Hillcrest

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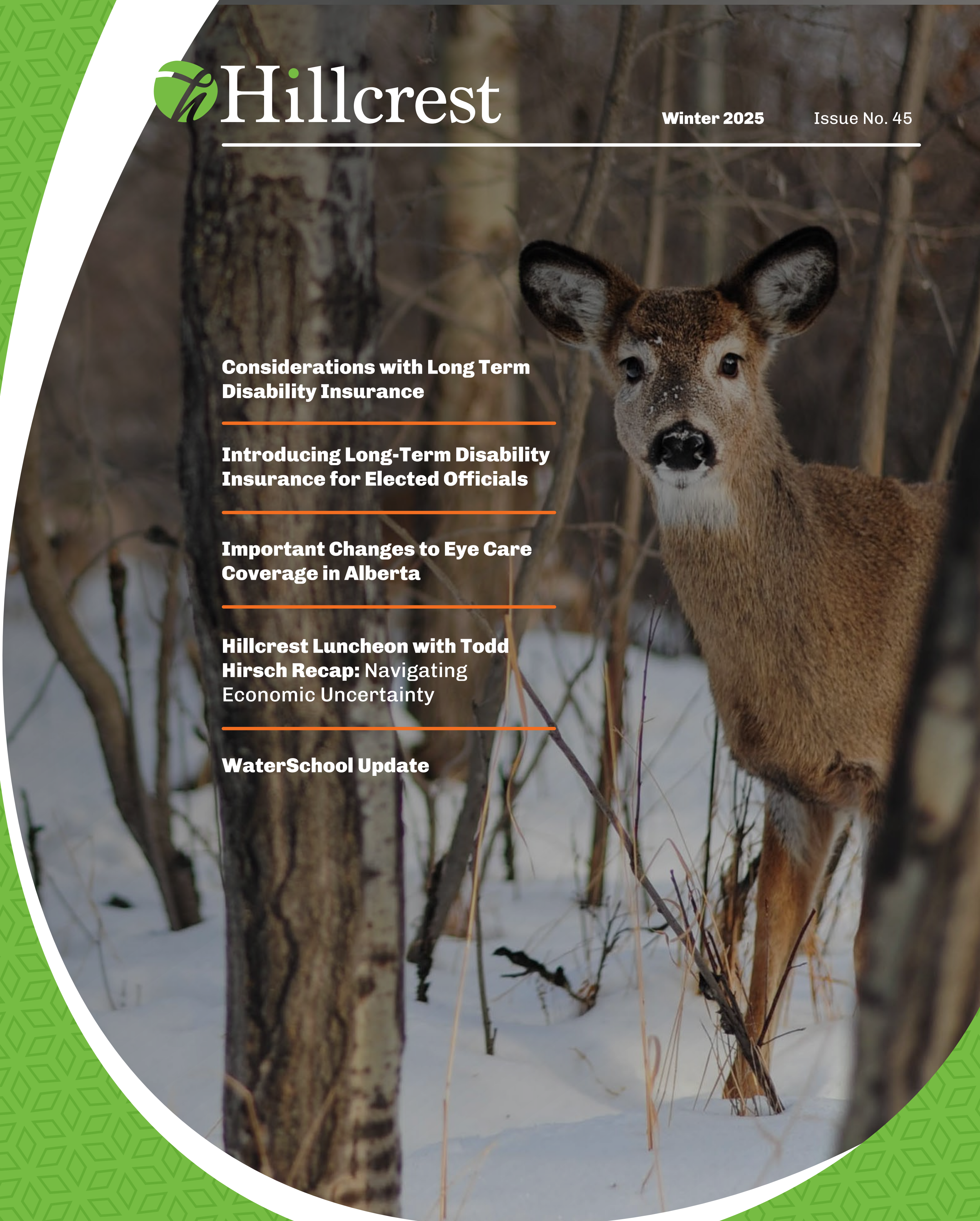


Considerations with Long-Term Disability Insurance: Balancing Costs and Coverage

Long-Term Disability (LTD) insurance has long been a cornerstone of financial security for employees, offering critical income replacement during periods of prolonged illness or disability.

