# 2013 | ANNUAL REPORT

AUDITORS' REPORT

ACTUARIAL VALUATION REPORT

ANNUAL FINANCIAL STATEMENTS

HEALTHCARE BENEFIT TRUST

HBT

BENEFIT FROM EXPERIENCE

# Contents

# Message from the Chair

As Chair of HBT's Board for the past five years, it has been a pleasure and privilege to work with fellow HBT Trustees as well as the Chair of HEABC. The Trust continues to have the support, expertise and vision of a strong and committed Board and we continue to apply leading governance practices and organizational transparency in our decision making. I would like to acknowledge the Trustees for their oversight and guidance through yet another year of significant change and positive results.

HBT's mandate is to ensure beneficiaries receive benefits in accordance with negotiated provisions and plan design, and to administer benefits in a cost-effective, efficient and market competitive manner. We have set our goal to be the "partner of choice" for providing health and welfare benefits to the Health and Community sectors in British Columbia.

In 2013, the Board initiated a full strategic review of the HBT business model, its services, operations and future opportunities to leverage the expertise and infrastructure of its service providers and business partners. Several key initiatives recommended by Management in support of further savings, innovation and outsourcing were approved, with the outcomes to be implemented over the following year. I commend the employees of HBT, who remained focused amidst the planning for an organizational re-structure and in stride with the arrival of a new CEO, Donnie Wing, in the Fall of 2013.

HBT finished 2013 in a very solid financial position and overall was funded at 105 percent. The Trust's financial position has improved since 2009. This performance has been driven by strong investment returns, effective management of administration costs, and most importantly stability in long term disability claims experience.

Looking ahead, we see the arrival of the Joint Trusts fundamentally changing the environment we operate in and increasing the need for HBT to innovate on all levels. Our 2014-2016 Service Plan aligns with this intent while ensuring the financial sustainability of the Trust. As well, it is certain with the ground work laid in 2013, HBT will be very focused on the development and implementation of a flexible service platform that meets the distinct needs of each client group, as well as the whole sector in the year ahead.

We continue to ensure the beneficiaries are well served and continue to build relations with our clients and stakeholders. With over 30 years of service and administration experience as a benefits provider, it is my view that HBT is uniquely positioned to support all its customers.

There are exciting times ahead. I look forward to the next few years of change with optimism.

Ed Robinson
Chair, Board of Trustees
Healthcare Benefit Trust

# Message from the Chief Executive Officer

I am pleased to present the 2013 Annual Report for the Healthcare Benefit Trust (HBT) and to report positive financial performance of the Trust in 2013. On a consolidated basis, the Trust is fully funded, at 105 percent as of December 31, 2013.

Overall financial health and performance of the Trust is driven by four key elements including: investment returns, contribution rates, claims experience and operational efficiency. In 2013, a combination of significant investment returns, better than expected experience on Long Term Disability (LTD) and Extended Health & Dental claims, and administration efficiencies resulted in a significant improvement in the financial position of the Trust. An overview of these and other important aspects of Trust performance are described below.

**Asset Management and Investment Performance**

Our investments have performed above expectations with an overall annual rate of return of 14.9 percent net of fees. Regarding asset mix and allocation decisions, we continue to work closely with the Trust's investment manager, British Columbia Investment Management Corporation (bcIMC) to ensure that we get the best investment performance possible given the current global capital markets.

**LTD Claims Experience**

After several years of improving LTD experience there was a slow but steady increase in LTD claims experience in 2013, resulting in a total of 6,481 open claims, a 2.3 percent increase over 2012. In 2013 there were 1,429 claims terminations representing a 5.3 percent decrease compared to 2012. Even with those changes, 2013 year end claims experience was better than expected.

**Extended Health & Dental, Group Life and Accidental Death & Dismemberment Claims Experience**

Extended Health & Dental, Group Life and Accidental Death & Dismemberment contributions exceeded claims payments to members for 2013. Significant bargained changes to plans with the inclusion of a Pharmacare Tie-in significantly impacted performance.

**Contribution Rates**

Contribution rates reduced for the Trust as a whole by 4.81 percent in 2014 driven by a combination of improved performance, strong investment returns and active management of claims. We anticipate a continuation of another rate reduction in 2015.

