

Changes to the Worker Benefit Plans

As you may be aware, Lutheran Church–Canada’s Worker Benefit Plans (WBP) recently undertook a review of the pension plan, post-retirement benefits and benefits eligibility for permanent part-time members. As part of the review 16 focus groups were held across the country where design proposals were presented and plan members and employers then had an opportunity to comment and make other suggestions. The review of the design of the various plans was the result of numerous concerns that WBP received from employers who indicated that the plans were no longer affordable and increasing costs (often occurring at the same time that revenues were declining) were impacting their operations.

Based on the input received during the focus groups along with e-mails and letters from members and employers a final set of design changes was reviewed and approved at the June, 2010 Board of Managers (BOM) meeting. These were subsequently sent to LCC’s Board of Directors who approved the changes.

In considering design options, the BOM kept in mind the need to ensure the plans were cost sustainable for employers while having the least impact on members and saved the most benefits. This is a difficult balance to reach, however, we believe that the changes that have been approved are fair and represent the best possible outcomes for all stakeholders.

Pension – Changes apply to active members only

Effective January 1, 2011 the employer’s match to the contributions members make to the Defined Contribution (DC) component of the pension plan will be suspended. Members may still continue to build their retirement savings by making member contributions of up to 4% of pay to the DC plan but no further employer contributions will be made.

Changes to the Defined Benefit component of the pension plan are being postponed for one year as a result of focus group discussions and other communication received from members and employers. During this time other options and alternatives will be investigated. Any changes to the pension plan will apply to future service only and not affect benefits accrued up to the date of any changes.

We can say now, that regardless of what the pension design ultimately turns out to be, members will be required to contribute to it. Pension design changes will be finalized for July 2011 with an implementation date of January 2012. Further communication will be provided to members and employers as we work through the process.

Post-Retirement Benefits (PRBs) – Changes apply to both active members and retirees

The WBP like many Canadian employers has been struggling with the escalating costs of post-retirement benefit plans. These are the result of health and dental cost increases far in excess of inflation, increasing number of retirees, increased utilization, an aging population and cost shifting from government plans to private plans. Cost projections done over the next 20 years show an exponential increase in costs beyond what most employers consider to be sustainable. In addition, a reserve fund that was set up to help pay for retiree health and dental benefits will be depleted by the end of the year thus requiring further employer funding. To manage these increasing costs the following changes are being introduced that will impact both current and future retirees:

- Post-Retirement Benefits will no longer be offered to **future** retirees with the following exceptions:
 - Members who qualify for PRBs and who retire before July 1, 2012, or who are age 60 with 15 years of service as of July 1, 2010. Continuation of PRBs for these members recognizes the limited time they have available to plan and budget for health care costs in retirement.
- Effective January 1, 2011, the PRBs offered to both current retirees and those qualifying for PRBs in the future (as outlined in the preceding paragraph) will be amended as follows:
 - All retirees will be required to pay a premium for their PRBs. For retirees who currently do not pay any premiums they will be required to pay 10% of the premium cost. For those retirees who currently make a premium contribution, costs will increase by a further 10% of premium costs. Since 2011 premiums have not yet been determined we cannot tell retirees the exact amount they will be required to pay. While not exact, we can, however, give you an indication of the amounts using 2010 premium rates. Please see attached Appendix A. We have also included the new schedule of the total premium percentage amounts that retirees will be required to pay based on their service.
 - Private duty nursing coverage will be capped at \$10,000 per year.
 - An annual deductible of \$50 for families and \$25 for single will be introduced on the medical plan. A deductible is the amount you must pay before the insurance company makes a payment on your claim.
 - The medical plan will now pay for the least cost alternative drug where interchangeable drugs can be used to fill prescriptions. Least cost alternative drugs are the lowest cost product within a set of interchangeable products. They are typically generic equivalent drugs (generic equivalent drugs are copies of brand name drugs), however, sometimes a brand name drug can be priced lower than a generic drug. A

generic drug provides the same active ingredient in the same amount as their brand name counterparts and is as effective as a brand name drug. However the filler, the colour or the shape of a generic drug may be different from the brand name drug. If a retiree has a condition that necessitates them taking a brand name drug rather than a generic drug they can submit medical documentation outlining this requirement. Reimbursement would then be based on the cost of the brand name drug.