However, the increasing incidence and duration of LTD claims, coupled with rising costs, have posed challenges to maintaining this benefit in its current form. Some employers are now at a crossroads, needing to explore innovative approaches to contain costs while preserving the essence and protection that LTD insurance provides.

In this article, we will explore the key factors driving the rising costs of LTD insurance and present actionable strategies for employers to adapt their plans without sacrificing the protection that employees rely on.

Understanding the Cost Dynamics of LTD Insurance

Like other forms of insurance, LTD rates are influenced by industry-specific risks, employee demographics, and regional trends. Industries with higher rates of disability claims, such as healthcare, education, and government sectors, often face significantly higher premiums compared to lower-claiming sectors like manufacturing or small businesses. Over time, insurers have introduced cost-containment measures such as pre-existing condition clauses, two-year “own occupation” definitions, and all-source maximums to mitigate costs.

Despite these efforts, the cost of LTD benefits continues to climb. Some employers are now in a place where they must consider alternative measures to balance affordability with coverage adequacy.

Options for Containing LTD Costs

To address the affordability crisis, employers can explore several cost-containment strategies. While the traditional model of non-taxable, two-thirds income replacement up to age 65 is the gold standard, the following options offer opportunities to retain the benefit in a modified, yet meaningful, form:

1. **Cost-Sharing of LTD Premiums**

   Traditionally, LTD premiums are employee-funded to preserve the tax-free nature of benefits. However, employers can share the cost while adjusting the benefit formula to offset taxation. For instance, increasing the income replacement rate to 75% for a taxable benefit could help balance the financial burden on employees. This approach allows employers to support their workforce in maintaining coverage while reducing the cost employees pay.

2. **Extending the Waiting Period**

   Most LTD plans have a 120-day elimination period before benefits commence. Extending this period to six months or longer can significantly reduce premiums, often by 10–15%. While this shifts some short-term risk to the employer or employees themselves, it can lower overall costs for employers.

3. Adjusting Benefit Duration

The standard LTD benefit provides income replacement until age 65. Employers facing cost pressures might consider reducing this duration to five or ten years. A five-year benefit can lower premiums by approximately 30%, while a ten-year duration offers a 15% reduction. Though this represents a reduction in coverage, it ensures that some level of protection remains in place.

4. Lowering the Termination Age

Aligning the termination age with evolving retirement trends can further reduce costs. Shifting from age 65 to age 60, for instance, may result in a premium reduction of 20%. With many Canadians retiring earlier, this adjustment could align coverage with actual workforce needs.

5. Modifying the Benefit Formula

The current standard formula typically replaces two-thirds of income for non-taxable benefits or three-quarters for taxable benefits. Employers could explore reducing the replacement rate slightly, similar to Employment Insurance, which offers 55% income replacement. While less generous, this approach can make LTD insurance more sustainable.

6. Reevaluating Maximums

LTD plans with lower maximum benefit caps often attract criticism for inadequate coverage. However, these plans also result in lower premiums, benefiting employees who never file a claim. Employers can balance maximums and premiums to suit their workforce's needs while managing costs.

7. Hybrid Disability Plans

Hybrid plans combine traditional LTD coverage with Critical Illness (CI) insurance. Under this model, traditional LTD benefits apply during the initial two years of disability, while ongoing claims must meet CI criteria to continue. This approach reduces premiums but excludes conditions like mental health, which are increasingly common causes of disability. Employers must weigh the trade-offs carefully.

8. Monthly Disability Management Meetings

Collaborating closely with insurers through regular disability management meetings can improve claim outcomes. These meetings, often brief and focused, facilitate better communication, quicker return-to-work processes, and proactive accommodations. Employers leveraging this approach often experience fewer claim delays and improved overall outcomes.