**Deficit Recovery**

Through a surcharge within the LTD contribution rates, deficits in underfunded pools within the Trust continued to reduce. For those organizations that are no longer members of HBT but have a remaining liability, we continue to work in collaboration with the BC government and those organizations to resolve outstanding debts in the most practical manner through long term payment plans.

**Operating Expense Performance**

Operating expenses increased slightly in 2013, 7.11 percent of paid claims (6.86 percent in 2012) reflecting additional expenses for claim's adjudication and administration.

**2013 Core Review of HBT Services and Operations**

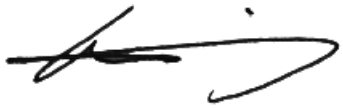
We are committed to providing the most cost-effective, self-insurance option available to administer the health and welfare benefits to all our members. In direct support of this mandate, HBT undertook a comprehensive review of its services and operations. A number of cost reduction initiatives or service delivery improvements were identified for implementation over the course of 2014 and into 2015.

Once fully implemented, the cost reduction initiatives are estimated to provide annualized net savings of 15 percent of HBT current operating costs. Two key outcomes were approved and included the outsourcing of Rehabilitation Services to Great-West Life and the consolidation of administrative processes, systems and services across internal functions, leading to a 40 percent reduction in the size of HBT management and administrative staff.

**2014-2016 Service Plan**

Looking ahead we see opportunities for HBT to better support clients and stakeholders. Though much improved over the past two years, there has been no other time in the history of the Trust when the requirement to collaborate and be innovative has been so important to our future success. We are focused on designing a more flexible service platform to meet the distinct needs of each client group, the overall sector and incoming Joint Trusts. We will continue with our transparent communication approach, strong governance of our service providers and continued development of stronger relationships with all our constituents, including unions.

I look forward to updating you on our progress in 2014. I encourage you to call and speak with me directly about Healthcare Benefit Trust, its performance in 2013 and opportunities to work together on the changing needs of the Health and Community Social Services sectors.



Donnie Wing
Chief Executive Officer
Healthcare Benefit Trust

Financial Statements
(Expressed in thousands of dollars)

# HEALTHCARE BENEFIT TRUST

Year ended December 31, 2013

**KPMG LLP**
**Chartered Accountants**
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Healthcare Benefit Trust

We have audited the accompanying financial statements of Healthcare Benefit Trust, which comprise the statement of financial position as at December 31, 2013, the statements of changes in net assets and changes in benefit obligations for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Healthcare Benefit Trust as at December 31, 2013 and its changes in net assets and its changes in benefit obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Accountants

April 10, 2014
Vancouver, Canada

# Financial Statements

## HEALTHCARE BENEFIT TRUST

Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2013, with comparative information for 2012

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 3 | $ 26,413 | $ 18,854 |
| Investments | 4 | 1,295,725 | 1,036,965 |
| Accrued interest and other receivable | | 43 | 139 |
| Contributions receivable | | 30,897 | 35,429 |
| Underfunded actuarial benefits receivable | 5 | - | 86,499 |
| Exit levies receivable | | 16,371 | 12,958 |
| Property, equipment and intangible assets | 6 | 1,020 | 1,729 |
| | | 1,370,469 | 1,192,573 |
| **Liabilities** | | | |
| Benefits and accounts payable | | 14,209 | 15,501 |
| Overfunded actuarial benefits | 5 | 174,677 | - |
| Net assets available for benefits | | 1,181,583 | 1,177,072 |
| Plan benefit obligations | 7 | 1,125,361 | 1,153,601 |
| Economic dependence | 8 | | |
| Commitments | 9 | | |
| Surplus | | $ 56,222 | $ 23,471 |

See accompanying notes to financial statements.

Approved on behalf of the Board of Trustees:

Ed Robinson
_____ Trustee

Bob Smith
_____ Trustee

# Financial Statements

## HEALTHCARE BENEFIT TRUST

Statement of Changes in Net Assets
(Expressed in thousands of dollars)

Year ended December 31, 2013, with comparative information for 2012

| | Note | 2013 | 2012 |
|---|---|---|---|
| Surplus (deficit), beginning of year | | $ 23,471 | $ (12,315) |
| Income and contributions: | | | |
| Contributions | 10 | 477,486 | 472,775 |
| Investment income | 11 | 94,640 | 31,804 |
| Changes in unrealized gain on investments | | 66,636 | 28,087 |
| Interest on underfunded actuarial benefits receivable | | 2,917 | 3,695 |
| Change in underfunded/overfunded actuarial benefits and exit levies receivable | | (213,101) | 13,698 |
| | | 428,578 | 550,059 |
| Disbursements and expenses: | | | |
| Benefits | 12 | 395,980 | 393,552 |
| Net changes in plan benefit obligations | | (28,240) | 99,550 |
| Bad debt recovery | | (60) | (5,819) |
| Operating expenses | 13 | 28,147 | 26,990 |
| | | 395,827 | 514,273 |
| Income and contributions less disbursements and expenses | | 32,751 | 35,786 |
| Surplus, end of year | | $ 56,222 | $ 23,471 |

See accompanying notes to financial statements.

