Appendix E: HBT & Province of British Columbia Action Plan

(The attached response prepared by HBT and the Province of BC should be read in conjunction with this final report).

Final Report on the Healthcare Benefit Trust - As Issued By Deloitte & Touche
HBT's Response to Recommendations and Provincial Action Plan
Last Updated: March 17, 2004

Recommendation:	HBT Board Response:	Government Action Plan To Implement Recommendations
Communication:		
1. While we recognize HBT has attempted to provide information to participating employers and government in the past, we recommend the approach to disseminating information be reviewed to ensure proactive, regular interaction between all parties regarding all aspects of plan performance. Participating employers should also be frequently consulted to ensure the information provided is meeting their needs.	Some of HBT's Trustees are appointed from the healthcare industry. With their guidance HBT will review its communications strategy to reflect the changing nature of our members	HBT Board: To review its communications strategy to reflect the changing nature of its members. As well to ensure the communication strategy is achieved. HEABC, CSSEA and PSEC: To ensure the communication strategy proposed by HBT meets the participating employers' needs as well as to disseminate information on plan performance.
Governance:		
2. Earlier this year the Board expanded to include two representatives from the Health Authorities. While this expansion was designed to improve the direct participation on the HBT Board, we recommend additional Trustee(s) from areas of the healthcare and social services sector not currently represented to ensure balanced representation. Given the impact of the LTD program on the overall financial position of HBT, consideration should also be given to individuals with a strong disability management background.	A maximum of twelve Trustees is specified in the HBT Trust Agreement. Currently there are ten. Three of them are from Health Authorities, one is from the community health sector and one is from HEABC. HEABC bears the responsibility of appointing all Trustees and HBT will ask them to respond to this Recommendation.	HEABC To review whether the healthcare and social service sector representation on the HBT Board is adequate according to the healthcare (MoHS and Health Authorities) and social services sectors (CSSEA). MoHS, MCFD and PSEC: To work with HEABC and HBT to ensure continuing and appropriate board membership including the possibility of government representation for an interim period.
3. Regardless of whether a stabilization fund or contingency reserve were to be introduced, the government might consider introducing regulatory oversight (e.g. FICOM or Superintendent of Pensions) to provide protection and accountability. If HBT were regulated today, however, this	Whether HBT reports to a government regulator is a matter of public policy. If this change is implemented then the regulations should be specific to Health & Welfare Trusts and should apply to all Health & Welfare Trusts operating within the Province of British Columbia. It is recommended that if government regulation of	PSEC (in consultation with MFIN and MoHS) To determine whether public policy should require HBT to report to a government regulator (either the Superintendent of Pensions or FICOM). If yes, To establish government policy requiring HBT

oversight mechanism would have likely forced the contributions to escalate more rapidly as soon as an actuarial liability situation arose, and certainly may have demanded a model that provided suitable claims fluctuation reserves.	HBT is to proceed, this should be through the Superintendent of Pensions rather than through FICOM.	and all Health & Welfare Trusts to be regulated.
Information Systems Development:		
4. We recommend the participating employers work with HBT as they develop and implement their own HRIS systems. The primary objective would be to integrate and leverage the functionality of each party's system and avoid duplication of unnecessary expenditures.	HBT already has agreements in force or pending with five Health Authorities concerning the development of linked information systems that are necessary for the efficient administration of the collection of contributions, enrolment data and determination of benefits provided by the Trust. HBT is ready to work with HBT members to develop information systems that will assist in the integration of computer systems between the members and HBT.	HEABC, Health Authorities, CSSEA, and HBT A Working Group should be established to ensure that consistent information and/or collection systems exist with minimal additional resources that are necessary for the efficient administration of the collection of contributions, enrolment data and determination of benefits provided by the Trust.
Investment Management:		
5. While HBT do review their investment strategy and performance on a regular basis, we do however; recommend HBT work closer with the participating employers to incorporate their risk profile and budgeting requirements in the investment review process.	HBT will discuss its investment strategy with its members to reflect the wishes of its members. The ability of HBT to respond will depend on the size of the member group and the exact allocation of assets requested. Risk tolerance cannot be separated from the ability to pay for a particular risk profile. Both of these features need to be considered by HBT members before relevant decisions can be made.	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To ensure that HBT's investment strategy reflects members (i.e. HA CFOs and MCFD) needs on a recurring basis by providing periodic updates on performance and analysis of alternatives.
Risk Tolerance:		
6. We recommend a contingency or claims fluctuation reserve be established to ensure more stability in contribution levels, ideally without triggering any taxation liability.	Establishment of a contingency or claims fluctuation reserve can be considered for individual Health Authorities and other risk blocks within HBT. If such reserves are to be instituted, then the funding of them should be a prime consideration and the availability of funds will need to be considered by the funding agency.	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To liaise with members (i.e. HA CFOs and MCFD) to determine whether each member would like to institute a contingency or claims fluctuation reserve on a go forward basis.
7. The majority of benefits provided through the HBT are fully pooled by risk group, with the exception of LTD, where	LTD has been experience-rated by HBT for at least ten years. It is anticipated that contributions will be determined solely on the experience of a	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To liaise with members (i.e. HA CFOs and