Preserving LTD Benefits Amid Rising Costs

At Hillcrest, we firmly believe in the value of the existing “gold standard” of LTD insurance. The non-taxable, two-thirds income replacement model, extending to age 65, remains the ideal solution for providing employees with the security they need during difficult times. However, we recognize that the rising cost of premiums may compel employers to explore alternatives.

The strategies outlined above are designed to initiate a conversation about preserving LTD insurance, even if adjustments are necessary to ensure its affordability. These measures aim to maintain at least a “silver” or “bronze” standard of coverage, providing meaningful support to employees while addressing employers’ financial realities.

Moving Forward

The future of LTD insurance requires collaboration between employers, insurers, and advisors to navigate the challenges of rising costs and shifting workforce needs. By considering innovative approaches to plan design and cost-sharing, employers can ensure that LTD benefits remain accessible and relevant in an evolving landscape.

If you have questions or would like to explore tailored options for your organization, we invite you to reach out to our team. Together, we can craft solutions that balance cost efficiency with the commitment to providing vital income protection for your employees.

Be sure to check out our website at **hillcrest-financial.com**

Introducing Long-Term Disability Insurance for Elected Officials

At Hillcrest, we pride ourselves on serving municipal governments, a key part of our client base. These partnerships thrive because municipal groups are dedicated to maximizing the value of every dollar spent on employee benefits.

Our focus on in-year budget projections aligns perfectly with this mission, helping municipalities plan for the future with confidence. One unique aspect of municipal benefit plans is coverage for Elected Officials. This group presents an interesting challenge: they are not traditional employees, but rather elected individuals, often with other income sources and irregular working hours. Because of these factors, mainstream insurers do not extend Disability Insurance to Elected Officials.

Recognizing this gap, Hillcrest collaborated with Hunter McCorquodale, a syndicate of Lloyds of London, in Autumn 2024 to design a specialized income-replacement product tailored for Elected Officials. This solution is now available, and the timing aligns well with the remuneration planning strategies for the upcoming Council elections later this year.

Program Highlights

Here's a brief overview of the program's key features:

- **Employer-Paid Premiums:** Municipalities would typically pay the premiums, and the benefit would amount to 75% of earnings. Benefits received would be taxable.
- **No Applications Required:** Streamlining the process, there's no need for individual applications.
- **Waiting Period:** Like an employee LTD plan, a 120-day waiting or elimination period applies before benefits are payable.
- **Benefit Duration:** The program offers a declining 44-month benefit term. For instance, if a Council member becomes disabled on the first day of their term, they would be eligible to receive benefits for up to 44 months, which is the maximum term.
- **Termination Conditions:** Coverage ceases at the end of the elected term or if the individual stops serving as a Council member for any reason.
- **Age Limit:** Coverage is available up to age 64, though extensions are often approved by the insurer for older Elected Officials.

Cost Considerations

The cost of this coverage is influenced by the group's composition and earnings, with Mayors and Reeves qualifying for higher coverage limits. Based on initial quotes, premiums are estimated at $1,000 to $1,200 per Elected Official annually.

Why This Matters

This program is a game-changer for municipalities looking to offer comprehensive and practical income-replacement benefits to their Council members. It provides elected officials with income protection while addressing their unique roles. By supporting the health and financial stability of your Council, this coverage demonstrates a commitment to the individuals who serve your community.

Get in touch

If you think this coverage could be a good fit for your Council, we'd be delighted to discuss it further. Contact us to learn more.

