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August 28, 2014

Ms. Kirstin Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

**Re: Application for Accounting Order EB-2014-0196**

Dear Ms. Walli:

London Hydro Inc. ("London Hydro") hereby files our redacted Mercer Report as ordered by the Board in its Decision and Order dated August 21, 2014.

LH submits that Appendix C to the Mercer Report should be redacted in its entirety, in addition to redacting the certificate numbers, gender and date of birth columns shown in the retiree cost comparisons in Appendix A of the Mercer Report. Appendix C contains actual survey results. Its disclosure would significantly harm the competitive position of Mercer and result in undue financial loss. Mercer incurs expenses to conduct the survey and compile the results and is compensated by selling those survey results to a multitude of customers. By putting Appendix C into the public realm, Mercer loses the commercial value of its work product.

This document is being filed pursuant to the Board's e-Filing Services.

Yours Truly,

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TALENT • HEALTH • RETIREMENT • INVESTMENTS

# **RETIREE LIFE OPTIONS LONDON HYDRO INC.**

12 MARCH 2014

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# 1

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## Introduction

London Hydro engaged Mercer to review the options available to them concerning their current term life insurance coverage for 121 existing retirees and 2 qualified future retirees.

The plan design for these retirees ranges from 70% of their active life benefit coverage to a flat \$2,000 life benefit. The amount of life insurance for these retirees ranges from \$2,000 to \$137,200 with a total insured volume of \$4,564,960. As of January 1, 2014, the average age of the retirees in this group is 78 and the average face amount of coverage is \$37,113. The majority of those covered under this plan are male (84.6%).

Where a promise to pay death benefits to these individuals has been made, London Hydro is not in a favourable position, especially given recent court rulings, to rescind that promise. Over time, the full insured volume will be paid out as death benefits. Options that are most available, in general, affect the timing of the expected pay-out. This report explores the following options available to London Hydro:

- Offer Voluntary Buy-Out
- Purchase Paid-Up Life
- Self-Insure amounts up to \$10,000
- Combinations of the above

The pros and cons of each of these are summarized from the perspectives of the retirees and London Hydro. Comparisons of expected costs for the various options are in Appendix A. The actuarial assumptions behind the buy-out and self-insured liability figures are in Appendix B. We also provide statistics and trends in the private and public sectors with respect to employers making changes to retiree benefits in Appendix C and a high-level, side by side summary of the options in Appendix D.

Any action will most likely increase London Hydro's short term costs. Additionally, some of the available options result in additional risks to London Hydro and should be carefully reviewed by your own legal counsel.

## Background

Since September 2005, the insurance carrier for the retiree life benefit has been Desjardins Financial (DFS). With the September 2013 renewal, Desjardins proposed to increase the retiree life benefit rate by 69.9%. Mercer negotiated this down to a 36.5% increase, with the rate guaranteed until January 2015.

Currently, the London Hydro program is underwritten on a non-refund basis for life and disability benefits. This means that all the risk resides with the insurance company. Given the size of the group, the life rate is largely based upon the insurer's manual rate for the risk. With the majority of these retirees being male, they have a lower life expectancy causing a negative impact on mortality rates, leading to higher calculated manual rate for London Hydro.

Given the nature of these retiree life benefits, the full insurance volume of \$4,564,960 in benefits and associated expenses will be paid out. Currently, your insurer is receiving \$284,937 in annual premium. Therefore, DFS will be increasing these premiums with each future renewal to keep pace with the aging of this closed group of recipients.

Further, as noted with the last benefit plan marketing, this retiree risk is undesirable to the insurance industry market. In 2010, other than the incumbent (DFS), MEARIE (underwritten by Great-West Life at the time and now underwritten by DFS) was the only other program offering a quote on the London Hydro life and disability benefits. However, the MEARIE quote involved a change in the "funding" of the life and disability benefits.

Under your current non-refund arrangement, in the event claims and expenses exceed premiums, the insurance company takes the loss and cannot recoup the deficit from London Hydro. The 2010 MEARIE quote was based on these benefits being "refund accounted", where London Hydro would have a share of that risk. Meaning, in a year where claims and expenses exceeded premiums received, London Hydro would have to repay this deficit. The magnitude of the deficit would dictate whether the deficit recovery would occur over one to three years. Typically, this is included as an extra margin in the rates at renewal. For example, if the deficit amount to be recouped was equal to 10% of annual premium (\$28,000) and the renewal manual rate adjustment was +30%, the total rate change at that renewal would be +40%.

Refund accounting would also mean that in years where premiums exceeded claims and expenses, London Hydro would benefit by having those surplus dollars held in a reserve with the carrier to meet future claim fluctuations and, over time, if enough surplus is accrued, premium refunds could be available to London Hydro.

With the 2010 marketing, it was decided to maintain the current non-refund basis (as it is the appropriate funding for London Hydro) and to stay with the incumbent DFS who also offered better rates overall and provided a guarantee until September 2013. The claims experience of the plan has been fluctuating over the last few years. This, along with aging, resulted in the requested increase of almost 70% at the first post-marketing renewal to the retiree life rates.

Below is a summary of the retiree life benefit experience over the past four years:

| Plan Year           | Paid Life Premiums | Paid Life Claims   |
|---------------------|--------------------|--------------------|
| Oct 2009 – Sep 2010 | \$208,299          | \$350,995          |
| Oct 2010 – Sep 2011 | \$206,493          | \$16,196           |
| Oct 2011 – Sep 2012 | \$204,685          | \$452,908          |
| Oct 2012 – Sep 2013 | \$201,057          | \$182,084          |
| <b>Total</b>        | <b>\$820,534</b>   | <b>\$1,281,183</b> |

All the life claims paid in the past four years have been from the retirees. Total life premiums paid to DFS for the 4 year period (including the active employees) is \$1,205,720.

London Hydro's understanding that increases to the term retiree life rates will continue in future has led to this exploration of alternatives to reduce and/or eliminate this coverage.

## 2

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### Voluntary Buy-Out

In this scenario, London Hydro would offer a cash payout to each retiree, based on our present value of the insured amount. This payment would be taxable as income to the retiree. If accepted; no further insured benefit would be payable at death. In addition, there would be no ongoing taxable benefit for the retiree.

Mercer has estimated the cost of the liability to determine the "buy-out" option for the retiree term life benefit. Data was supplied by London Hydro on January 21, 2014. The present value of the future benefit (reflected in Appendix A) is approximately \$3.8 million, as at January 1, 2014, or on average approximately 80% of the life face amount. The valuation was based on the assumptions used in Mercer's fiscal 2013 disclosure report (see Appendix B).

There are some individual situations that should be noted.

1. One retiree has a life insurance amount of \$137,000. The annual premium for this retiree is almost \$9,000 per annum. This is creating a large taxable benefit annually to the retiree for a benefit they will not see in their lifetime.

There are many others with annual premiums ranging between \$3,000 and \$5,000. Increasing retiree life rates with each renewal going forward and the consequent taxable benefit may create a growing hardship.

2. There are some instances where the buy-out amounts are greater than the actual face amount of life insurance. These are within the older retiree population. We suggest the buy-out option be limited to the actual life insurance face amount.
3. The buy-out amounts reflected in Appendix A include a 30% load for administration and taxes as is usual for a calculation of the accounting liability. One could lower this buy out amount by 30% to remove the cost of administration and tax. However, the greater the differential between the existing insured benefit amount and the buy-out amount will reduce the retirees' appetite for the offer.

If London Hydro decides to implement a buy-out of the salary-based life benefit, there are a number of potential implementation approaches:

- It is recommended the buy-out be on a voluntary basis.
- The buy-out amounts could be paid out in one lump-sum or they could be spread over a few years to limit the "one time" taxable income impact to the retiree.
- London Hydro could pay the full individual liability amount to each retiree (up to the amount of insurance) or they could offer to pay certain percentage of the liability, which would reduce the taxable benefit to the retiree.

The advantages and disadvantages of this option are:

**Advantages for the Retiree**

1. The retiree will have access to the proceeds prior to death.
2. The retirees would no longer have to deal with annually increasing amounts of taxable benefits. (This is particularly true for any retirees with no immediate dependents.)
3. If the proceeds are phased in over a few years, the tax impact can be spread over a few years.

**Disadvantages for the Retiree**

1. The proceeds will be taxable as income to the retiree.
2. Beneficiaries may prefer life insurance that will be payable to the beneficiary.

**Advantages for London Hydro**

1. The employer may be able to settle the obligation for less than the total current liability.
2. The payment pattern for the buy-out is flexible.
3. The proceeds can be phased in over a few years.
4. Uptake of this option by retirees will increase the marketability of the plan to more insurers.
5. Save the cost of administering the plan once the buy-out is complete.
6. Removes the ongoing liability once the buy-out is complete.

