MORNEAU SHEPELL

February 2021

2020 Morneau Shepell Survey: Demographic Assumptions in Accounting for Post-Employment Benefits for Ontario Hospitals & Other Related Health Care Facilities

Highlights of our 2020 survey results

Morneau Shepell is pleased to provide the annual survey of the assumptions used by 63 Ontario Hospitals & Other Related Health Care Facilities to account for the costs of their Post-Employment Benefit (PEB) plans. Information is collected from audited financial statements as at March 31, 2020. This is the first year the survey has been conducted.

This survey reflects assumptions used for financial statements reporting under Public Sector Accounting Standards (PS 3250/3255) and CPA 3462/3463. The assumptions used for each Organization's PEB plan will differ depending on individual plan experience and Management's best long-term estimates for future experience.

At the core, Morneau Shepell performs PEB plan valuations for the vast majority of hospitals in Ontario and other related health care facilities; therefore enabling us to benchmark assumptions and comment on industry trends. The objective of the survey results will hopefully assist in each Organization's assumption setting process, and help provide guidance on whether their assumptions are above, below, or at the median compared to their peers.

Specifically, this survey benchmarks the following assumptions used by Organizations for financial reporting of their PEB plans:

- Retirement Age
- Take-up Rates (for retiree cost-subsidies ranging from 0% to 100%)
- Percentage electing Family Coverage

In accordance with Accounting Standards, Organizations are required to adopt assumptions reflecting Management's best long-term estimates for financial reporting purposes.

As at March 31, 2020, we have summarized the high-level results of our survey as follows:

	Average	Minimum	Maximum
• Retirement Age	60 years	57 years	63 years
• Take-up Rates			
• *0% retiree cost-sharing*	97%	80%	100%
• *25% retiree cost-sharing*	86%	40%	100%
• *50% retiree cost-sharing*	74%	30%	100%
• *100% retiree cost-sharing*	56%	10%	100%

- Percentage electing Family Coverage 64% 50% 100%

Introduction

Ontario hospitals and other related health care facilities are government not-for-profit organizations and as such, must prepare financial statements under PS 3250/3255 or CPA 3462/3463. In accordance with accounting standards, the valuation of future benefit obligations require forecasts of future events forming the basis of actuarial assumptions. Each assumption should be reflective of Management's best estimate, and determined on the basis that the plan is assumed to continue.

Specifically, the basis of assumptions used in the valuation of PEB plans (excerpted from PS 3250/3255 with similar requirements under CPA 3462/3463) state the following:

a) **Actuarial assumptions should be based on the government's best estimates of expected long-term experience and short-term forecasts** - at each actuarial valuation, assumptions need to be reassessed; they would be revised if expectations about the future change.

b) **Actuarial assumptions should be internally consistent** – methods of developing actuarial assumptions need to be consistent over time.

c) **A government would obtain expert assistance from internal or external sources when making assumptions about future events** - one source of expert assistance is the actuary carrying out the actuarial computations. Periodic assessments are needed to ensure that the assumptions continue to be relevant.

For Ontario hospitals' PEB plans, determining appropriate actuarial assumptions in accordance with the accounting standards can often present a challenge because:

a) the hospitals' PEB plans are small natured in size, and/or consist of no existing retirees to help forecast future events; and

b) the hospitals' PEB database has not routinely tracked plan experience as members retired from the plan, and/or not enough experience years are available to help validate forecasts of future events.

This paper presents the most commonly used assumptions for our list of surveyed clients. The following assumptions will be discussed in further detail below:

1. Retirement Age
2. Take-up Rates
3. Percentage electing Family Coverage

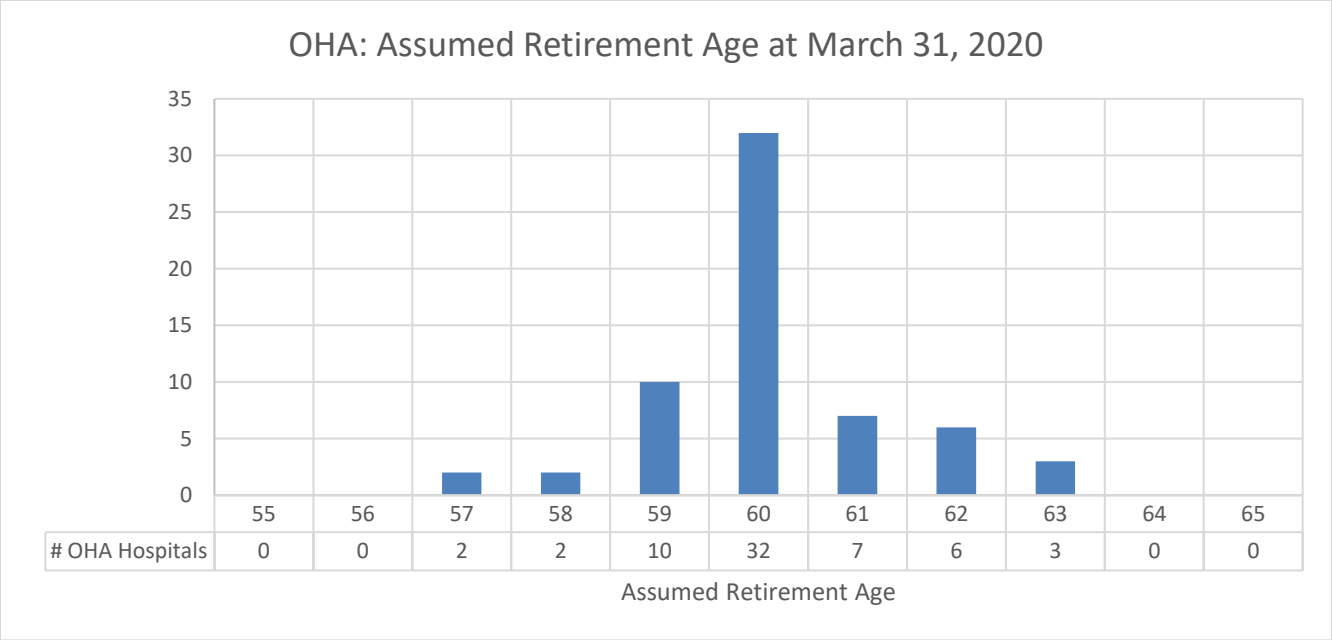
1. Retirement Age

A key assumption in the valuation of the defined benefits obligation is the assumed retirement age. Typically, for the Ontario Hospitals, benefit coverage for retirees is offered to age 65. As such, the assumed retirement age defines the number of years that retirees are entitled to benefits.

For a plan that assumes retirement at age 60, and benefits ending at age 65, the present value of future benefits is determined over a 5 year coverage period. Changing the assumed retirement age (to an earlier or later age) thereby results in a change to the length of the coverage period; and furthermore will result in a significant change to the defined benefit obligation (DBO).

Since Ontario hospitals can be categorized into small, mid and large sized organizations, it poses more challenges for smaller organizations to achieve credible plan data for determining when members are expected to retire.

The graph below presents the surveyed Ontario Hospitals for assumed retirement age as at March 31, 2020:



The graph depicts the most commonly assumed retirement age to be 60 (with approximately 52% of OHA clients utilizing age 60 as the assumed retirement age). This is consistent with the majority of OHA members participating in the *Hospitals of Ontario Pension Plan* (HOOPP) with unreduced retirement age defined to be age 60 (or younger with 30 years of service).