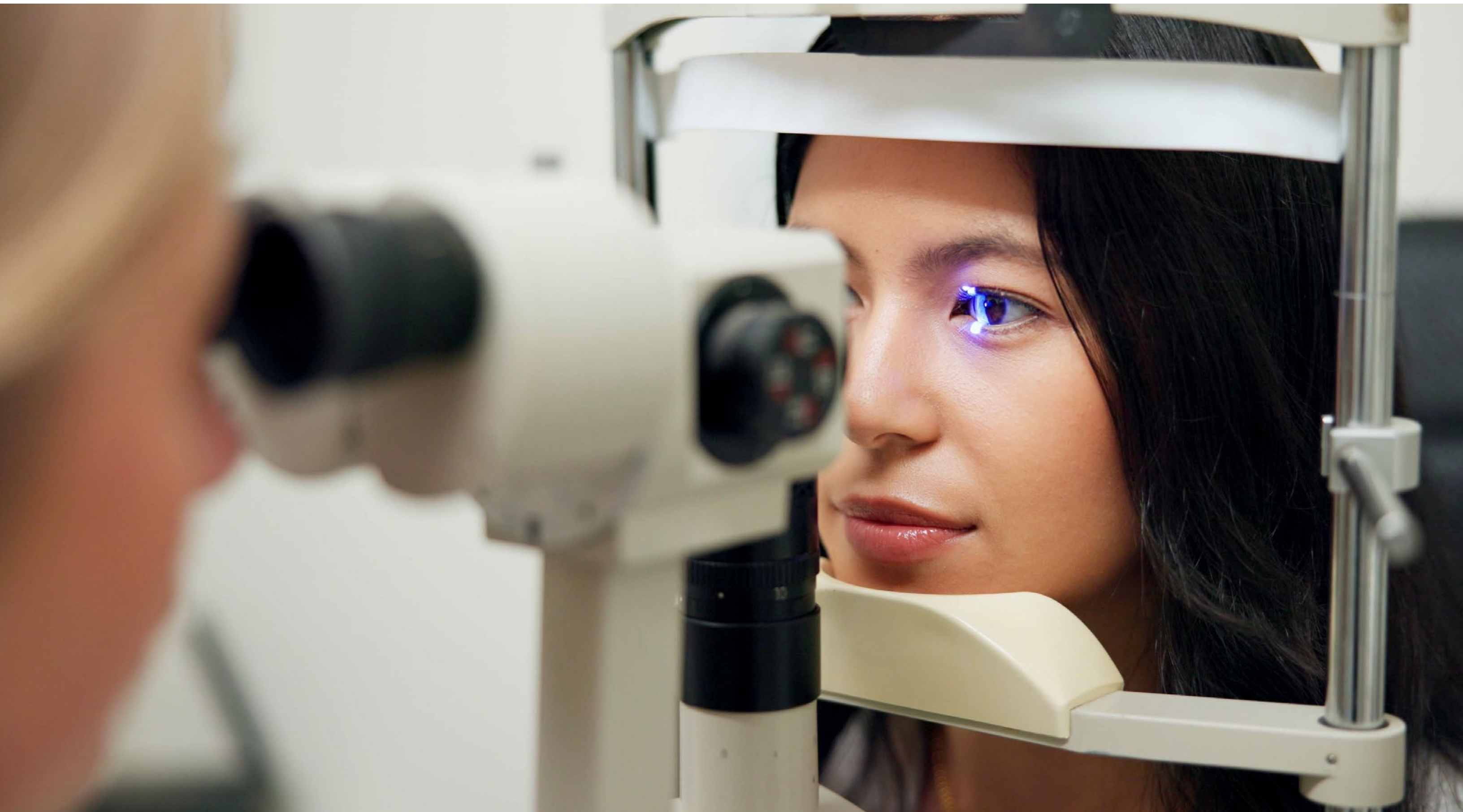
Important Changes to Eye Care Coverage in Alberta

Starting February 1, 2025, the Alberta government is implementing changes to optometry coverage that could affect children, seniors, and others who rely on critical eye care services.

While routine annual eye exams will remain fully covered for children under 19 and seniors over 65, funding for partial eye exams—commonly used for follow-ups or managing chronic conditions like glaucoma and cataracts—will be discontinued. Additionally, the frequency of covered diagnostic imaging services, such as retinal photography, will be reduced by 50%.

These changes may result in higher out-of-pocket expenses for those requiring care beyond standard exams. Patients managing complex or ongoing eye conditions could face challenges accessing necessary follow-ups or early diagnostic tools, which are vital for effective treatment and prevention of vision loss.