**Disadvantages for London Hydro**

1. London Hydro costs will increase in the short term to finance the buy-out offers.
2. There may be retirees unwilling to accept the buy-out offer and London Hydro will need to continue coverage either under the existing group insurance arrangement or paid-up life insurance.

Buy-outs (voluntary and mandatory) come with risks to the employer. Typically, these happen only when a company is winding down its operations.

Reducing or eliminating coverage for existing retirees poses a risk to employers. If London Hydro is considering this, it should be discussed with legal counsel.

The success in uptake of a voluntary buy-out offer would be dependent on London Hydro's communication to retirees. Letters would need to present the buy-out offer so that it entices the retirees to accept. It could speak to the increasing taxable benefit as the insurance premiums rise and offer the retiree an average of 80% of the face amount of coverage as a buy-out. As indicated above, the buy-out can occur over time to help both London Hydro with the costs of the buy-out and the retiree with the taxable income.

As the retiree coverage is reduced under the term policy with DFS, it will have a positive impact on future renewals and improve the marketability of London Hydro's plan in the insurance industry.

# 3

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## Paid-Up Life

In this scenario, London Hydro purchases paid up life policies for the retirees, who receive a certificate issued by the insurance company. The premiums for the paid up life policies are a taxable benefit to retirees in the year in which they are remitted. Once purchased, London Hydro no longer has an ongoing financial liability for this coverage.

For this report, we approached the incumbent, Desjardins, for a paid up life quotation for the 121 existing and 2 qualified future retirees. We refer you to Appendix A. Their quote is guaranteed until May 1, 2014.

The quoted paid-up life premiums are higher than the suggested voluntary buy-out option. This is due to the insurer's own mortality tables, expenses and interest assumptions, which are more conservative than those used in our buy-out option. Paid-up life rates are highly dependent on the interest rates at the time of purchase. Typically, insurers provide a quote for a 30 day period based on their current interest assumptions. Note, if this option is pursued, we can obtain quotes from other insurers to secure the most competitive rates.

The advantages and disadvantages of this option are:

### Advantages for the Retiree

1. Maintain current coverage payable to beneficiary upon death on an insured basis.

### Disadvantages for the Retiree

1. Higher taxable benefit in year the purchase of the paid-up life is made (employer paid life premiums are taxable benefits to the retiree at the time the purchase is made).

### Advantages for London Hydro

1. Eliminates the on-going retiree coverage for all, helping with no further liability on books after purchase made.
2. Improves the desirability to insurers when marketing of the plan for life and LTD.
3. No change to the current retiree plan – just a change in how the coverage is purchased.

**Disadvantages for London Hydro**

1. Requires funding of entire life benefit cost at one time, resulting in a significant cost outlay in the short term.

To mitigate the cost impact to London Hydro and the taxable benefit to retirees, consideration can be given to making a gradual transition from the term life coverage and purchase of the paid-up life amounts over 3 to 5 years.

As the retiree coverage is reduced under the term policy with DFS, it will have a positive impact on future renewals and improve the marketability of London Hydro's plan in the insurance industry.

# 4

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## Self-Insure Amounts Up to \$10,000

Employers can give beneficiaries a non-insured death benefit of up to \$10,000 without it being taxable as income to the beneficiary.

In this scenario, London Hydro could consider reducing the current life insurance volumes for all retirees by \$10,000 and self-insure these amounts. This would eliminate 9 retirees (with a combined life insurance volume of \$54,729) from the term life plan and reduce the current insured volume for 114 others (\$1,140,000). The new total insured volume under the term plan would be \$3,370,231 and the new annual term premiums would be \$210,704, representing a 26.5% decrease to current annual life premium costs.

In Appendix A, we show the present value for the \$10,000 of life insurance for each of the retirees, if London Hydro was to self-insure these amounts. Overall, this option does not significantly change the accounting liability of this coverage for London Hydro.

The advantages and disadvantages of this option are:

### Advantages for the Retiree

1. Maintain current insurance coverage payable to beneficiary upon death.
2. Reduces the taxable benefit to retirees.

### Advantages for London Hydro

1. Eliminates a portion of the on-going retiree insured coverage, helping to improve the desirability to insurers when marketing of the plan for life and LTD.
2. No change to the current retiree plan – just a change in how the coverage is purchased.
3. Reduces current costs of the insured life plan premiums.

### Disadvantages for London Hydro

1. Issuing a cheque to beneficiaries upon death of the amount of insurance up to \$10,000.
2. In years where several retirees pass away, it may be viewed as an increase in costs.
3. Maintaining up to date beneficiary information.

## 5

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### Combination of Options

London Hydro may want to consider a combination of the previously discussed options, as follows:

#### **Self-Insure up to \$10,000 with Paid-Up Life**

London Hydro may elect to self-insure the first \$10,000 of coverage and purchase paid-up life for the balance.

In addition to the advantages and disadvantages listed in the preceding sections, it should be noted:

- No change to current coverage for retirees.
- Reduced liability for London Hydro (ongoing only the life benefit amounts up to \$10,000).
- Combining these options reduces the taxable benefit to retirees in the year a purchase of paid-up life is made.

#### **Self-Insure up to \$10,000 with Voluntary Buy-Out**

London Hydro may elect to offer a voluntary buy-out of the life benefit amounts over \$10,000 and self-insure up to the first \$10,000.

In addition to the advantages and disadvantages listed in the preceding sections, it should be noted:

- Retirees can still choose to have a life benefit payable to their beneficiaries.
- Reduces liability for London Hydro (ongoing only the life benefit amounts up to \$10,000).
- Combining these options reduces the taxable benefit to retirees in the year the buy-out is made.
- Enhances the option for retirees to elect a buy-out.

# 6

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## Prevalence of Changes to Retiree Plans

Our research into what changes employers are making to retiree benefits included a review of various surveys and articles from the past 3 years.

The following documents and articles have been reviewed, along with recent newspaper articles:

- Mercer Quick Poll 2011 (enclosed Appendix C)
- Toronto Region Board of Trade Benefit and Employment Practices 2013-2014
- Morneau Shepell Compensation Survey – Trends and Projections 2013
- Conference Board of Canada Report – Benefits Benchmarking 2012
- Benefits Canada – Articles from February 2014, July 2013, January 2013 and June 2012

With increasing pressure to reduce accounting liabilities and annual benefit costs, some employers are considering changes to retiree benefits. The preponderance of these changes is occurring with respect to new hires and future retiree plans. With recent court rulings, employers need to be cautious of the risk to changing existing retiree benefits.

Related specifically to changes to the existing retiree life insurance, there is actually little data available. The various surveys do show:

- 66.67% of public sector organizations offer retiree benefits
- 86% of those who offer retiree benefits offer a life benefit
- 69% of the employers pay 100% of the retiree life premium
- The average annual premium is \$177, with the maximum employer paid premium being \$1,349 (This compares to London Hydro's average annual premium for these 123 retirees at \$2,317 = 72% higher than survey average)
- From 2011-2013\*, 1.7% of organizations made reductions to retiree life benefits; 0.8% made improvements

- Over the next two years\*, 2.1% of organizations indicate they are likely to make reductions to their retiree life benefits and 0.4% will make improvements

*\*The data does not distinguish if the changes were made to existing retirees benefit coverage or future retirees.*

London Hydro has addressed its liability for future retirees by changing the plan design to a lower paid-up life insurance certificate several years ago. However, the promise to pay death benefits to the 121 existing retirees and 2 qualified future retirees (on the existing ongoing term insurance basis) has been made and it would be very risky for London Hydro, especially given recent court rulings, to rescind the promise made.

# 7

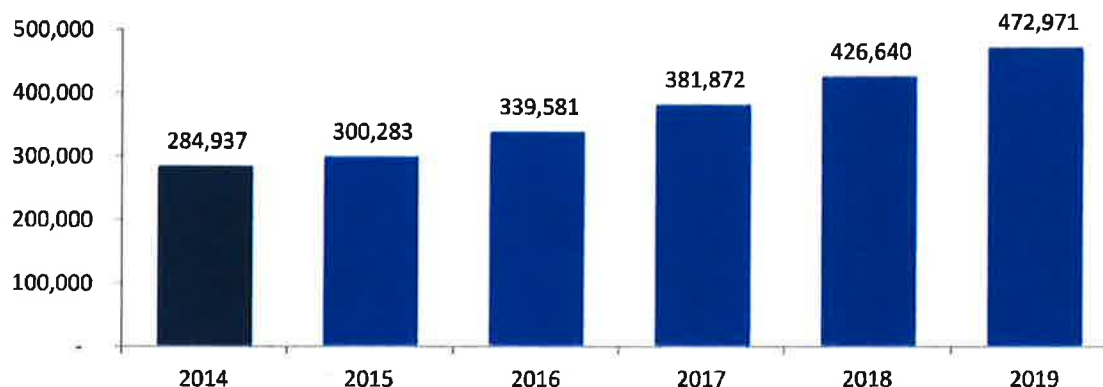
## Summary

London Hydro has various options which will help to reduce and/or eliminate the retiree term life coverage. Each has its own advantages and disadvantages for both the retiree and London Hydro. London Hydro needs to identify the driver behind making a change, in terms of whether it is immediate or long term costs, reducing or eliminating the accounting liability or the ability to change carriers in future.

