

DISABILITY INSURANCE PLAN BOARD OF MANAGEMENT



ANNUAL REPORT

January 1 to December 31, 2002

NATIONAL JOINT COUNCIL
DISABILITY INSURANCE PLAN BOARD OF MANAGEMENT

In accordance with the NJC By-Laws, the undersigned submit this annual report regarding the performance and the administration of the Disability Insurance Plan during the period of January 1 to December 31, 2002.

CHAIRPERSON / PRÉSIDENTE

Louise Holmes

**EMPLOYER SIDE MEMBERS/
MEMBRES DE LA PARTIE PATRONALE**

Secrétariat du Conseil du Trésor

Kathy Jordan
Treasury Board Secretariat

Centre canadien de gestion

Alain Corriveau
Canadian Centre for Management
Development

**BARGAINING AGENT SIDE MEMBERS/
MEMBRES DE LA PARTIE SYNDICALE**

Alliance de la Fonction publique du Canada

James Infantino
Public Service Alliance of Canada

Institut professionnel
de la fonction publique du Canada

Rudy Loiselle
Professional Institute of the Public Service of
Canada

Agence des douanes et du revenu du Canada

Association des gestionnaires financiers de la
Fonction publique

Marthe Wright

Canada Customs and Revenue Agency

Gene Szabo

Association of Public Service Financial
Administrators

Travaux publics et Services gouvernementaux
Canada

Syndicat de la santé nationale et bien-être
sociale

Glenda Blacker

Public Works and Government Services
Canada

Raymond Strike

National Health and Welfare Union

The Disability Insurance Plan Board of Management is pleased to report the following information relating to the administration of the Plan, and performance and activities of the Board for the period of January 1 to December 31, 2002.

BACKGROUND INFORMATION

The DI Plan Board of Management held its inaugural meeting in May 1996. It was created as a result of a recommendation made to the Executive Committee of the NJC by the defunct Health Insurance Programs Committee. The DI Plan provides income replacement during long-term disability, up to 70% of insured earnings. In 2002, the DI Plan delivered \$237 million in support to affected employees. The Insurer of the Plan is Sun Life Assurance Company of Canada.

At the end of the reporting period, the insured population under this Plan was made up of 198,384 represented employees, a 4.2% increase from 2001. The premiums continued to be \$1.08 per \$1,000 of insured salary until the end of 2002. According to the cost-sharing arrangement, employees pay 15% of that amount and the employer contributes 85%.

MEMBERSHIP AND ACTIVITIES

The Board met seven times during the period covered by this Report, devoting much of its time to hearing appeal cases and to overseeing the administration and financial experience of the Disability Insurance Plan.

Louise Holmes served as Chairperson of the Board for the seventh consecutive year.

The members of the Board as of the end of the 2002 reporting period were:

Alain Corriveau, Canadian Centre for Management Development;

Kathy Jordan, Treasury Board Secretariat;

James Infantino, Public Service Alliance of Canada;

Rudy Loiselle, Professional Institute of the Public Service of Canada;

Raymond Strike, Public Service Alliance of Canada;

Gene Szabo, Association of Public Service Financial Administrators;

Doug Taylor, Human Resources Development Canada; and

Marthe Wright, Canada Customs and Revenue Agency.

Claude Lévesque of the NJC Secretariat, served as Secretary to the Board for a portion of the year 2002, on behalf of Dan Butler who is Secretary of Records and General Secretary of the NJC; Maryse Bernier replaced him in the later part of the summer. Dr. Johanne Lloyd-Jones of Health Canada continued to serve as Medical Consultant to the Board. Jocelyne Angrignon served as Appeals Coordinator.

ADMINISTRATION

The Board of Management met with the Plan Insurer on one occasion to receive financial information.

Generally, the time required to process claims of the DI Plan is shorter than the rest of Sun Life policies because claims applications are reviewed by the employer; the DI Plan has its own dedicated claims unit; and there is a shorter elimination period (13 weeks) on the DI Plan.

EXPERIENCE AND ISSUES

As a result of a special meeting convened on July 5, 2002, the Board of Management presented a report to the National Joint Council Executive Committee recommending that a premium increase of up to 50% was justified. The Executive Committee reviewed the report and indicated that a premium increase would be effective January 1, 2003. The Board hopes that the new rate of \$1.61 per \$1,000 insurable earnings, along with other factors, such as an increase of interest earnings, will be sufficient to cover the cost of the plan in the foreseeable future.