- A dispensing fee cap up to maximum of \$7 per prescription will be introduced on the drug component of the medical plan. The cost of prescriptions includes not only the cost of the drug but the pharmacist professional or dispensing fee for evaluating, preparing, and packaging a drug. Dispensing fees can vary widely by pharmacy for the same prescription. Since the plan will only cover the dispensing fee up to the cap and the retiree must pay for any portion of the fee over and above the cap, it is to the retiree's advantage to shop around for a pharmacy with lower dispensing fees. A dispensing fee cap helps to reduce the overall cost of prescriptions being charged to the plan while at the same time retirees retain the choice as to whether to pay the extra fee or shop at another pharmacy. Note dispensing fee caps do not apply to drugs purchased in Quebec where professional fees are included in the total drug cost.
- The Dental Plan will now pay for check-ups, x-rays, scaling and polishing once every nine months (previously coverage was once every six months). Many plan sponsors have moved to reimbursement levels of once every nine or twelve months since this is still considered a medically appropriate level of coverage.

Long-term Disability (LTD) Premiums – Applies to active members only

Effective January 1, 2011 members will pay the cost of Long Term Disability premiums rather than employers. This means that members will no longer receive credits from employers to pay for their long term disability premiums. While this results in an increase in costs to members it also provides an increase in LTD benefits coverage. This is because of the tax law governing LTD premiums. When an employer pays the long-term disability premium, benefits paid to a LTD claimant are taxable, when a member pays the LTD premium, benefits paid to a LTD claimant are non-taxable. Members will have LTD coverage options from which to choose.

Health and Dental Benefits – Applies to active members only

The medical plan will now pay for the least cost alternative drug where interchangeable drugs can be used to fill prescriptions. See the description under the retiree changes above for a full description of this change.

Employer Funding Option

While the health and dental plans designs for active members were not part of the initial review, we heard from a number of employers during the focus groups, and subsequently by e-mails and letters, expressing the need to also review these parts of the plan because of escalating costs. As a result we will be undertaking a full review of the group benefits design and funding arrangements with a target implementation of any changes to be January 1, 2012.

As a temporary interim measure, until these programs can be reviewed, and only where employers are under severe cost constraints, we will permit employers to negotiate a mutually agreeable cost sharing arrangement for health and dental benefits with members. We recommend that employers only do this if absolutely necessary and to be as generous as possible to members taking into account the other costs that we are now asking members to pay. Note this change only applies to health and dental benefits since other benefits may have tax implications if members pay for them.

Permanent Part-Time Employees (PPT) - Applies to active members only

Effective January 1, 2011 permanent part – time members will be required to work 24 or more hours a week (.6 of a week) to be eligible for the group benefit programs. Members who do not work the required number of hours will no longer be eligible for group benefits coverage. Current PPT workers participating in the WBP and remaining in employment will continue participating in the pension plan even if they no longer have group benefits coverage.

Summary and Contacts

While no plan sponsor wants to reduce benefit plans the changes undertaken are necessary in the current environment. The BOM gave careful deliberation and undertook extensive consultation with stakeholders before deciding on these changes. While the decisions were not easy, the BOM believes they are fair and balanced and continue to meet our goal of meeting the members needs while balancing employer's ability to pay for the plans. We would like to ask for everyone's patience and understanding as we work through the challenges before us.

Further details on the above changes will be communicated prior to implementation. In the meantime if you have any questions or comments, please e-mail the following contacts or call WBP at 1-800-588-4226 at the extensions noted below:

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Worker Benefit Plans

Appendix A

Retiree Premium Rates

The following chart provides an illustration of the approximate premium rates that retirees will be required to pay effective January 1, 2011 based on 2010 premium rates. These rates apply to retirees who do not make any retiree contributions currently. Actual 2011 rates will not be known until later in the year at which time we will notify retirees of the actual rates they will pay.

Monthly Retiree Premiums based on 2010 rates				
	Health		Dental	
	Current Employer Rate	Proposed Retiree Contribution	Current Employer Rate	Proposed Retiree Contribution
Single	\$ 65.08	\$ 6.51	\$ 43.63	\$ 4.36
Family	\$ 129.69	\$ 12.97	\$ 94.11	\$ 9.41

For those retirees that make contributions because they were not age 62 with 5 years of service at retirement or they were not age 55 with age and service totaling 70 points will pay increased premiums based on the following schedule:

Completed Years of Credited Service	% of Total Premium Payable (Old Schedule)	% of Total Premium Payable (New Schedule)
2	87%	97%
3	80%	90%
4	73%	83%
5	67%	77%
6	60%	70%
7	53%	63%
8	47%	57%
9	40%	50%
10	33%	43%
11	27%	37%
12	20%	30%
13	13%	23%
14	7%	17%
15 or more	0%	10 %