Maintaining the current term life coverage as it stands, while unappealing to the insurance market place, represents the lowest immediate costs for London Hydro and lowest taxable benefit to retirees. In future, rigorous negotiations with DFS could help mitigate significant rate increases, used in conjunction with the leverage of the active life and LTD benefits, and may provide a financial advantage in the long run.

Below, we illustrate our projections for the term life retiree premiums:

**Projected Annual Premium - Current Arrangement**



**Assumptions:**

- Annual renewal rate increase of 30%. (DFS proposed 70% in 2014, Mercer negotiated 36.5 %)
- Demographic change of -6.5% percent, assuming 8 deaths a year, with average face amount of \$37,000

Going forward, however, when procurement requires the benefit plan be marketed with no action taken, no insurers may be willing to quote on the London Hydro program.

Further, there is a potential risk that, at some point, DFS may no longer want to underwrite this coverage and provide London Hydro with a 31 to 60 day termination notice. Should that occur, London Hydro will have to act on one or a combination of these options.

## APPENDIX A

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### Retiree Cost Comparisons

RETIREE LIFE OPTIONS

LONDON HYDRO INC.

| Division | Certificate | Gender | Date of birth | Basic Member Life | Current Annual DFS<br>Term Life Premiums | DFS Paid Up Life<br>Quote | Mercer Valuation (For<br>Buy-Out Option) | Mercer Valuation<br>(of Self-Insured Up<br>to 10k) |
|----------|-------------|--------|---------------|-------------------|--|---------------------------|--|--|
|          |             |        |               | \$ 2,000 \$       | 125 \$                                   | 2,041 \$                  | 1,168 \$                                 | 993  |
|          |             |        |               | \$ 2,000 \$       | 125 \$                                   | 2,081 \$                  | 1,252 \$                                 | 1,064  |
|          |             |        |               | \$ 2,000 \$       | 125 \$                                   | 2,092 \$                  | 1,428 \$                                 | 1,214  |
|          |             |        |               | \$ 2,000 \$       | 125 \$                                   | 2,100 \$                  | 1,252 \$                                 | 1,064  |
|          |             |        |               | \$ 9,177 \$       | 574 \$                                   | 8,873 \$                  | 7,447 \$                                 | 6,330  |
|          |             |        |               | \$ 9,185 \$       | 574 \$                                   | 9,581 \$                  | 8,593 \$                                 | 7,304  |
|          |             |        |               | \$ 9,207 \$       | 576 \$                                   | 9,206 \$                  | 7,848 \$                                 | 6,671  |
|          |             |        |               | \$ 9,207 \$       | 576 \$                                   | 8,648 \$                  | 6,421 \$                                 | 5,458  |
|          |             |        |               | \$ 9,953 \$       | 622 \$                                   | 10,974 \$                 | 10,349 \$                                | 8,797  |
|          |             |        |               | \$ 10,011 \$      | 626 \$                                   | 10,162 \$                 | 9,028 \$                                 | 7,665  |
|          |             |        |               | \$ 10,633 \$      | 685 \$                                   | 9,925 \$                  | 7,178 \$                                 | 5,738  |
|          |             |        |               | \$ 10,714 \$      | 670 \$                                   | 9,858 \$                  | 7,652 \$                                 | 6,071  |
|          |             |        |               | \$ 11,069 \$      | 692 \$                                   | 9,726 \$                  | 7,165 \$                                 | 5,502  |
|          |             |        |               | \$ 11,084 \$      | 693 \$                                   | 9,691 \$                  | 8,170 \$                                 | 6,265  |
|          |             |        |               | \$ 11,100 \$      | 694 \$                                   | 11,392 \$                 | 10,385 \$                                | 7,952  |
|          |             |        |               | \$ 11,946 \$      | 747 \$                                   | 11,835 \$                 | 10,183 \$                                | 7,246  |
|          |             |        |               | \$ 12,199 \$      | 763 \$                                   | 10,840 \$                 | 8,165 \$                                 | 5,689  |
|          |             |        |               | \$ 12,856 \$      | 804 \$                                   | 11,746 \$                 | 9,476 \$                                 | 6,265  |
|          |             |        |               | \$ 12,872 \$      | 805 \$                                   | 12,095 \$                 | 9,787 \$                                 | 6,463  |
|          |             |        |               | \$ 12,912 \$      | 807 \$                                   | 12,610 \$                 | 11,007 \$                                | 7,246  |
|          |             |        |               | \$ 13,499 \$      | 844 \$                                   | 11,949 \$                 | 9,035 \$                                 | 5,689  |
|          |             |        |               | \$ 14,000 \$      | 810 \$                                   | 9,488 \$                  | 6,918 \$                                 | 4,200  |
|          |             |        |               | \$ 14,777 \$      | 924 \$                                   | 14,377 \$                 | 12,263 \$                                | 7,054  |
|          |             |        |               | \$ 14,816 \$      | 926 \$                                   | 14,761 \$                 | 13,269 \$                                | 7,812  |
|          |             |        |               | \$ 15,392 \$      | 891 \$                                   | 13,135 \$                 | 13,121 \$                                | 7,246  |
|          |             |        |               | \$ 15,540 \$      | 972 \$                                   | 13,690 \$                 | 10,748 \$                                | 5,879  |
|          |             |        |               | \$ 18,318 \$      | 1,145 \$                                 | 16,559 \$                 | 13,083 \$                                | 6,071  |
|          |             |        |               | \$ 19,625 \$      | 1,227 \$                                 | 18,730 \$                 | 15,834 \$                                | 6,858  |
|          |             |        |               | \$ 20,000 \$      | 1,250 \$                                 | 20,669 \$                 | 20,221 \$                                | 8,594  |
|          |             |        |               | \$ 20,716 \$      | 1,295 \$                                 | 15,213 \$                 | 10,618 \$                                | 4,357  |
|          |             |        |               | \$ 22,100 \$      | 1,382 \$                                 | 16,101 \$                 | 9,361 \$                                 | 3,600  |

MERCER (CANADA) LIMITED

RETIREE LIFE OPTIONS

LONDON HYDRO INC.