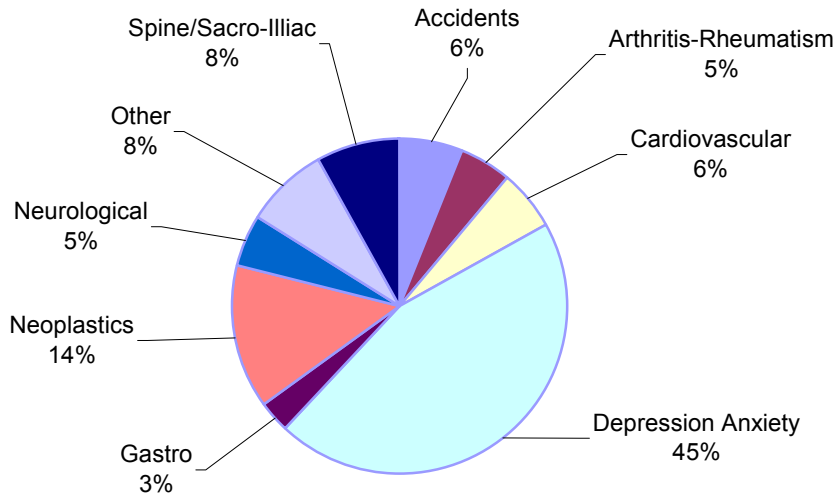
For the second year, the DI Plan ended the year with a net decrease in the Surplus account. While there were a number of reasons for this decrease, the most significant, in the Board's view, related to four factors:

1. Changes in the reserve basis for 2002, which resulted in a transfer from the reserves account (fund set aside to pay future benefits) to the surplus account, were not enough to offset the overall surplus decrease.
2. There was a loss resulting from an excess of claims and expenses incurred for new disabilities over premiums and interest earned. Although the loss was smaller than the one experienced in 2001, it is in line with the new trend that started in 2000. The Board will continue to monitor the situation during 2003.
3. Another factor that contributed to the depletion of the surplus account is the ongoing decrease of interest rates in 2002. Premiums and rollovers from the DI assets credited to the Plan were invested at lower interest rates, the credited rate saving slightly declined compared to 2001.
4. Retroactive salary adjustments also had a considerable impact on the Plan. In fact, since the commencement of these adjustments in 2000, the year 2002 has been the most significant in terms of plan impact.

The annual report prepared by the Insurer includes a broad overview of Plan data, which was also reviewed by the Board. In 2002, there were 2,256 claims notified, which represents an 8.5% decrease from the previous year. On December 31, 2002, the total number of approved claims was 1,913 (approval rate 85.6%) and the number of pending claims was 395.

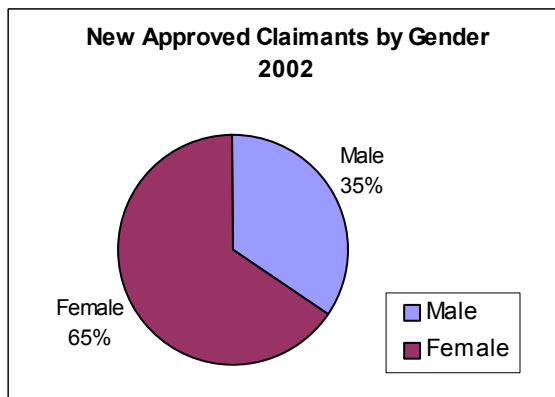
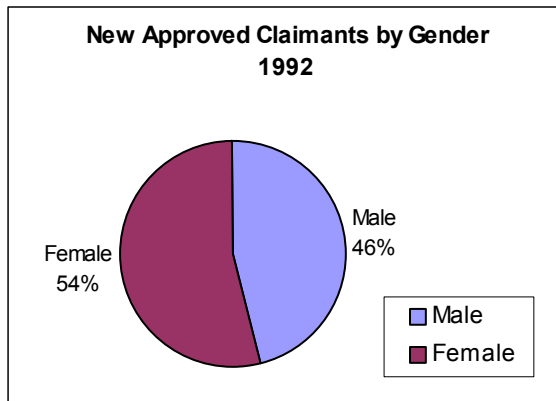
Depression anxiety remained the major cause of disability for new claims in 2002 as it has in the last 11 years. Increasingly, cases presented deal less with objective verifiable medical data and more with the challenges that are posed by the difficulty in diagnosing these illnesses.