experience-rating is applied at the employer level based on a credibility formula. We recommend increased accountability, particularly for the large participating employers. This can be achieved by setting contribution rates on each participant's claims experience for all benefits. However, the pooled approach could be maintained for the smaller participants. This approach maintains equity between participating employers, and makes employers responsible for their own employee benefit costs and also addresses the issue of cross-subsidization.	Health Authority or other large risk group for LTD benefits, effective March 31, 2004. Discussions are being held with Health Authorities concerning fully experience-rating Dental and EHB benefits. Due to the small number of claims involved, and therefore the lack of statistical significance, it is inappropriate to experience-rate Group Life and AD&D for each separate group and these benefits will continue as a separate pool within the Trust. Fully insured Dependant Life and Weekly Indemnity benefits are provided to smaller employers at present and this will continue on this basis.	MCFD) to determine whether other benefits in addition to LTD (i.e. Dental and EHB) should be experience rated.
8. Currently there is no flexibility to allow participating employers to select an underwriting option that is consistent with their risk tolerance. We recommend the establishment of a HBT pool and allow participating employers to choose whether to participate in the pool or select a stand-alone underwriting arrangement within HBT. Under this approach, all participating employers would still have access to the same reduced expense charges negotiated by HBT for the entire program.	This is a complex consideration even to the extent that it may be difficult to reach agreement on the meaning of the term "underwriting option". HBT is very willing to discuss with its members the implications of altering existing underwriting arrangements. However, this is another example where providing more flexibility may mean that additional funding is necessary. Inevitably this means that the funding agency will need to be involved in these discussions.	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To liaise with members (i.e. HA CFOs and MCFD) and identify what underwriting options exist as well as to determine whether existing underwriting arrangements need to be altered to better meet member needs.
Actuarial Assessment:		
9. We believe that it may be more prudent to consider the use of more conservative assumptions (e.g. interest rate) while the current unfunded actuarial liability exists, but the impact on contribution rates should still be considered.	Consideration will be given to using more conservative actuarial assumptions, subject to receiving actuarial advice. If more conservative actuarial assumptions are used, the actuarial liability will be increased, and ultimately reflected in the level of contribution rates.	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To ensure that HBT considers conservative actuarial assumptions that meet the members' needs.
10. We understand the practice of relying on possible investment gains above the actuarial assumption is no longer going to be utilized by HBT, and we recommend it not be reconsidered in	The Trust no longer anticipates excess investment earnings in setting its contribution rates.	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To confirm that HBT will no longer rely on excess investment earnings in setting contribution rates.

future rate setting.		
11. Although we believe the use of an IFR is acceptable for funding purposes, there is a lack of consistency in its application. We recommend a review of the continued use of this reserve and the appropriateness of its inclusion and presentation in the financial statements.	HBT will review the continued use of the Investment Fluctuation Reserve.	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To confirm the appropriateness of the continued use of the IFR as well as the inclusion and presentation of the IFR in the financial statements.
12. While absence of margins in the determination of actuarial reserves would not be unusual for a plan like HBT, based on emerging trends, we recommend some margin in the contribution rate setting process. While we recognize over-funding will present taxation issues, the intent of the margins would not necessarily be to reduce the probability of a deficit, but could be designed to ensure the contribution rates do not significantly deviate from the anticipated LTD claims costs. In other words, there could be a lag between the experience used in determining contribution rates and the emerging experience over a period of three to five years to avoid the build up of large deficits.	If margins are introduced in the contribution rate setting process, the contribution rates will be higher than if there were no margins. If this is acceptable to HBT members, a change may be made. However, this is a reversal of previous instructions from HBT members (through HEABC) that contribution rates should be kept as low as possible. Ultimately it is the Trustees, acting on advice from the actuary, who must set contribution rates.	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To liaise with members (i.e. HA CFOs and MCFD) and determine whether margins should be introduced into the contribution rate setting process.
13. We recommend rate setting and deficit recovery strategies be considered in conjunction with the funding policy. The current deficit recovery strategy focuses on required rate increases that will achieve a 95% funding level over a 10-year period. This funding strategy will more likely result in a deficit than in a surplus. During a period where claims costs are consistently high, as has been the case in recent years, there is a danger of continuously falling behind and, if no	Funding policy and deficit recovery strategies are presently an integrated part of rate setting at the Trust. The funding policy is a statement adopted by the Board to indicate the desired range of the funding ratio (that is assets/ liabilities) and what actions will be taken if the funding ratio is outside the desired range. The current funding policy states that no action will be taken if the funding ratio is within the range of 95% to 103% and specifies the corrective action to be taken if the ratio falls outside of these parameters. This is a sufficient expression of funding policy and so no change to it is necessary.	HBT Board Including Representatives for Participating Employers (i.e. Health Authorities and CSSEA) To liaise with members (i.e. HA CFOs and MCFD) and ensure participating employers fully understand the consequences/results of the funding policy and contribution rates that are set by the Trust. In addition, the Trustees work with the actuary to ensure there are conservative assumptions, as appropriate i.e. investment rate of return. And finally, to ensure the UAL is eliminated and does not occur again in the future. In particular, the Deloitte report is not suggesting