| Division | Certificate | Gender | Date of birth | Basic Member Life | Current Annual DFS<br>Term Life Premiums | DFS Paid Up Life<br>Quote | Mercer Valuation (For<br>Buy-Out Option) | Mercer Valuation<br>(of Self-Insured Up<br>to 10k) |
|----------|-------------|--------|---------------|-------------------|--|---------------------------|--|--|
|          |             |        |               | \$ 23,276 \$      | 1.455 \$                                 | 17,951 \$                 | 11,502 \$                                | 4,200  |
|          |             |        |               | \$ 24,087 \$      | 1.506 \$                                 | 18,558 \$                 | 12,610 \$                                | 4,450  |
|          |             |        |               | \$ 24,375 \$      | 1.524 \$                                 | 21,997 \$                 | 17,410 \$                                | 6,071  |
|          |             |        |               | \$ 24,500 \$      | 1.532 \$                                 | 25,718 \$                 | 23,163 \$                                | 8,036  |
|          |             |        |               | \$ 24,627 \$      | 1.540 \$                                 | 23,710 \$                 | 20,993 \$                                | 7,246  |
|          |             |        |               | \$ 26,000 \$      | 1.625 \$                                 | 18,567 \$                 | 14,132 \$                                | 4,620  |
|          |             |        |               | \$ 26,000 \$      | 1.625 \$                                 | 19,611 \$                 | 13,098 \$                                | 4,282  |
|          |             |        |               | \$ 27,300 \$      | 1.707 \$                                 | 29,977 \$                 | 28,831 \$                                | 8,977  |
|          |             |        |               | \$ 28,000 \$      | 1.751 \$                                 | 30,738 \$                 | 30,551 \$                                | 9,274  |
|          |             |        |               | \$ 28,000 \$      | 1.751 \$                                 | 29,603 \$                 | 28,809 \$                                | 8,746  |
|          |             |        |               | \$ 28,700 \$      | 1.794 \$                                 | 32,426 \$                 | 32,932 \$                                | 9,753  |
|          |             |        |               | \$ 28,700 \$      | 1.794 \$                                 | 29,794 \$                 | 28,483 \$                                | 8,436  |
|          |             |        |               | \$ 29,172 \$      | 1.824 \$                                 | 24,074 \$                 | 17,643 \$                                | 5,141  |
|          |             |        |               | \$ 29,400 \$      | 1.838 \$                                 | 31,816 \$                 | 31,857 \$                                | 9,153  |
|          |             |        |               | \$ 30,100 \$      | 1.882 \$                                 | 33,020 \$                 | 32,842 \$                                | 9,274  |
|          |             |        |               | \$ 30,100 \$      | 1.882 \$                                 | 31,800 \$                 | 29,674 \$                                | 8,380  |
|          |             |        |               | \$ 30,100 \$      | 1.882 \$                                 | 30,294 \$                 | 28,160 \$                                | 7,952  |
|          |             |        |               | \$ 30,800 \$      | 1.926 \$                                 | 27,137 \$                 | 21,999 \$                                | 6,071  |
|          |             |        |               | \$ 30,800 \$      | 1.926 \$                                 | 30,296 \$                 | 24,993 \$                                | 6,897  |
|          |             |        |               | \$ 32,000 \$      | 2.001 \$                                 | 23,546 \$                 | 14,103 \$                                | 3,746  |
|          |             |        |               | \$ 32,200 \$      | 2.013 \$                                 | 31,046 \$                 | 29,494 \$                                | 7,786  |
|          |             |        |               | \$ 32,900 \$      | 2.057 \$                                 | 35,020 \$                 | 33,062 \$                                | 8,542  |
|          |             |        |               | \$ 32,900 \$      | 2.057 \$                                 | 34,728 \$                 | 33,264 \$                                | 8,594  |
|          |             |        |               | \$ 32,900 \$      | 2.057 \$                                 | 34,728 \$                 | 33,264 \$                                | 8,594  |
|          |             |        |               | \$ 32,900 \$      | 2.057 \$                                 | 35,192 \$                 | 35,425 \$                                | 9,152  |
|          |             |        |               | \$ 32,900 \$      | 2.057 \$                                 | 34,728 \$                 | 33,850 \$                                | 8,745  |
|          |             |        |               | \$ 34,300 \$      | 2.144 \$                                 | 36,497 \$                 | 35,291 \$                                | 8,746  |
|          |             |        |               | \$ 35,000 \$      | 2.026 \$                                 | 34,477 \$                 | 34,505 \$                                | 8,380  |
|          |             |        |               | \$ 35,000 \$      | 2.026 \$                                 | 20,492 \$                 | 11,524 \$                                | 2,799  |
|          |             |        |               | \$ 35,700 \$      | 2.232 \$                                 | 38,277 \$                 | 37,329 \$                                | 8,888  |
|          |             |        |               | \$ 37,100 \$      | 2.319 \$                                 | 34,592 \$                 | 29,067 \$                                | 6,660  |
|          |             |        |               | \$ 37,100 \$      | 2.319 \$                                 | 37,258 \$                 | 33,982 \$                                | 7,786  |

| Division | Certificate | Gender | Date of birth | Basic Member Life | Current Annual DFS Term Life Premiums | DFS Paid Up Life Quote | Mercer Valuation (For Buy-Out Option) | Mercer Valuation (of Self-Insured Up to 10k) |
|----------|-------------|--------|---------------|-------------------|---------------------------------------|------------------------|---------------------------------------|--|
|          |             |        |               | \$ 37,100 \$      | 2,319 \$                              | 35,713 \$              | 34,709 \$                             | 7,952  |
|          |             |        |               | \$ 37,100 \$      | 2,319 \$                              | 40,068 \$              | 39,948 \$                             | 9,153  |
|          |             |        |               | \$ 38,106 \$      | 2,382 \$                              | 30,192 \$              | 21,485 \$                             | 4,792  |
|          |             |        |               | \$ 38,500 \$      | 2,407 \$                              | 40,584 \$              | 38,926 \$                             | 8,594  |
|          |             |        |               | \$ 39,021 \$      | 2,440 \$                              | 28,019 \$              | 18,147 \$                             | 3,953  |
|          |             |        |               | \$ 39,188 \$      | 2,450 \$                              | 31,036 \$              | 22,893 \$                             | 4,966  |
|          |             |        |               | \$ 39,200 \$      | 2,451 \$                              | 39,724 \$              | 38,903 \$                             | 8,436  |
|          |             |        |               | \$ 39,900 \$      | 2,495 \$                              | 39,140 \$              | 35,733 \$                             | 7,612  |
|          |             |        |               | \$ 39,900 \$      | 2,495 \$                              | 42,744 \$              | 41,720 \$                             | 8,888  |
|          |             |        |               | \$ 39,900 \$      | 2,495 \$                              | 41,678 \$              | 40,342 \$                             | 8,594  |
|          |             |        |               | \$ 39,900 \$      | 2,495 \$                              | 40,891 \$              | 38,851 \$                             | 8,277  |
|          |             |        |               | \$ 40,600 \$      | 2,538 \$                              | 42,011 \$              | 39,532 \$                             | 8,276  |
|          |             |        |               | \$ 42,000 \$      | 2,626 \$                              | 38,560 \$              | 31,932 \$                             | 6,462  |
|          |             |        |               | \$ 42,000 \$      | 2,626 \$                              | 33,228 \$              | 21,528 \$                             | 4,357  |
|          |             |        |               | \$ 42,000 \$      | 2,626 \$                              | 37,430 \$              | 29,998 \$                             | 6,071  |
|          |             |        |               | \$ 43,400 \$      | 2,713 \$                              | 44,448 \$              | 41,444 \$                             | 8,117  |
|          |             |        |               | \$ 43,400 \$      | 2,713 \$                              | 44,885 \$              | 42,258 \$                             | 8,276  |
|          |             |        |               | \$ 43,400 \$      | 2,713 \$                              | 43,041 \$              | 38,868 \$                             | 7,612  |
|          |             |        |               | \$ 44,100 \$      | 2,757 \$                              | 42,698 \$              | 37,593 \$                             | 7,246  |
|          |             |        |               | \$ 44,100 \$      | 2,757 \$                              | 39,281 \$              | 32,507 \$                             | 6,266  |
|          |             |        |               | \$ 44,100 \$      | 2,757 \$                              | 46,031 \$              | 43,766 \$                             | 8,436  |
|          |             |        |               | \$ 44,800 \$      | 2,801 \$                              | 44,418 \$              | 41,035 \$                             | 7,786  |
|          |             |        |               | \$ 45,500 \$      | 2,845 \$                              | 38,603 \$              | 29,452 \$                             | 5,502  |
|          |             |        |               | \$ 46,900 \$      | 2,932 \$                              | 40,443 \$              | 31,390 \$                             | 5,669  |
|          |             |        |               | \$ 47,600 \$      | 2,976 \$                              | 47,172 \$              | 42,629 \$                             | 7,612  |
|          |             |        |               | \$ 47,600 \$      | 2,976 \$                              | 44,881 \$              | 38,405 \$                             | 6,858  |
|          |             |        |               | \$ 48,300 \$      | 3,020 \$                              | 46,140 \$              | 40,083 \$                             | 7,054  |
|          |             |        |               | \$ 48,300 \$      | 3,020 \$                              | 47,030 \$              | 45,187 \$                             | 7,952  |
|          |             |        |               | \$ 48,300 \$      | 3,020 \$                              | 39,557 \$              | 29,211 \$                             | 5,141  |
|          |             |        |               | \$ 49,700 \$      | 3,107 \$                              | 43,529 \$              | 34,374 \$                             | 5,879  |
|          |             |        |               | \$ 49,700 \$      | 3,107 \$                              | 39,963 \$              | 29,034 \$                             | 4,966  |
|          |             |        |               | \$ 49,700 \$      | 3,107 \$                              | 48,073 \$              | 42,366 \$                             | 7,246  |
|          |             |        |               | \$ 49,700 \$      | 3,107 \$                              | 49,238 \$              | 44,510 \$                             | 7,612  |

RETIREE LIFE OPTIONS

LONDON HYDRO INC.

