50% of the costs, up from 45% last year.

Rates for the Pension Plan, Post-Retirement Benefits Plans, the Employee and Family Assistance Plan and Administration remain unchanged. Plan members will see an increase in Long- Term disability premiums of 12%; last year there was a decrease of 15%.

Our continuing goal is to ensure that our member's pensions are secure, members receive the benefits they require; and costs to congregations, schools, and institutions and their employees are affordable. Meeting all those goals simultaneously can be challenging. Before making any decisions about increases, all alternatives are very carefully reviewed and we ensure we have gotten the best rates possible from the insurer.

Please review the following commentary for explanations of the rate changes by benefit category. *To provide further clarity, we have also included in your material two appendices, which illustrate the net dollar impact the new rates will have on a typical employer and employee that participate in our plans.*

If you have any further questions regarding the new rates, please do not hesitate to contact Ellement at 1-844-440-1045.

An Explanation of 2018 Employer Rates

Pension Plan

The 2018 contributions required to fund the pension plan will remain the same at 16.0% of payroll.

The contribution rate has been set on the assumption that employers will only have to fund the Pension Plan normal service costs and *going concern deficit* as determined under the last filed (with the pension regulator) actuarial valuation which was based on the plan's position at December 31, 2014. The next actuarial valuation is expected to be completed by the end of April 2018 based on the plans' position at December 31, 2017. While we expect positive news a lot can happen between now and the end of the year that could influence the plans' contribution rate. The contribution rate is subject to change based on the results of the upcoming valuation and could also change if our plan has to start funding the Defined Benefit component of the Pension Plan on a solvency basis. Currently, the pension regulator has not required us to fund the solvency deficit but it is within their power to do so. The Board of Managers has been working with the pension regulators to create understanding on the implications to our employers if they are required to fund the solvency deficit. I think it is fair to say that the regulators have a good understanding of the financial constraints of our employers. However, should a further rate increase become necessary in 2018, employers will be given as much notice as possible in advance of the change.

Post - Retirement Benefits

As noted above, the employer 2018 contribution for post-retirement benefits will remain the same at 1.9% of payroll. In 2018, retirees will pay 50% of the total premium cost; in 2017, they paid 45%.

Group-Benefits (Life Insurance, Dependent Life, LTD, Health, Dental, EAP)*

The 2018 aggregate premium rates for Group Benefits for both active and retirees (excluding Long-Term Disability) increased 4.7% compared to 2017.

The 2018 Long-Term Disability rates which 100% are paid by employees increased by 12% as a result of poor experience under the plan. The average increase to employees as a result of the increase in premium rates will be approximately $ 79 per year.

Extended Health and dental rates are increasing by 3% and 4.5 % respectively. The rates for health and dental are based on actual claim's experience of our employees along with anticipated price increases to drug costs and dental service fee guides, based on past years' trends.

The rate for EAP remains the same as 2017 at $7.00 per month.

Administration Fees

The monthly administration expense per active member in 2018 will be $75.00, which has been the same for the last several years.

Administration services include such things as administrative costs for providing enrollment, billing, communication and customer services; data maintenance; pension calculation; government calculations and tax reporting; flex benefit enrollment system; consulting services for group benefits and Defined Contribution (DC) pension investments; DC pension plan record keeping; regulatory filing requirements and legal, accounting and auditing services.

Employee Deductions

It is important that the premium for the following benefits be entirely paid for by the employee and cannot simply be paid for by the congregation. This is a legal requirement to comply with both our plan regulations and Canada Revenue Agency taxation rules. Furthermore, any LTD premium paid by the employer will taint the whole plan, making the benefit when paid to any claimants taxable rather than non-taxable.

1. Employee required pension contributions (4%) and Optional DC pension contribution (choice of 1%, 2%, 3% or 4% of compensation)
2. Long Term Disability premiums (1.084%, 1.218% or 1.316% of compensation depending on their option choice)

Should you have any questions or require further clarification, please do not hesitate to contact Ellement at 1-844-440-1045 or email lccbenefits@ellement.ca

In His Service,

Dwayne Cleave

Dwayne Cleave, Executive Director
LCC Worker Benefit Plans

* Employer premium costs are calculated as a percentage of an employee's Total Annual Compensation which includes basic salary plus utility allowance plus housing allowance. When the employer provides a residence (parsonage), the housing allowance is considered to be 30% of the basic salary.