offset comes from excess investment performance, contribution rates could be expected to increase significantly over a prolonged period. A more comprehensive funding policy would address the following components: o Rate required to fully-fund the cost of new claims plus administration expenses including the approach and degree by which emerging trends are recognized in the rate setting process; and the o Rate required to amortize the unfunded liability over the selected period or periods.	When contribution rates are established at the Trust on at least an annual basis, the actuary presents to the Trustees all relevant information required to enable them to accept his recommendations in this regard. This information includes the impact of current morbidity experience, expected future changes to this experience, current and expected future investment earnings, the impact o administrative expenses, current or future changes to the benefits, the deficit recovery strategy and all other matters that the actuary considers significant. In summary, the changes suggested in this recommendation are already in effect.	the funding policy needs to change but rather be more comprehensive. In the past HBT's actions leaned towards a 95% funding level meaning an increased likelihood of a deficit. Instead the funding strategy chosen needs to build in a more conservative margin to provide for a surplus. I.e. a more conservative discount rate from 7.5%. In addition, rating setting is inevitably connected with the funding policy in order to ensure the rates will cover a deficit. MFIN, MoHS, MCFD To require that the HBT provides regular reporting on the unfunded actuarial liability to the ministries until instructed otherwise.
14. There should also be a clear, direct relationship and connection between the employer's effectiveness of the claims management process and their contribution premium. In short, the employers' contribution levels should be directly related to their effectiveness in claims management and their risk tolerance.	Effective March 31, 2004, health authorities and other large risk pools will be accounted for on a self-sufficient basis for LTD, Dental and EHB benefits. This means that only the experience of each health authority will be reflected in their respective contribution rates. It should be noted that the Trust cannot provide a direct connection between the experience of a small group and the contribution rate for such a group. This is due to the fact that the experience of a small group is not statistically significant.	HEABC, HBT, MoHS, HAs and CSSEA To ensure the restructuring of the trust is completed by March 31, 2004 and that each health authority determines whether or not to be accounted for on a self-sufficient basis for LTD, Dental, and EHB benefits. The remaining employers in the smaller groups should be fully informed of the effects this change, if any, will have on them.
Plan Design:		
15. We recommend the government, the participating employers and the unions approach future collective bargaining and wage discussions with the intention of ensuring an equitable plan design, consistent with other similar plans in the healthcare and other related sectors. This would include cost containment and cost sharing features and benchmarking to comparative	Plan design is outside the specific mandate of the Trust. HBT simply administers the plan presented to it by HEABC. Collective bargaining is the process within which all decisions on plan design are made. HBT recognises that plan design is one of the most important elements in controlling costs of the benefits provided by the Trust. Therefore, HBT has consistently provided input to HEABC	PSEC (lead), in consultation with HEABC, MoHS, CSSEA As requested by the Minister of Finance, to undertake a cross government review of LTD plan design and case management to ensure there is affordability and flexibility in business delivery. This will include reviewing the rising cost of benefits in the broad public sector and strategies for addressing them.

programs.	and CSSEA, when requested, on benefit design considerations and their costs. HBT anticipates continuing to provide this service.	
Disability Management:		
16. While the analysis of the disability management program is beyond the scope of our review, we recommend an organization that has direct contact with all union representatives, is involved in all areas of absences (e.g. sick leave, WCB, and LTD), and has the authority to make participation mandatory should design and deliver this initiative. Ideally, the program would be fully supported by all the unions (if applicable) as well as the employers and should have an integrated approach with respect to sick leave/STD, WCB, and LTD claims. Any change to HBT's role in the current rehabilitation and EWHS services delivery model should only be made in conjunction with a review of the disability management process for the healthcare sector and should incorporate the investments made in this area by the individual participating employers.	HBT recognises that disability management is a key component in controlling the costs of the benefits provided by the Trust. HBT will actively consider and work with any current or proposed agency to bring more effective disability management to its members, provided that their actions result in a reduction in HBT claims costs.	See #15 above.
17. To the extent it is not occurring, there should be a focus on rehabilitation and early return to work for recent LTD claims. It is generally acknowledged that early intervention and rehabilitation has a positive impact on LTD claims duration and terminations, and is most effective in the early stages of an LTD claim.	HBT fully agrees with this Recommendation.	See #15 above.