| Division | Certificate | Gender | Date of birth | Basic Member Life | Current Annual DFS Term Life Premiums | DFS Paid Up Life Quote | Mercer Valuation (For Buy-Out Option) | Mercer Valuation (of Self-Insured Up to 10k) |
|----------|-------------|--------|---------------|-------------------|---------------------------------------|------------------------|---------------------------------------|--|
|          |             |        |               | \$ 50,400 \$      | 3,151 \$                              | 45,519 \$              | 37,150 \$                             | 6,265 \$                                     |
|          |             |        |               | \$ 51,800 \$      | 3,238 \$                              | 42,058 \$              | 32,706 \$                             | 5,367 \$                                     |
|          |             |        |               | \$ 51,800 \$      | 3,238 \$                              | 55,822 \$              | 55,003 \$                             | 9,026 \$                                     |
|          |             |        |               | \$ 53,200 \$      | 3,326 \$                              | 48,736 \$              | 40,448 \$                             | 6,463 \$                                     |
|          |             |        |               | \$ 54,600 \$      | 3,414 \$                              | 52,109 \$              | 45,311 \$                             | 7,054 \$                                     |
|          |             |        |               | \$ 54,600 \$      | 3,414 \$                              | 55,260 \$              | 51,081 \$                             | 7,952 \$                                     |
|          |             |        |               | \$ 54,800 \$      | 3,414 \$                              | 51,425 \$              | 44,052 \$                             | 6,858 \$                                     |
|          |             |        |               | \$ 57,400 \$      | 3,589 \$                              | 53,306 \$              | 46,311 \$                             | 6,858 \$                                     |
|          |             |        |               | \$ 62,300 \$      | 3,895 \$                              | 64,893 \$              | 61,828 \$                             | 8,436 \$                                     |
|          |             |        |               | \$ 62,300 \$      | 3,895 \$                              | 60,168 \$              | 54,474 \$                             | 7,432 \$                                     |
|          |             |        |               | \$ 62,300 \$      | 3,895 \$                              | 57,005 \$              | 47,366 \$                             | 6,462 \$                                     |
|          |             |        |               | \$ 64,400 \$      | 4,026 \$                              | 62,183 \$              | 56,310 \$                             | 7,432 \$                                     |
|          |             |        |               | \$ 65,100 \$      | 4,070 \$                              | 63,631 \$              | 58,302 \$                             | 7,612 \$                                     |
|          |             |        |               | \$ 65,100 \$      | 4,070 \$                              | 62,058 \$              | 54,025 \$                             | 7,054 \$                                     |
|          |             |        |               | \$ 65,100 \$      | 4,070 \$                              | 58,676 \$              | 47,986 \$                             | 6,265 \$                                     |
|          |             |        |               | \$ 65,100 \$      | 4,070 \$                              | 55,969 \$              | 43,571 \$                             | 5,689 \$                                     |
|          |             |        |               | \$ 65,100 \$      | 4,070 \$                              | 56,885 \$              | 45,025 \$                             | 5,879 \$                                     |
|          |             |        |               | \$ 67,900 \$      | 4,245 \$                              | 60,256 \$              | 48,497 \$                             | 6,071 \$                                     |
|          |             |        |               | \$ 70,700 \$      | 4,420 \$                              | 57,688 \$              | 42,758 \$                             | 5,141 \$                                     |
|          |             |        |               | \$ 72,800 \$      | 4,551 \$                              | 62,538 \$              | 48,725 \$                             | 5,689 \$                                     |
|          |             |        |               | \$ 72,800 \$      | 4,551 \$                              | 77,107 \$              | 76,121 \$                             | 8,888 \$                                     |
|          |             |        |               | \$ 75,600 \$      | 4,726 \$                              | 68,075 \$              | 57,478 \$                             | 6,462 \$                                     |
|          |             |        |               | \$ 78,400 \$      | 4,901 \$                              | 72,664 \$              | 63,254 \$                             | 6,658 \$                                     |
|          |             |        |               | \$ 81,900 \$      | 5,120 \$                              | 80,566 \$              | 79,746 \$                             | 8,276 \$                                     |
|          |             |        |               | \$ 98,700 \$      | 6,171 \$                              | 93,027 \$              | 90,406 \$                             | 7,786 \$                                     |
|          |             |        |               | \$ 137,200 \$     | 8,578 \$                              | 136,844 \$             | 128,357 \$                            | 7,952 \$                                     |
| Total    |             |        |               | \$ 4,564,960 \$   | 284,937 \$                            | 4,317,361 \$           | 3,790,381 \$                          | 834,987 \$                                   |

\* Not a resident of Ontario. Retail Sales Tax not applicable.

## APPENDIX B

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### Mercer Valuation Assumptions

#### Summary of Assumptions – Buy-Out and Self-Insured Options

The following assumptions were used in valuing the benefit obligations for the grandfathered life plan.

|                                |   |
|--------------------------------|---|
| <i>Discount rate</i>           | 4.70% per annum for 31 December 2013 obligations  |
| <i>Mortality</i>               | 90% UP 1994 Table with improvements projected to 2014 using scale AA and with future generational mortality improvements based on 150% of projection scale AA |
| <i>Administrative expenses</i> | 16.8% of paid claims for Buy-Out option<br>1.8% of paid claims for Self-Insured Option  |
| <i>Taxes</i>                   | 2% premium tax on claims and administration expenses<br>8% sales tax on claims, administration expenses and premium tax for life insurance                    |

## APPENDIX C

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### **Mercer Quick Poll Post Retirement Trends 2011**

(Attached as a separate document)

## APPENDIX D

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### Side by Side Comparison

| Life Benefit Volume                              | Current Term Coverage   | Self-Insure 1st 10,000, remainder insured with DFS  | Voluntary Buy-Out   | Paid Up Life  |
|--|---|---|---|---|
| <b>Desjardins</b>                                | \$ 4,564,960  | \$ 3,370,231  | \$ -  | \$ 4,564,960  |
| <b>London Hydro (Self-Insured)</b>               | \$ -  | \$ 1,194,729  | \$ -  | \$ -  |
| <b>Total</b>                                     | \$ 4,564,960  | \$ 4,564,960  | \$ -  | \$ 4,564,960  |
| <b>One Time Initial Cost</b>                     | \$ -  | \$ -  | \$ 3,790,381  | \$ 4,317,361  |
| <b>Annual Costs</b>                              |   |   |   |   |
| <b>Desjardins</b>                                | \$ 284,937  | \$ 210,704  | \$ -  | \$ -  |
| <b>London Hydro (Self-Insured)<sup>1</sup></b>   | \$ -  | \$ 85,404   | \$ -  | \$ -  |
| <b>Taxable Benefit (premiums)</b>                | \$ 284,937  | \$ 295,108  | \$ -  | \$ -  |
| <b>Taxable Income (buy-out)</b>                  | taxable to retiree  | First 10k not taxable to retiree  | taxable to retiree  | taxable to retiree  |
| <b>Tax Issues for Beneficiary</b>                | death benefit not taxable   | death benefit not taxable   | no death benefit  | death benefit not taxable   |
| <b>Current Liability</b>                         | \$ 3,790,381  | \$ 3,790,381  | \$ 3,790,381  | \$ 3,790,381  |
| <b>New Liability to London Hydro<sup>2</sup></b> | \$ 3,790,381  | \$ 3,647,695  | \$ -  | \$ -  |
| <b>Risks</b>                                     | increasing premium costs<br>increasing taxable benefit to retiree<br>reduced desirability to insurers<br>liability of \$3.8 million | lowers annual term premiums 26.1%<br>remaining term premium increasing cost<br>increasing tax benefit to retiree on those<br>no significant change to liability | benefit eliminated<br>could be viewed as a "take away"<br>higher taxable income to retiree<br>eliminates accounting liability | all premiums paid (no more in future)<br>current plan design maintained<br>higher taxable benefit to retiree<br>eliminates accounting liability |

<sup>1</sup>London Hydro Self-Insured annual costs are the estimated death benefit payables in a given year<sup>2</sup>New Liability to London Hydro assumes 100% uptake of the Voluntary Buy-Out

## APPENDIX E

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### Disclaimers

This report uses data and/or documentation that have been supplied to us by or on behalf of the client. We have not independently verified the accuracy or completeness of it except to the extent required by generally accepted professional standards and practices. Mercer will not be held responsible for any liability arising from the use of incomplete, inaccurate or not up-to-date data or documentation.