# Financial Statements

## HEALTHCARE BENEFIT TRUST

Statement of Changes in Plan Benefit Obligations
(Expressed in thousands of dollars)

Year ended December 31, 2013, with comparative information for 2012

| | Note | 2013 | 2012 |
|---|---|---|---|
| Plan benefit obligations, beginning of year | | $ 1,153,601 | $ 1,054,051 |
| Changes in actuarial assumptions | | (27,842) | 44,250 |
| Interest accrued | | 53,504 | 53,430 |
| Experience gains | | (75,194) | (14,294) |
| Amendments to the Plan | | - | (12,932) |
| Benefits accrued | | 443,197 | 449,638 |
| Benefits and operating expenses paid | | (423,898) | (420,542) |
| Data changes | | 1,993 | - |
| Plan benefit obligations, end of year | 7 | $ 1,125,361 | $ 1,153,601 |

See accompanying notes to financial statements.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

### 1. Description of the Trust:

The Healthcare Benefit Trust (the Trust) was created to receive contributions forwarded by participating employers and to make investments for the purpose of funding future health and welfare benefits, excluding pension benefits, in accordance with the Healthcare Benefit Trust Plan (the Plan). The Plan provides Long-term Disability (LTD), Group Life, Dependent Life, Extended Health Care (EHC), Dental and Accidental Death & Dismemberment (AD&D) coverage. Adjudication and administration of coverage is provided through third party administrators. Participating employers' plans conform to collectively bargained benefit packages where appropriate.

The Trust was established in 1979 through the Agreement and Declaration of Trust (the Trust Agreement). The Trust Agreement describes the composition, appointment, power, function, and duties of the Board of Trustees. The Board of Trustees is responsible for the governance of the Plan.

Public healthcare services in British Columbia are provided through organizations known as Health Authorities, which are set for each of five geographic regions of the province plus one overall region. Providence Healthcare Society, a society organized for managing certain healthcare facilities, is grouped in the Health Authority category for purposes of these financial statements only. The Trust provides benefits for employees of the Health Authorities, other participating health employers (who are present or past members of the Health Employers Association of BC), community society services sector employers (who are present or past members of the Community Social Services Employers' Association) and other permitted employers.

The Trust's capital is comprised of its net assets. The Trust's objective for managing capital, including member contributions, is to ensure that the assets of the Trust are invested soundly and effectively to meet the future obligations of the Plan.

### 2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with the Canadian Accounting Standards for Pension Plans. For accounting policies that are not related to the Trust's investments or benefit obligations, the Trust has complied with International Financial Reporting Standards (IFRS). The financial statements were authorized for issue by the Board of Trustees on April 10, 2014.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**2. Significant accounting policies (continued):**

(b) Financial instruments:

*(i)* Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand, bank balances and investments in money market instruments with original maturities of three months or less.

*(ii)* Non-derivative financial instruments:

Investments are recorded at fair value and are comprised of units of pooled funds. Pooled fund units are valued based on closing net asset values at the date of the statement of net assets. Changes in fair value of investments are recognized in the statement of changes in net assets as unrealized gains or losses on investments.

Cash and cash equivalents, accrued interest and other receivables, contributions receivable, underfunded actuarial benefits receivable and exit levies receivable are classified as loans and receivables and are measured at amortized cost. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Benefits and accounts payable and overfunded actuarial benefits are classified as other financial liabilities and are measured at amortized cost.

Such assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these assets and liabilities are measured at amortized cost using the effective interest method, and, where applicable for financial assets, less any impairment losses.

At each reporting date, management considers whether there is objective evidence that its financial assets are impaired. If there is objective evidence that a loss in value has occurred, the financial asset is written down. When a subsequent event causes the amount of impairment loss to decrease in impairment loss is reversed in that period.