We aren't anticipating significant implications to this change, as this only impacts children and seniors who require follow-up appointments, however, it could impact people with more complex Vision Care needs.



Hillcrest Luncheon with Todd Hirsch Recap: Navigating Economic Uncertainty

On January 23, 2025, Hillcrest hosted its annual economic luncheon at the Calgary Zoo, for a thought-provoking discussion.

The event, part of the Hillcrest Luncheon Series, featured Todd Hirsch as the keynote speaker. Known for his candid assessments of economic landscapes, Mr. Hirsch delivered a compelling analysis of Canada's current challenges and opportunities amidst global uncertainty.

A Time of Uncertainty

Reflecting on the world's recent upheavals, Dave Ericson, Principal Consultant at Hillcrest, opened the event by noting how much has changed since the 2024 luncheon—and even in the past week. Hirsch then set the stage, likening today's economic uncertainty to previous global crises: the aftermath of 9/11, the 2008 financial meltdown, and the COVID-19 pandemic.

One of the most pressing issues Hirsch addressed was the potential impact of Donald Trump's proposed 25% tariff on Canadian goods. He warned that, if enacted, such a tariff could trigger one of the worst recessions in Canadian history, lasting for years. Hirsch noted that while many Americans, including the American Chamber of Commerce, oppose the measure, he emphasized the need for Canada to prepare for all possibilities.

Four Paths for Canada

1. **Fight Back with Counter-Tariffs**

   A retaliatory tariff strategy, championed by some Canadian leaders, may play well politically but is unlikely to significantly impact the U.S. economy. In contrast, it could harm Canadian businesses and consumers disproportionately.

2. **Impose Export Restrictions**

   Dubbed the "turn off the tap" approach, this strategy involves restricting energy exports to the U.S. However, Hirsch pointed out its impracticality due to the deep integration of the U.S.-Canada oil and gas industries and Canada's limited capacity to redirect these resources elsewhere.

3. **"Kiss the Ring" Diplomacy**

   Appeasement, or "kissing the ring," involves attempting to reason with Trump and align with his demands. While this strategy may seem pragmatic, it hinges on whether such reasoning can influence the president's decision-making.

4. **Do Nothing and Run Out the Clock**

   The final option involves patience—allowing time for U.S. policymakers to recognize the adverse effects of tariffs on their own citizens and reverse the measures. Hirsch acknowledged this approach is unlikely but urged attendees to consider its merits.

   Hirsch predicted a tit-for-tat response from Canada if the tariffs are enacted but stressed the importance of strategic preparation over reactive measures.

A Time of Uncertainty

To navigate this uncertainty, Hirsch recommended three key strategies:

1. **Know Your Game:**

   Clearly define your organization's identity and value proposition.

2. **See the Big Picture:**

   Step back to gain perspective and seek external input.

3. **Build Connections:**

   Strengthen human connections, the lifeblood of a thriving economy.

A Path Toward Diversification

While the next four years may be challenging, Hirsch expressed optimism about Canada's potential to diversify its trade partnerships and reduce reliance on the U.S. He highlighted the opportunity for Alberta to negotiate national support for pipelines, enabling access to broader global markets.

As attendees enjoyed a delicious lunch provided by the Zoo staff, the event left them with much to consider about Canada's economic future. Hirsch's insights underscored the importance of resilience, adaptability, and collaboration in facing an uncertain road ahead.

WaterSchool Update

First off, I want to say a huge THANK YOU to everyone who supported our 'Run for WaterSchool'. My daughter Jenna and I were able to complete the Niagara Falls Marathon on October 27th, just two days after my 50th birthday.

That was an amazing personal achievement, for sure, and even more importantly, due to the generosity of so many of you, we reached our financial goal of raising $50,000 for the transformational and life-changing work that WaterSchool does in Uganda. Our final total was $50,400, and we just couldn't have done it without your incredible generosity and commitment to this important work. Thank you.

Be sure to check out the website at **waterschool.com**