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TALENT • HEALTH • RETIREMENT • INVESTMENTS

# **MERCER QUICK POLL**

## **POST-RETIREMENT TRENDS 2011**

12 OCTOBER 2012

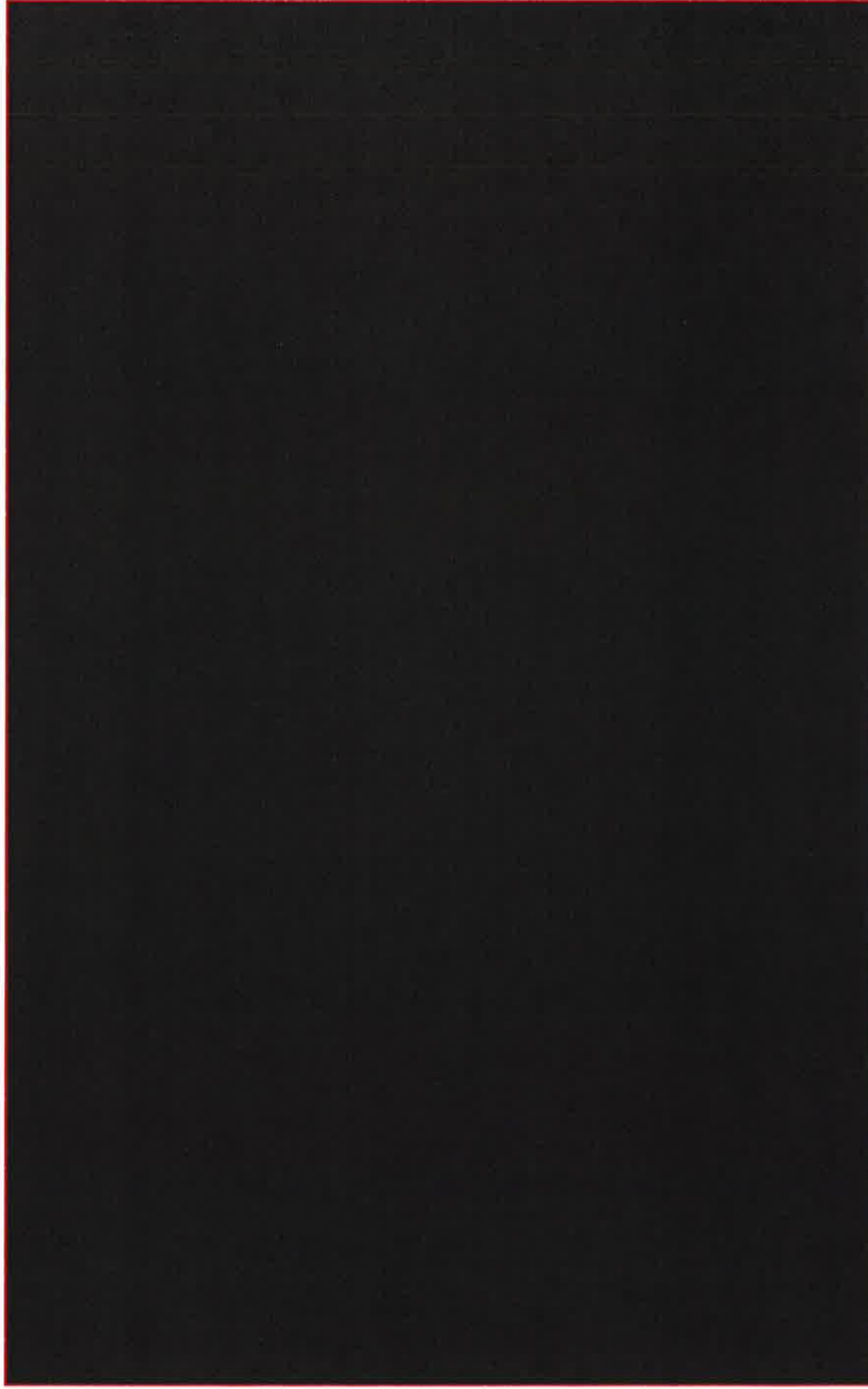


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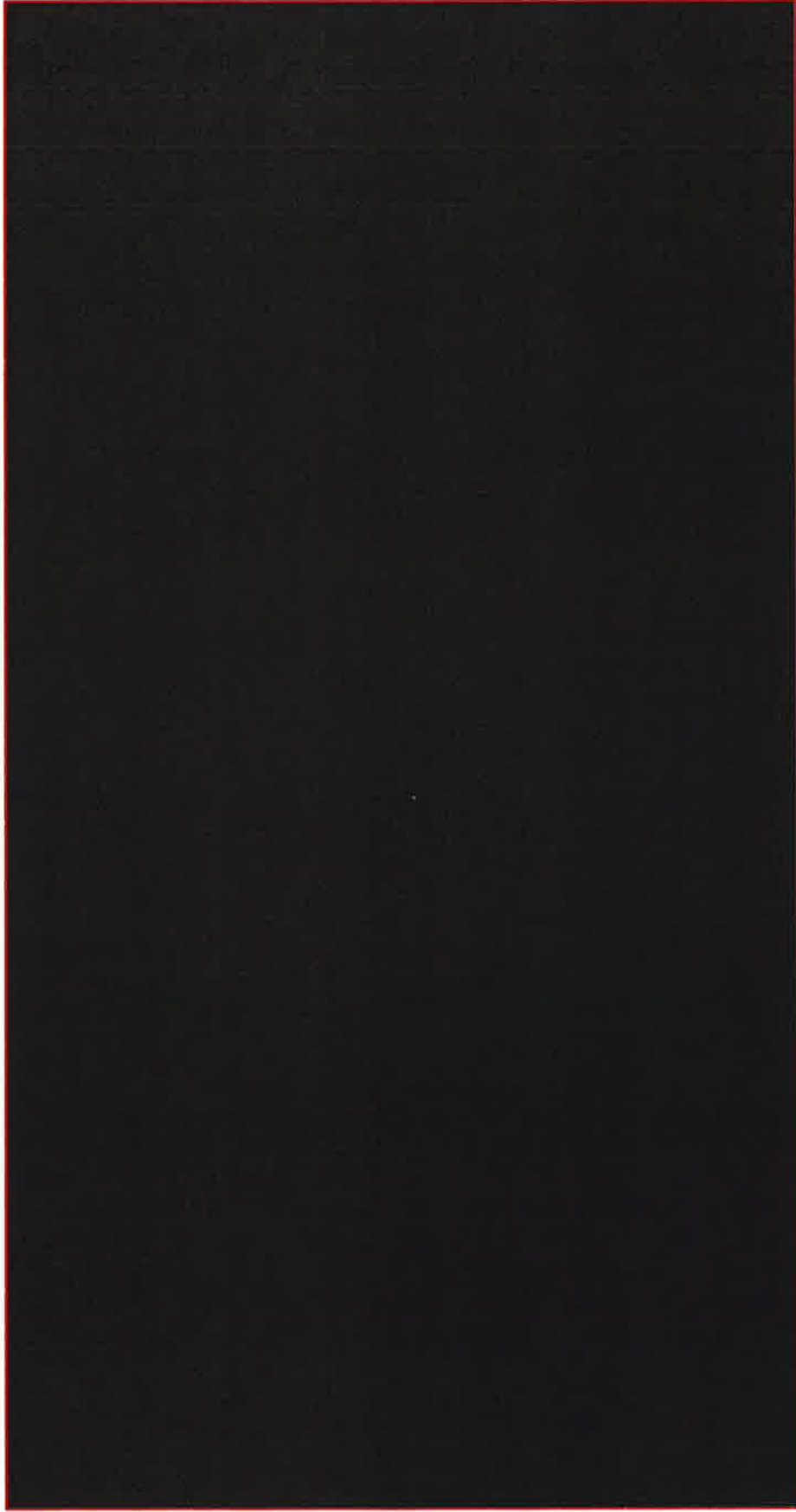
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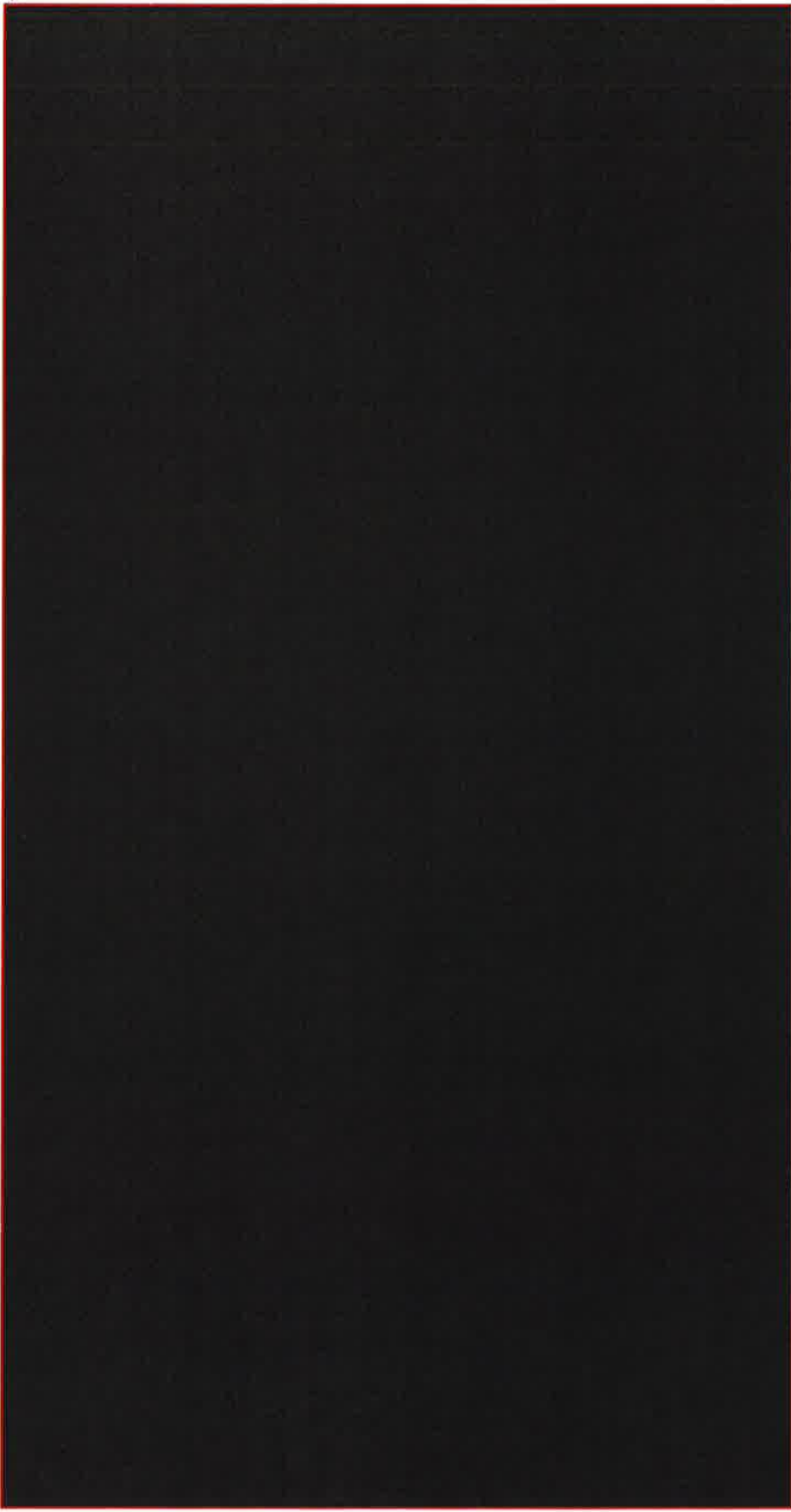




