HEALTH SCIENCES ASSOCIATION
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BULLETIN

Continuing coverage for security of mind

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n May 6, 2002, trustees of the HSA Long Term Disability (LTD) Plan #2 approved an increase in the payroll deduction that HSA members pay to fund the plan. The payroll deduction is increasing from 1.75 per cent of earnings to 2.25 per cent of regular earnings. The rate increase is effective the first pay period in July.

LTD is insurance against wage loss should you become ill or disabled and unable to work. It is not a situation that people anticipate or plan for, but when you are dealing with an unexpected long-term illness or injury, the LTD plan provides income assistance during a period when you cant work and need to focus on caring for yourself.

The administration of HSAs LTD plan is unique in the health care sector in British Columbia. While other bargaining units LTD plans are paid for and administered by the employer, HSA took over responsibility for LTD benefits in the 1986 round of bargaining. At that time, the bargaining committee was restricted by the Compensation Stabilization Act, which put a limit on how much could be negotiated in wage increases in the public sector. By taking over the LTD plan, HSA negotiated a 1.6 per cent wage increase to off-set the payroll deduction for the LTD plan. That deduction was set at .8 per cent, which meant an increase in members paycheques of .8 per cent, resulting in a wage increase over and above what was allowed under the legislated wage guidelines.

It was an agreement that worked for both parties. The cost of the off-set (1.6 per cent) was less than the employer was paying to provide LTD benefits to all bargaining units in the health sector and HSA members received a wage increase higher than what was allowed under the legislation. The additional negotiated wage increase, designed to fund the LTD plan, has since been referred to as the off-set in subsequent bargaining. Negotiating teams have bargained for increases to the off-set separate and apart from wage increases.

In 1989, the plan was officially governed by a trust document and trustees were responsible for the fiduciary health of the plan. However, notwithstanding the history of lower usage of LTD benefits by HSA members, the plan experienced a higher rate of usage than anticipated and was under-funded from the beginning.

In 1989, the bargaining committee negotiated an increase to the LTD off-set raising it from 1.6 per cent to 2.0 per cent an increase of 0.4 per cent again, over and above the negotiated wage increase. The payroll deduction was set at 1 per cent of regular earnings.

Further increases to the off-set were negotiated in 1992 in a mediated settlement arrived at with the assistance of Stephen Kelleher. In the 1991-92 year, the off-set was 2.4 per cent and for the 1992-93 year it was set at 2.3 per cent, where it has remained ever since. In that settlement, a condition of the increase in the off-set was that the full amount of the increase must be deducted for the LTD plan, and not applied to additional wage increases. The LTD employee payroll deduction was increased to 1.3 per cent in 1993 and 1.75 per cent in 1995.

In total, since HSA took over the plan, members covered by the HSA master agreement (and now paramedical professional association contract) have received 2.3 per cent in increases over and above the negotiated wage increases. Because of the complexity of the agreement, this is a fact that is not always recognized or appreciated by members or employers. The LTD off-set has been integrated into the wage schedule – extending the benefit of the off-set to wage impacted benefits like pension accruals, over-time and call-back rates. The corollary is that when HSA wages are "compared" to other contracts and other jurisdictions, the quoted wage rates are not reduced by 2.3 per cent, resulting in an inaccurate wage rate for comparison purposes.

In 1986, when the LTD was negotiated from an employer paid plan to an employee paid plan, it was an innovative way to get more money into the hands of members at a time when wage controls were in place. As well, for a lower cost, HSA could provide an improved plan – tax free benefits, enhanced life and AD&D (Accidental Death and Dismemberment) insurance as well as a shorter waiting period.

Since 1986, HSA's bargaining committees successfully negotiated increases over and above the wage increases to allow higher contribution rates to the LTD insurance plan without affecting their paycheques. At every step, trustees confronted their fiduciary responsibility to ensure a financially healthy plan.

Although HSA originally negotiated this plan because we could provide a superior plan at a lower cost, in 1996, the trustees opted to reduce benefits, rather then increase the payroll deduction. The additional life and AD&D insurance was terminated and a limit of 85 per cent of earnings was introduced.

In 1998, the negotiating committee secured an additional $6 million to address the unfunded liability in an effort to bring the plan into a funded position and minimize or mitigate the need for an increase in the payroll deduction. This was achieved in a climate of wage guidelines that limited total compensation packages to 0, 0 and 2.