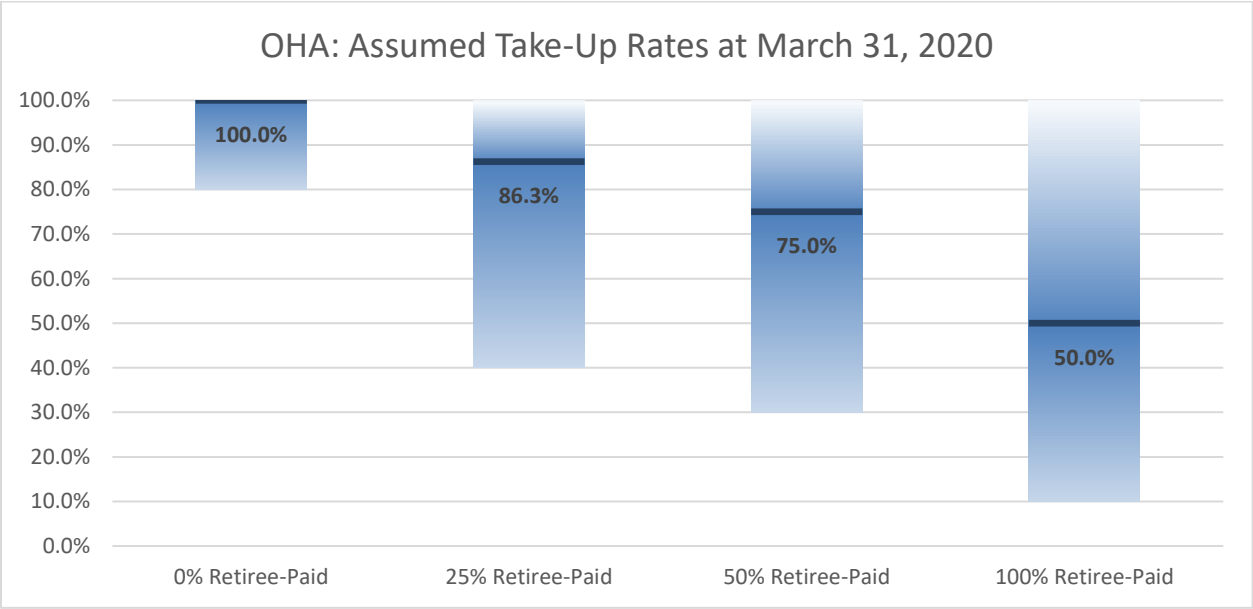
2. Take-up Rates

In general, the DBO for PEB plans is highly sensitive to the take-up rate assumption. When eligible members retire from the Organization, they continue to be entitled to post-employment health and dental benefits (with typical coverage ending at age 65). Based on negotiated agreements and employment contracts, eligible retirees entitled to such benefits are often responsible to pay a portion of the cost (with the remainder subsidized by the Organization).

The most common retiree cost-sharing arrangements vary from 0% to 100% retiree-paid. The larger the subsidy (i.e., 0% retiree-paid), the more commonly utilized the benefit plan is. Retirees responsible to pay a portion of the cost may choose to opt out of the benefit plan at retirement, should they choose.

When valuing the DBO of the plan, our actuarial valuation factors in take-up rates for the various future retiree groups, reflecting the number of members expected to continue benefits. For members already retired, their actual elections are used for valuation purposes.

The graph below presents assumed take-up rates as at March 31, 2020:



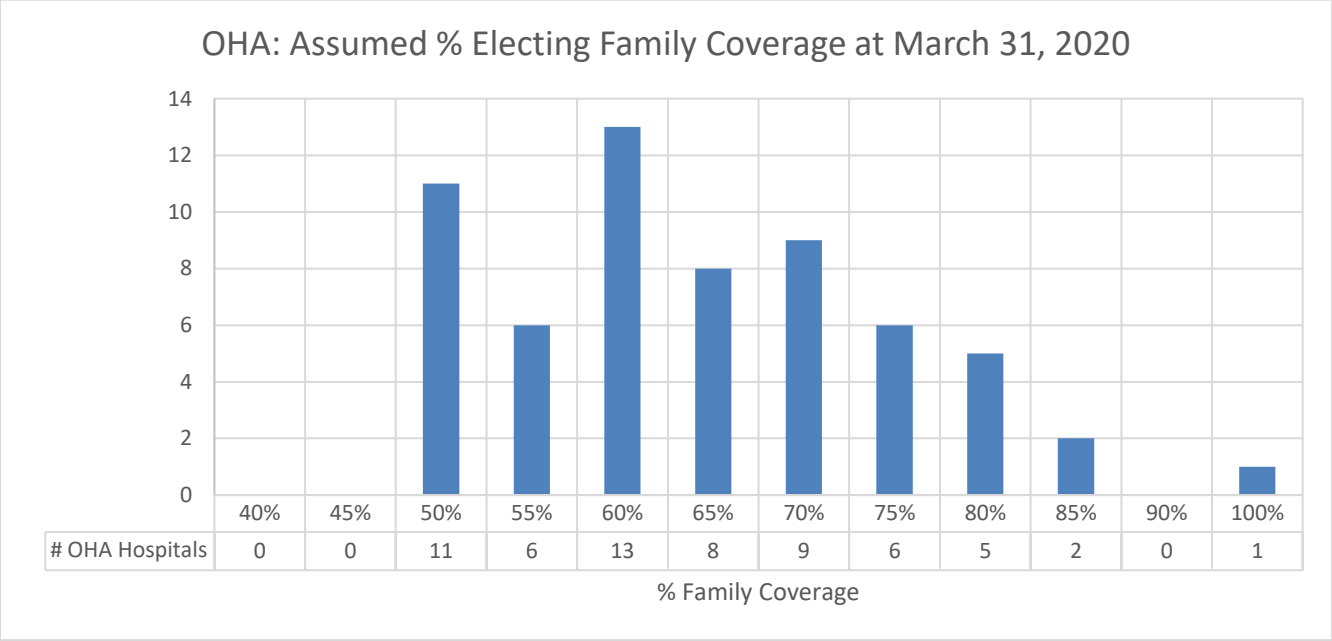
The graph depicts the relationship of declining take-up rates as the associated retiree cost-sharing increases with median take-up rates converging to approximately 60% for 100% retiree-paid plans.

