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BRINGING SUSTAINABILITY TO RETIREE GROUP BENEFITS

The establishment of an employee life and health trust

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In recent years, the rising costs of healthcare and the cost pressures on group benefit plans have caused many sponsors to reevaluate their benefit program. While sponsors regularly reassess cost containment opportunities, this is not always sufficient to address the long-term sustainability of their benefit program. Moving to an **Employee Life and Health Trust (ELHT)** can be an interesting option for sponsors who want to bring long-term sustainability to their group benefit plans.

The **Municipal Pension Plan (MPP)** has been down this path in recent years with the creation of the **Municipal Retiree Benefit Trust (MRBT)** effective January 1, 2022. The non-guaranteed contributory and voluntary retired member group benefit program currently includes a self-insured extended health care (EHC) plan and a fully insured dental plan. EHC proxy premiums are partially subsidized based on years of service, with participating retired members paying a portion or the full EHC premium. Retired members pay the full dental premium. As the group benefit program is not guaranteed, coverage, benefits and subsidies may be adjusted or eliminated.

Why ELHTs

The value of a group benefit program - Group benefit programs offer good value to participants, regardless of whether premiums are subsidized. The purchasing power of a large group generally results in extended health and dental coverage that would be difficult or impossible for an individual to obtain on their own for the same cost. In British Columbia, members of large group benefit plans are eligible for lower premiums and additional benefits not included in standard individual plans.

The ABCs of ELHTs - The federal government introduced ELHTs in 2010 and has since phased out previous Health and Welfare Trusts. An ELHT is a taxable trust formed under section 144.1 of the Income Tax Act, with the primary purpose of providing life and health benefits to employees (including former employees) as well as their spouses, common law partners and dependents. There is a strict regulatory regime governing ELHTs, including:

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- The primary purpose of the trust must be to provide benefits attributable to “designated employee benefits”, such as life and health benefits
- The beneficiary universe is prescribed, including retirees, spouses, and dependents
- The trust must be resident in Canada for tax purposes
- On wind-up, the property of the trust can only be distributed to eligible beneficiaries, another ELHT or the government.

ELHT are tax efficient and support pre-funding group benefits - ELHTs truly realize their value in providing more tax-efficiency than was afforded to traditional health and welfare trusts. They also provide more flexibility for a certain measure of pre-funding for group benefit plans.

Benefits paid from an ELHT to beneficiaries are generally tax-free. Contributions made to the ELHT by employers are tax-deductible provided the contributions are in respect of current year benefits. Contributions or premiums are not tax deductible for members, but members may qualify for the medical expense tax credit on their personal income tax form. Further, contributions to the trust by employers and beneficiaries are considered capital contributions and not treated as trust income. The costs of running the ELHT and investing the fund (including the costs of benefits paid) offset any revenue (e.g., investment income and capital gains), reducing tax payable by the trust.

Because of their favorable tax treatment, an ELHT’s taxable income can be minimal in any given year.

The Birth of the Municipal Retiree Benefit Trust

In conjunction with the most significant suite of plan design changes since the mid 60’s, in 2020, the MPP’s sponsors (aka partners) agreed to move the group benefit program for retired plan members to a separate trust to increase the stability and sustainability of the program, and to provide retired members with a greater voice in the program. By establishing the MRBT and structuring it as an ELHT, the plan partners created the necessary vehicle to accumulate and invest unused retiree group benefit funds, strengthening the long-term stability and sustainability of the retiree group benefit program.

The MPP’s joint trust model provides that plan governance is shared by the pension plan’s sponsors/partners and the **Municipal Pension Board of Trustees** (MPBT). The MRBT’s model has the same plan partners, who function as traditional plan sponsors. However, the MPBT sponsors the group benefit program itself that is now MRBT’s responsibility. This unique but complex governance arrangement ensures the needs of diverse pension plan participants are met.

