

ASEBP Trustees' Report

Volume 29-21 No. 10 December 2021

Highlights of the December 16, 2021, Trustees' Meeting

1. ASEBP Dental Benefit List Fees

- The ASEBP Trustees approved the 2021 Alberta Dental Association & College fee guide as the basis for ASEBP Dental Benefit List fees effective January 1, 2022
- Analysis shows that submitted charges from dental providers have increased, at least in part due to measures taken in response to COVID-19. As a result, out-of-pocket expenses have increased for covered members
- ASEBP will continue to closely monitor trends, balancing the health of covered members and their dependants with fiscal responsibility

2. Reserves

- Each fiscal year end (August 31), ASEBP must establish regular reserves to:
 - Ensure that promised benefits will be paid in the event of an interruption of premiums or a partial wind-up of a benefit plan; and
 - Reflect the impact of claims in the year in which they occurred
- The ASEBP Trustees set reserve requirements at approximately \$452M (\$421M in 2020). Liabilities have increased primarily due to an increase in Extended Disability Benefits (EDB) recipients
- Most reserves relate to future payments of EDB claims, as ASEBP must set aside enough money to pay each claim as long as required, sometimes until the member turns 65. Since the bulk of this money will be paid out at some point in the future, reserves have an opportunity to earn investment income. The expected investment income is also factored in when determining reserve requirements. As at August 31, 2021, the reserves were fully funded and invested with a variety of investment managers

3. Audited Financial Statements

- The audited financial statements for the year ended August 31, 2021, were approved by the ASEBP Trustees. The external auditors gave an unqualified opinion
- Over the year, ASEBP continued to focus on solid financials and fiscal management to help deliver high-value health and income replacement benefits at a reasonable cost to covered members and their dependants
- Trust assets are prudently invested and, as a result, reserves remain fully funded and current premium rates have been moderated. Given the overall decrease in investments and increase in liabilities experienced over the year, assets available for additional benefit initiatives have been depleted
- The financial highlights are outlined in ASEBP's 2021 Annual Report, which will be available on ASEBP's website, asebp.ca, in early 2022

ASEBP TRUSTEES

Drew Chipman, Chair

James Gerun, Vice-Chair

Evelyn Chan

Doug Lerke

Judy Muir

Shirene Napier

Kim Pasula

Daryl Scott

Natashya Shewchuk

CHIEF EXECUTIVE OFFICER

Kelli Littlechilds



4. Financial Health

- ASEBP measures its financial health through the capital adequacy ratio and the related Capital Adequacy Reserve. The intent of this reserve is to provide financial stability during unusual times
- ASEBP's Capital Adequacy Policy identifies how much capital ASEBP reasonably requires under unusual circumstances. The Policy is based on the premise that capital adequacy is more than simply being able to meet day-to-day expenses or being solvent—ASEBP has a number of measures in place to protect the plan from risks associated with regular operations. These include having reserves for future disability payments, analyzing past claims experience and projecting expected changes, including margins to account for some degree of fluctuation, etc. The Capital Adequacy Reserve is in addition to all regular reserves
- The financial framework captured in the Capital Adequacy Policy strives to establish an appropriate balance between assets and liabilities, thus helping the ASEBP Trustees determine when ASEBP has sufficient financial resources to meet specific risks during unusual times that impact overall financial performance. These risks are related to asset, reserve, and claims variability:
 - Asset variability takes into account the market value of investments and other assets held by ASEBP, which can be subject to significant variation
 - Reserve variability takes into account the impact of changes to the number of EDB claims on related reserves, which make up nearly 90% of ASEBP liabilities
 - Claims variability takes into account the possibility of an unusual fluctuation in claims
- A factor of financial risk has been assessed for each of these areas of variability to determine total capital requirements. The ratio of total available capital compared to total required capital is expressed as a percentage. When the ratio reaches 100%, the Capital Adequacy Reserve is fully funded. For example, if the required capital was deemed to be \$100 and available capital was \$90, the capital adequacy ratio would be 90%. The available monies are set aside in a Capital Adequacy Reserve (in the example, this would be \$90) and are available to offset unusual circumstances that increase ASEBP's financial liabilities
- The plan actuary calculated that, as of August 31, 2021, the capital adequacy ratio is 166%. The improvement in the capital adequacy ratio was driven by strong investment returns and a one-time positive change in accounting standards
- The funded ratio of the plan is the ratio of total available assets recognized on the balance sheet divided by the total liabilities. This captures the extent that the total plan is funded or unfunded. For example, a funded ratio of 110% would indicate the plan has 10% more assets than liabilities, whereas a funded ratio of 90% would indicate that the plan assets are 10% lower than the plan liabilities
- Pension plans and many other self-funded disability plans and trusts consider their funded ratio when looking at the overall funding levels of the plan. This is different than the capital adequacy ratio, which indicates the level to which the Capital Adequacy Reserve is funded. For example, a capital adequacy ratio of 0% would correspond to a funded ratio of 100%
- In addition to the funded ratio, there is a target funded ratio, which is the funding level that would be calculated if both the plan's liabilities and Capital Adequacy Reserve were fully funded
- The funded ratio is 133% while the target funded ratio is 123%
- Overall, ASEBP's financial health continues to be good

5. Employee Life and Health Trust Transition

- In 2018, the federal government proposed legislation for phasing out health and welfare trusts in favour of employee life and health trusts by the end of 2020. This date was revised to December 31, 2021. As a result, several changes to the ASEBP Deed of Trust were required to ensure ASEBP remains compliant with legislation
- The new Deed of Trust, effective January 1, 2022, has been signed by ASEBP's two parent bodies as well as the 10 ASEBP Trustees. The Deed of Trust will be circulated to all participating employers in the new year along with a new Participation Agreement

6. Local Authorities Pension Plan (LAPP) Collection Service

- Employer groups that have filed a Long-Term Disability Income Plan (LTD1) with the LAPP are responsible for paying both employee and employer contributions to LAPP during an employee's EDB leave
- In some instances, employers are unable to collect the employee's portion of the LAPP contributions while the covered member accesses EDB, resulting in the employee owing a large amount of money to their employer upon their return to work. This can create a negative return-to-work experience for both the employee and employer, resulting in financial stress for the employee and/or a financial liability for the employer
- The ASEBP Trustees approved a pilot, for a subset of employers, whereby Administration deducted LAPP contributions, as directed by the employer, from EDB payments when agreed to by covered members. Feedback about the service was positive. As a result, the ASEBP Trustees have established a voluntary LAPP collection service, at no additional cost, that will be made available to all employers that have filed an LTD1 plan. Client Consultants will be reaching out to impacted employers with details on how to participate in the new year. There will be no disruption in service for the subset of employers who participated in the pilot

7. Farewell

- The ASEBP Trustees wish Arlene Hrynyk all the best, acknowledging her contributions as an ASEBP Trustee





The ASEBP Trustees' Report provides an overview of topics discussed at all ASEBP Trustees' Meetings. These meetings provide the opportunity for ASEBP Trustees to come together to discuss matters of importance at ASEBP—from the financial health of the benefit plan to the introduction of new benefits and programs. While all information in each report is an accurate account of decisions made at the meetings, there can be changes that occur between first and second readings of certain topics, which may result in differences between their reporting.

To learn more about the ASEBP Trustees, please visit the Governance page, found in the About section of our website, asebp.ca.



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