The distribution of other causes of disability for approval year 2002 is illustrated in the chart seen below:



In 2002, 63% of approved claims came from individuals between the ages of 40 and 54, the average age being 45.2 for women and 49 for men.

The gap between men and women was quite significant, and the charts below show the evolution of that gap between 1992 and 2002:



Appeal Cases

The terms of reference for the Board include the duty to examine appeals against membership and claims decisions by the Insurer and to make recommendations to the Insurer and, in certain circumstances, to employing departments and agencies.

During the period covered by this report, the Board reviewed 17 appeals. In one case, the Board made a recommendation for resolution of the appeal. On one other occasion the Board requested further additional information from either the appellant or the Insurer before making a recommendation. In fifteen (15) cases, the Board could find no reason to disagree with Sun Life's decision.

Other Developments

Terms of Reference of the DI Plan Board of Management

In 2001, during a discussion on surplus, the question as to the Board's role regarding financial issues was raised again. The Board agreed to review its terms of reference to ensure the Board can study this issue. A sub-committee was then struck and undertook the review of the terms of reference in 2002. However, in late fall 2002, after the sub-committee had done one full examination of the terms of reference, the NJC Executive Committee made the decision to mandate a special working group to review the terms of reference of both boards of management and to provide recommendations directly to the NJC Executive Committee by the Spring of 2003.

CPP/QPP Benefits

DI Plan benefits are integrated with CPP/QPP benefits as a result of DI Plan offset provisions. For the past several years, the numbers of "new claims" receiving CPP/QPP benefits have been lower than previous years. The reduction in CPP/QPP offsets has resulted in a heavier draw on the DI Plan.

Integration of the disability provisions of the Public Service Superannuation Act with the federal disability insurance programs

The Board of Management reviewed the advantages and disadvantages of an integrated approach and noted that two provinces have adopted this practice. However, the Board has requested additional information on medical retirement issues to gain a better understanding of the issue and will likely pursue its discussion in 2003.

Claim processing

The Board of Management was made aware of claim processing delays in the Government's processing unit located in Shediac, New Brunswick. The Shediac office receives and reviews DI claims to ensure that each file is complete and conforms to the eligibility criteria before forwarding them to Sun Life for medical review. At the end of 2002, the Board of Management was in the process of determining the reasons for delays and a TBS representative contacted the Shediac office to discover what measures had been taken to remedy the situation.

The Insurer also experienced delays in claim processing in 2002, the main reason being the implementation of the new imaging system AZTEC, used to improve efficiency of file handling. Both the Board and the Insurer were confident that this new system would reduce processing time significantly in the future.

COMMUNICATION

A working group was established in 2001 and communications with departments was identified as a first priority. The working group wrote to the Association of Compensation Managers and Public Works and Government Services Canada to discover existing problems with the claims application process as well as common questions and areas of confusion. In 2002, the working group was still awaiting a reply from the ACM. It nonetheless decided to explore other venues of communication such as opportunities for CPP Sun Life cooperation on vocational rehabilitation and inclusion in Sun Life's quarterly reports of additional information on operational problems and issues of interest. The working group planned to reconvene in early 2003 to follow up on those venues.

The 2002 NJC Seminar in Toronto afforded an opportunity for the Board to increase its visibility and role. For the first time since the inception of the Board, the Chairperson spoke to various union and employer attendees about Plan issues and data.

TRAINING

In 2002, the Board continued to support training for its members. The Board provides funds to cover registration costs of conferences. Several Board members attended conferences presented by the International Foundation of Employee Benefits Plans.

LOOKING AHEAD

The Plan's experience thus far in 2003 has resulted in an increase in surplus of \$12 million over the first three months. The main factors that contributed to this outcome were the premium rate increase that was implemented on January 1, 2003 and a reduction in the number of retroactive salary adjustments processed thus far in 2003.

The Board of Management is following the work of the study group to review the terms of reference of both boards of management with much anticipation, and has indicated that it will cooperate fully with the members of the group.

CONCLUSION

The Board would like to thank Dr. Lloyd-Jones for her invaluable assistance in interpreting and advising on the medical aspects of the appeal cases and to Ms Angrignon who coordinated the presentation of the appeal cases to the Board and who advised Board members on the details of each case during its examination of the appeal.

The DI Plan Board of Management would also like to take this opportunity to thank Sun Life for working so closely with the Board on recommended insertions and improvements to the Insurer's annual report.

On the whole, the Board has noted that Sun Life has handled the complexity of disability insurance cases with skill and empathy. It has also appreciated Sun Life's continued support throughout another difficult year.