The MRBT Funding Model

The new funding model for the MRBT is predicated on four sources of funds:

- Ongoing current year employer contributions as a fixed percentage of pensionable payroll
- Participating retired member premiums for EHC and dental (premiums are reset annually)

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- Seed funding to be paid in several installments
- Investment returns and capital gains.

While retiree group benefits still are not guaranteed, the MRBT board will conduct triennial going-concern actuarial valuations to assess the mid- to long-term sustainability of the trust's coverage levels and subsidy rates. In non-valuation years, the trust's actuary models and projects the number of years current EHC coverage levels and subsidy rates may be sustained. Triggering events or required adjustments are pre-defined in the MRBT's funding policy, and they are set in accordance with defined long-term sustainable funding objectives.

Governance includes a greater retiree voice

The new **Municipal Retiree Benefit Board of Trustees** (MRBBT) who oversees the MRBT includes greater retired member representation. At least two of eight trustees must be retired members, providing a deep and unique perspective on the board of trustees. While providing access to group benefits was and continues to be a priority for the MPBT and the pension board often has more than two retired members on the board, the MPBT is only required to have two of 32 trustees who are retired members.

Having a greater say with respect to the group benefit program had been a topic of retired member advocacy for several years.

Transition to the MRBT

Establishing the MRBT and transitioning the program from the MPBT was a complex undertaking, achieved with the formation of a transition team and close collaboration from many stakeholders across multiple organizations. All key stakeholders agreed on the importance of a seamless transition for retired members, resulting in a general moratorium on changes to the group benefit program during the year of transition.

Other key aspects to the successful transition included the following components:

- The team had the right resources and levels of engagement:
 - A project team, sponsor and manager were identified and put in place early
 - A joint advisory group of plan partner representatives and MPBT trustees was established to support the project team and ensure a seamless transition; they were key to validating what decisions the MRBBT needed to make immediately
 - A new board secretary was also brought into the project early, enabling her to be better prepared for the initial MRBBT meetings
 - Independent legal and tax advice was cost-effective, useful, and imperative
 - Participants worked effectively together to realize the project's objectives
- A project budget, charter and detailed workplan were approved; structure and discipline were integral to ensuring emerging risks were addressed and decision-making was timely
- The plan partners chose the members of the MRBBT members carefully to ensure the board was well-balanced with a mix of new and experienced trustees and a variety of perspectives at the table, including employers, active members, retired members, sector, gender, etc.

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- The MRBBT itself was appointed and announced three months before the new board assumed full responsibility for the program and the trust, enabling onboarding, robust orientation, and integration activities
- The new trust assumed the assets, liabilities, and contracts associated with the program, enabling the seamless transition of the program (an information-sharing agreement was also negotiated to permit the new trustees to better understand the history of the program)
- Beneficiaries saw no changes to the program other than the name of the trust and the trustees; policy number and pay direct cards were unchanged
- Key service providers were identified early:
 - New contracts were negotiated and prepared by the project team in close consultation with a joint advisory group of plan partner representatives and MPBT trustees
 - Final contracts were approved by the new board
 - This process enabled the MRBBT to get up and running quickly and supported the new trust's first year of operations
- Once the plan partners negotiated the joint trust agreement, they established a working group to review and approve other core documents, including a funding policy, a statement of investment policies and procedures, and retiree benefit plan rules; these were developed in consultation with the project team and key service providers
- The board secretary worked with the project team and key advisors to have initial coverage, policies, and other critical documents ready for MRBBT review, including:
 - Fiduciary insurance coverage
 - Remuneration policy
 - Delegations
 - CRA (Canada Revenue Agency) forms
 - Meeting calendar
 - First year budget and workplan
- Initial \$100 million seed money was transferred and invested in accordance with a detailed financial management plan

A full year was necessary to establish and make operational the MRBT, before funds and program responsibilities were transferred. The project realized a significant volume of work in a short period. It came in on time, on scope and on budget.

However, setting up a new trust is a huge undertaking, and the amount of time and effort was underestimated. With hindsight, it would have been advantageous to have identified the new MRBBT chair earlier in the process and included them throughout the transition project.

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