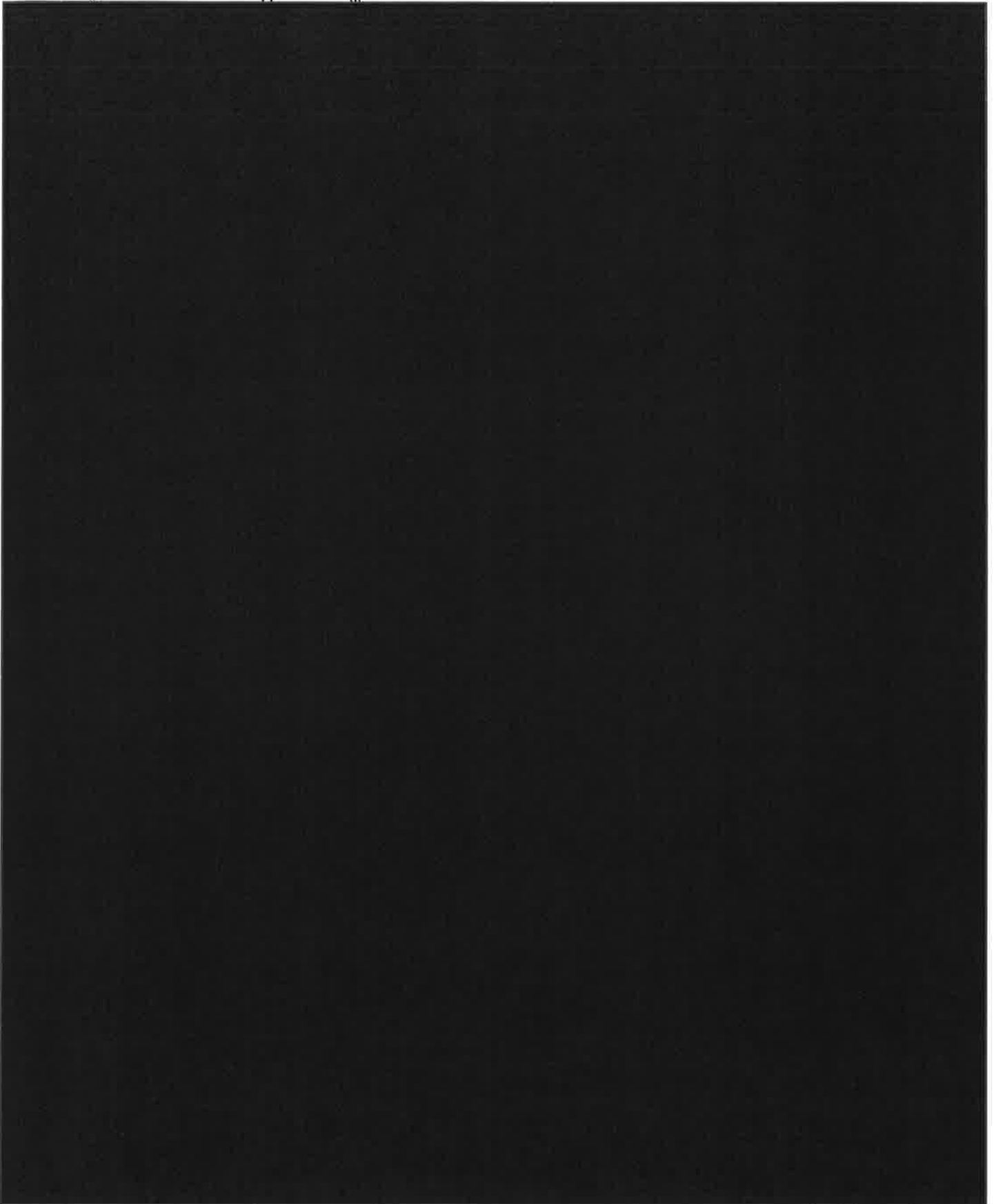




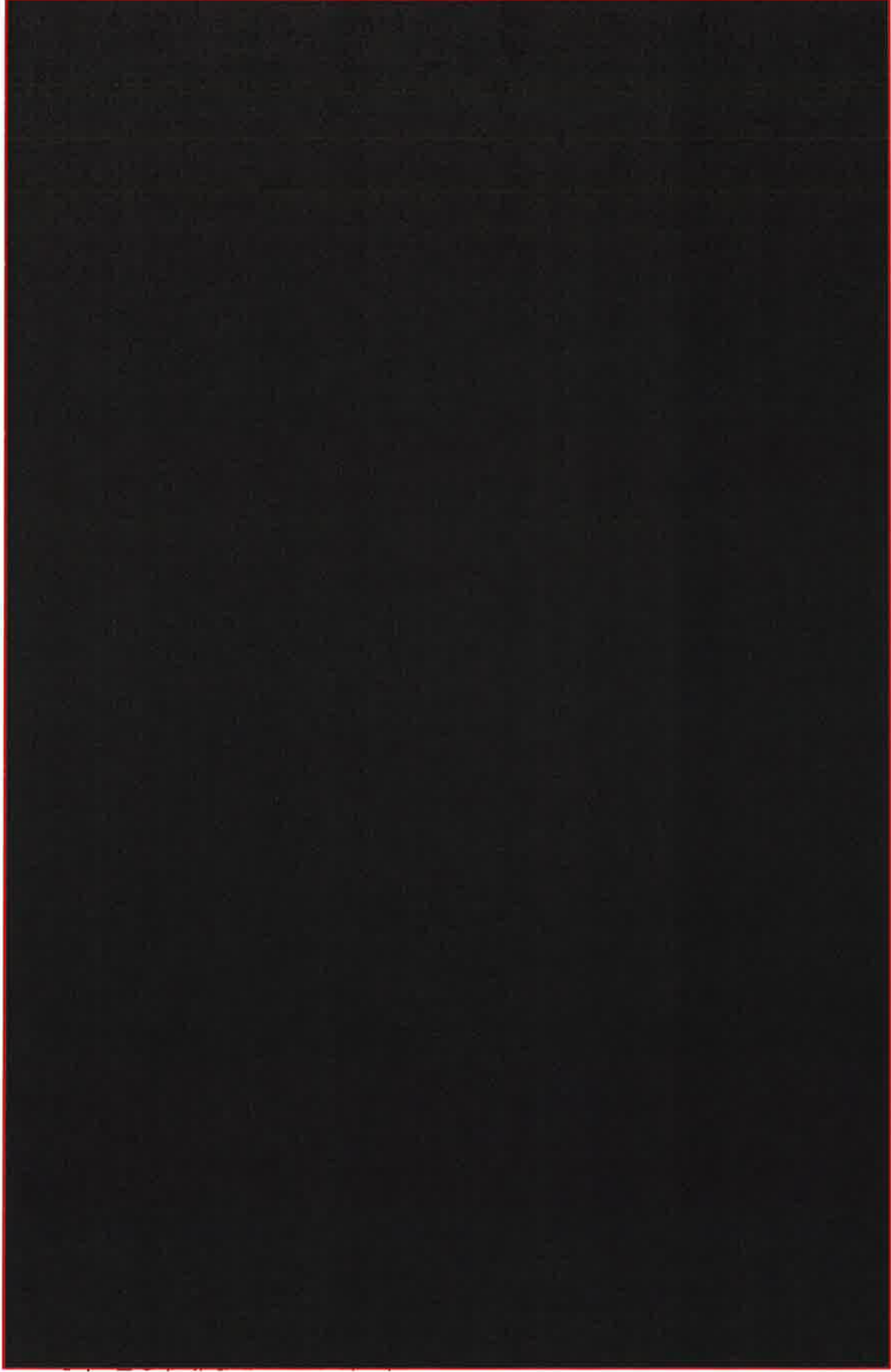
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