When the $6 million was negotiated in 1998, the bargaining committee was advised that a separate trust would have to be established. The original LTD plan (now called HSA LTD Plan #1) was closed to new claimants, and effective April 1, 1999, new claimants would be covered under the new plan funded by the negotiated $6 million (now called HSA LTD Plan #2). In order to minimize costs to both plans, the trustees appointed to the new plan overlapped with the trustees to the original plan. In addition, the trustees use the same plan administrator, insurance carrier, investment advisor, actuary and auditor and apply all administrative steps possible to avoid duplication or overlapping expenses.

No one could have predicted the economic turbulence of the 1990s and the impact it would have on our LTD plan. Restructuring and downsizing always have an effect on activity experienced by LTD plans – ours, along with other plans, experienced an increase in usage and the costs of the plans increased. The payroll deduction, funded through negotiated wage increases, increased but the draw on the plan continued to outpace the finances. The cost to maintain current benefits is now 2.1 per cent. By comparison, the cost to maintain current benefits in the nursing and support sector bargaining units is over 3 per cent. HSA still has a lower usage of LTD, but the contribution rate has not been sufficient to meet the needs.

Since the inception of the trusts, trustees and negotiating committees have wrestled with many options, looking to ensure members have access to a quality benefit at a reasonable cost.

Trustees could have raised the contribution rate when members weren't getting any wage increases. Had that been done, the rate increase would have been less than it is today, but it would have translated into a relative roll-back in the net income for members. Instead, in 1995, trustees chose to roll back the superior benefits and the plan now provides benefits that are standard in the health sector.

Today's reality is the cost of the plan benefits is 2.1 per cent of members' earnings and a deficit has accumulated that requires a repayment strategy – and eligible members pay 1.75 per cent. The math is simple and there is no way to sugar-coat the unpleasant reality.

Based on the usage rate and other actuarial factors, to meet the cost of future claims and expenses, HSA's LTD Plan #2 requires a payroll deduction of 2.1 per cent. At 2.1 per cent, the deficit is not addressed. By increasing the contribution rate to 2.25 per cent, the LTD fund will recover $525,000 per year to apply to deficit recovery. (*Please see table below for details.*)

The trustees are reviewing the tax status of the benefits of LTD Plan #2 and should it be determined that the benefits are tax-free, an adjustment can be made to the benefit level which will reduce costs to the trust. However, it would not be enough to address the on-going costs and current accumulated deficit.

Trustees could have further delayed implementing a contribution increase, but concluded that would be putting off the inevitable and guaranteeing an even greater rate increase sometime in the future.

The trustees and the union remain committed to moving the plan back to an employer-funded and administered plan. This is something that must be negotiated. The employer has made it clear that they would want □their□ 2.3 per cent increases that were negotiated to off-set the payroll deduction back, and they will not accept a liability for the deficit.

The increase in the contribution rate coming in July addresses the cost of the LTD plan, with a small amount left over to begin paying down the deficit. If it is determined the benefits are tax-free this would accelerate the servicing of the accumulated deficit.

LTD is like any insurance plan. The costs of paying premiums are unwelcome, until you need the insurance. Whether it is your house burning down, a car accident, or an illness that prevents you from working, by pooling our individual resources, security is extended to everyone.

HSA long term disability deficity recovery
valuation by Hewitt & Associates

An additional 0.15% (to 2.25%) will recover $525,000 per year in deficit recovery.
An additional 0.20% (to 2.30%) will recover $700,000 per year in deficit recovery.
An additional 0.25% (to 2.35%) will recover $875,000 per year in deficit recovery.
An additional 0.30% (to 2.40%) will recover $1,050,000 per year in deficit recovery.
An additional 0.35% (to 2.40%) will recover $1,225,000 per year in deficit recovery.

Supporting data to explain table
On May 6, 2002, the HSA LTD Plan #2 Trustees were presented with a valuation of the plan by actuary Peter Muirhead (Hewitt & Associates).

Approximately 8500 regular full and part-time HSA paramedical professionals are covered by the LTD plan.

March 31, 2002, the HSA LTD Plan #2 had 139 active claimants.

Unfunded liability:
March 31, 2001 $9.3 million
Sept. 30, 2001 $10.4 million
March 31, 2002 $12.5 million

Type:
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