(c) Property, equipment, and intangible assets:

Property, equipment and intangible assets are recorded at historical cost and amortized using the straight-line method over their estimated useful lives, commencing when they are put into use, as follows:

| Asset | Estimated useful lives |
|---|---|
| Computer hardware | 3 years |
| Leasehold improvements | term of lease |
| Other property and equipment | 5 to 8 years |
| Computer software | 5 to 7 years |

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**2. Significant accounting policies (continued):**

(c) Property, equipment, and intangible assets (continued):

The Trust reviews the carrying value of property, equipment and intangible assets for impairment annually, and whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. An impairment is recognized if and to the extent the recoverable amount is less than the carrying value.

(d) Plan benefit obligations:

Liabilities are recorded for future benefit payments on claims reported prior to the fiscal year end and on claims that have been incurred prior to the fiscal year end but not reported by that time. These liabilities are actuarially determined based on historical claims experience, current and expected future rates of investment return, and the time value of money. The liabilities include a provision for the future cost of investigation and settlement of those claims incurred prior to the fiscal year end.

Changes to these liabilities based on changes to the underlying actuarial assumptions are recorded in the period during which the change is made.

The provision for Plan benefits and claims are estimates subject to variability because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Estimates may vary because of receipt of additional claim information and significant changes from historical trends in severity and/or frequency of claims.

(e) Revenue recognition:

Investment income is recognized on an accrual basis.

(f) Taxation:

The Trust is a Health and Welfare Trust, which is subject to income tax pursuant to subsections 104(2) and 122(1) of the *Income Tax Act (Canada)*. The Trust, in determining its income subject to tax, may deduct certain expenses and benefits paid, to the extent of its gross trust income. Generally, it is unlikely that the Trust will have taxable income in a taxation year as it is expected that the Trust's deductible expenses and benefits paid will far exceed its gross trust income in any given taxation year. Accordingly, the Trust does not record income taxes.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**2. Significant accounting policies (continued):**

(g) Use of estimates:

The preparation of financial statements in accordance with Canadian Accounting Standards for Pension Plans requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of income and contributions and disbursements and expenses during the reporting period. Areas of significant estimation include plan benefit obligations, which are further described in note 7. Actual results could differ from these estimates as additional information becomes available in the future.

(h) Adoption of new and amended standards:

The Trust has adopted the following new or amended standards with an initial application date of January 1, 2013:

IFRS 13 - *Fair Value Measurement:*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs.

In accordance with the transitional provisions of IFRS 13, the Trust has applied the new fair value measurement guidance prospectively. The adoption of IFRS 13 did not have any impact on Trust's reported financial results or financial position. However, there were certain new and revised disclosures as set out in note 16.

(i) Standards and interpretations issued but not yet effective:

At December 31, 2013, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these financial statements. Those which may be relevant to the Trust's financial statements are set out below:

IFRS 4 - *Insurance Contracts:*

The IASB issued a revised exposure draft proposing changes to the accounting standard for insurance contracts in June 2013. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of cash flows associated with fulfilling its insurance contracts. The implementation date for a final standard is not expected to affect the Company until 2018 at the earliest and the full impact of the changes will be evaluated after the standard is finalized.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**2. Significant accounting policies (continued):**

(i) Standards and interpretations issued but not yet effective (continued):

IFRS 9 - *Financial Instruments:*

IFRS 9, published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, *Financial Instruments: Recognition and Measurement,* deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

The mandatory effective date of IFRS 9 is currently under review by the IASB, but it is unlikely to be effective for annual periods commencing prior to January 1, 2016. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

IAS 32 - *Offsetting Financial Assets and Financial Liabilities (Amended):*

Amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014. The impact of adopting the amendments to IAS 32 is not expected to have a significant impact on these financial statements.

**3. Restricted cash:**

Included in cash and cash equivalents is restricted cash held solely for monthly benefit payments of employees under a separate agreement. Restricted cash at December 31, 2013 was $1,190,118 (2012 - $1,274,476).