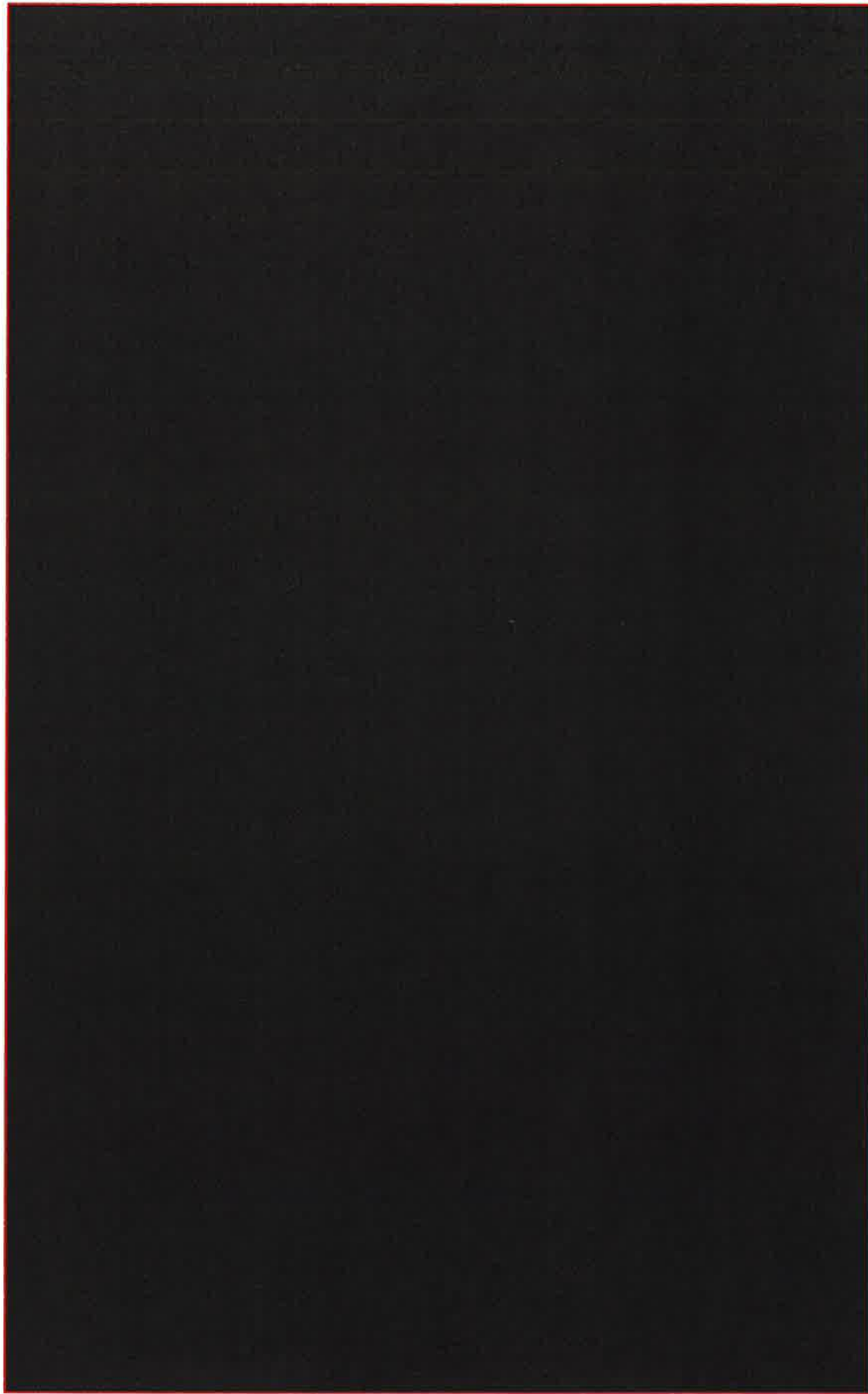












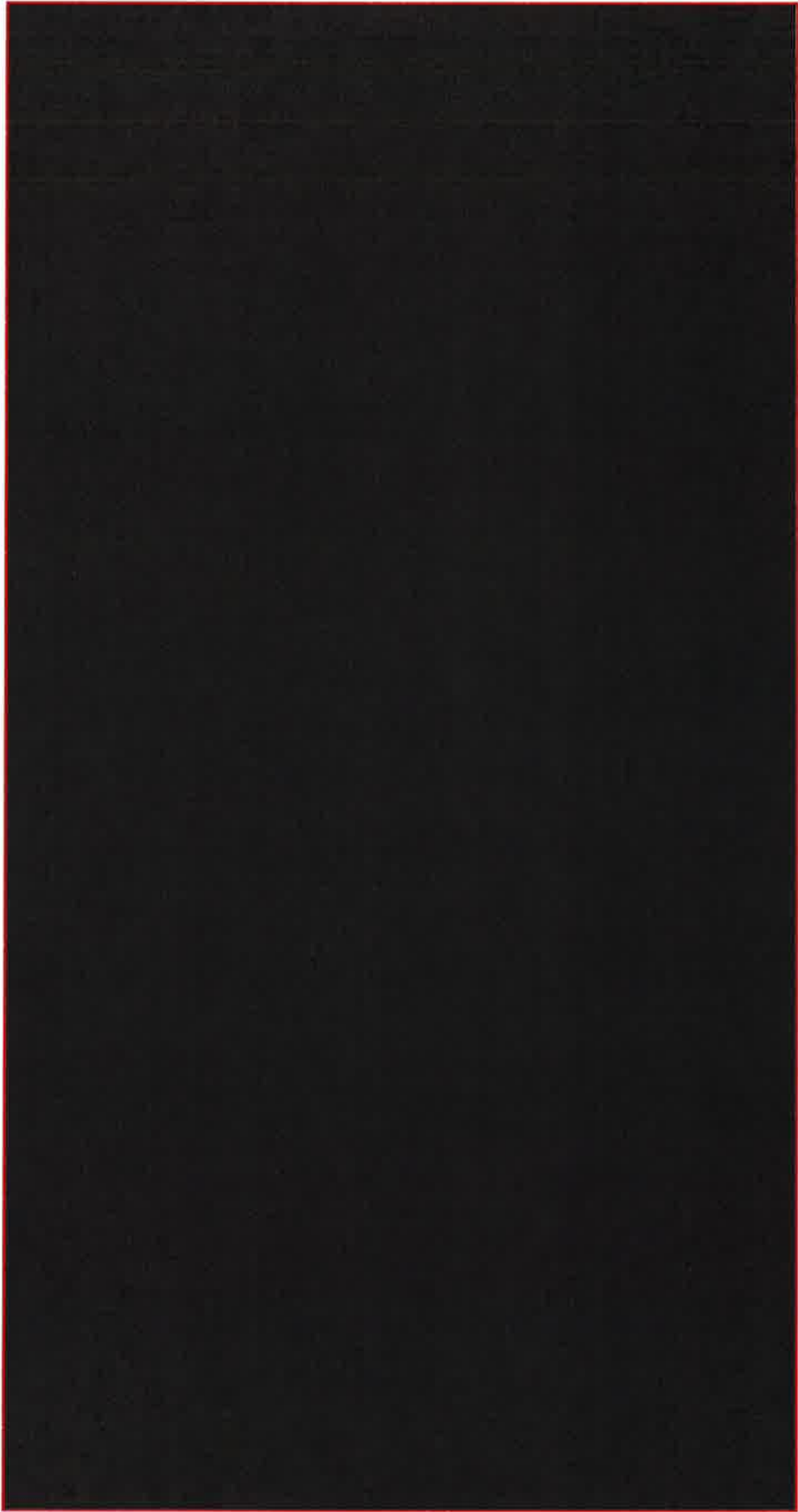
















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