3. Percentage electing Family Coverage at Retirement

PEB plans that provide employee future health and dental benefits typically require making an assumption about members expected to take single coverage vs. family coverage at retirement for determining actuarial liabilities. For existing retirees, the member's current coverage is used for valuation purposes.

This assumption should be based on specific plan experience and the long-term expectation around members' marital status at retirement. In cases where retiree data is not credible, or routinely monitored, Organizations may consider using industry trends.

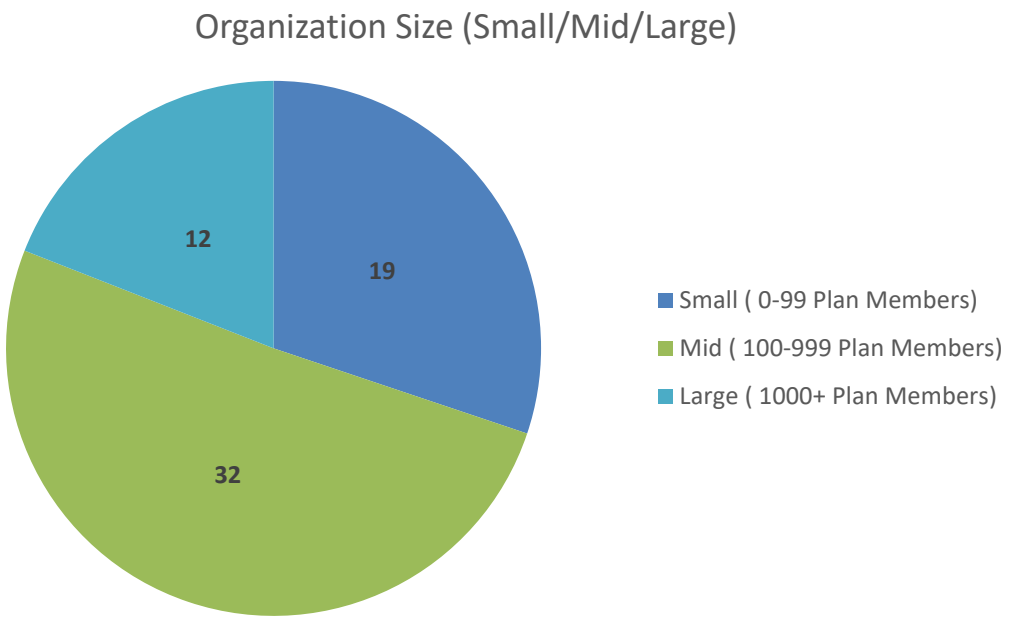
Based on the surveyed clients, as at March 31, 2020, the following chart shows the percentage of members assumed to elect family coverage at retirement:



The graph depicts the assumed percentage of electing family benefits at retirement, with an average assumption of approximately 65% used at March 31, 2020.

Underlying Survey Data used

Below is a summary (by plan size) of the total number of Organizations surveyed for purposes of this report as at March 31, 2020.



Conclusion

This survey is intended to provide information regarding the assumptions disclosed by a wide group of Ontario Hospitals and, as such, can provide an indication of industry trends and how your Organization's assumptions fare against your peers. The assumptions used for each Organization's PEB plan will differ depending on individual plan experience and Management's best long-term estimates for future experience.

Should you have any questions, please contact your Morneau Shepell consultant or feel free to contact:

Nelsha Nanji
Actuarial Principal
416.380.2155
nnanji@morneaushepell.com

Darren Klorfine
Actuarial Principal
416.355.5649
dklorfine@morneaushepell.com