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**4. Investments:**

As at December 31, the investments of the Trust were comprised as follows:

| | 2013 | 2012 |
|---|---|---|
| Pooled funds: | | |
| Canadian pooled fixed income funds | $ 572,421 | $ 539,671 |
| Canadian pooled equity funds | 203,614 | 220,353 |
| United States pooled equity fund | - | 61,471 |
| Global pooled equity fund | 517,120 | 215,470 |
| Infrastructure pooled funds | 2,653 | - |
| Foreign currency contracts | (83) | - |
| | $ 1,295,725 | $ 1,036,965 |

**5. Underfunded/overfunded actuarial benefits:**

The Trust maintains 11 notional pools, one for each of the seven Health Authorities and four Non-Health Authority Pools. Three of these non-Health Authority Pools are made up of a large number of smaller employers, which share claims experience amongst all employers in their respective pool. The Non-Health Authority Pools are:

- HEABC (present or past members of the Health Employers Association of BC);
- CSSEA (present or past members of the Community Social Services Employers' Association);
- Non-HEABC (permitted employers who are not members of an employers association); and
- Employee paid.

The Health Authorities are responsible for their own pools. Other entities are amalgamated into pools with other like agencies. As the entities are effectively self-insured through the Trust, if an underfunded actuarial liability exists, participating employers are liable for this amount. Health Authorities are invoiced annually for their share of any underfunded actuarial benefits receivable to bring them to 100% funded. The funding policy of the Trust requires that the Health Authorities make minimum monthly payments in respect of these amounts over 15 to 20 years. This policy was approved by all participating Health Authorities. If a Health Authorities' respective pool is in a surplus at year end the Trust recognizes a liability to the respective Health Authorities which is reduced over 15 to 20 years ("overfunded actuarial benefits"). Health Authorities have the option of having the liability settled net of contributions receivable or can elect not to receive a credit. Invoiced amounts are charged interest at an effective annual rate equal to the annual discount rate used for determining the actuarial liability for Plan benefit obligations.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**5. Underfunded/overfunded actuarial benefits (continued):**

The portion of the underfunded actuarial benefits not related to a Health Authority is not invoiced annually. Recovery of the liability for these groups is through deficit recovery rates applied to long-term disability contributions and through an exit levy for terminating groups. Exit levies are obligations borne by departing employers in respect of their share of any underfunded actuarial benefits that exists at the date of termination of participation in the Trust.

**6. Property, equipment and intangible assets:**

| | 2013 | 2012 |
|---|---|---|
| Property and equipment | $ 746 | $ 814 |
| Intangible assets | 274 | 915 |
| | $ 1,020 | $ 1,729 |

(a) Property and equipment:

| | Computer hardware | Leasehold improvements | Other property and equipment | Total |
|---|---|---|---|---|
| Cost: | | | | |
| Balance, December 31, 2011 | $ 2,406 | $ 747 | $ 1,168 | $ 4,321 |
| Additions | 40 | - | - | 40 |
| Disposals | - | - | - | - |
| Balance, December 31, 2012 | 2,446 | 747 | 1,168 | 4,361 |
| Additions | 159 | 29 | 18 | 206 |
| Disposals | - | - | - | - |
| Balance, December 31, 2013 | $ 2,605 | $ 776 | $ 1,186 | $ 4,567 |
| Amortization: | | | | |
| Balance, December 31, 2011 | $ 2,190 | $ 268 | $ 840 | $ 3,298 |
| Amortization | 83 | 75 | 91 | 249 |
| Disposals | - | - | - | - |
| Balance, December 31, 2012 | 2,273 | 343 | 931 | 3,547 |
| Amortization | 112 | 78 | 84 | 274 |
| Disposals | - | - | - | - |
| Balance, December 31, 2013 | $ 2,385 | $ 421 | $ 1,015 | $ 3,821 |
| Carrying amounts: | | | | |
| December 31, 2012 | $ 173 | $ 404 | $ 237 | $ 814 |
| December 31, 2013 | 220 | 355 | 171 | 746 |

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**6. Property, equipment and intangible assets (continued):**

(b) Intangible assets - software:

| | |
|---|---|
| Cost: | |
| Balance, December 31, 2011 | $ 25,518 |
| Additions | 122 |
| Balance, December 31, 2012 | 25,640 |
| Additions | 111 |
| Balance, December 31, 2013 | $ 25,751 |
| Amortization: | |
| Balance, December 31, 2011 | $ 23,980 |
| Amortization for the year | 745 |
| Balance, December 31, 2012 | 24,725 |
| Amortization for the year | 752 |
| Balance, December 31, 2013 | $ 25,477 |
| Carrying amounts: | |
| December 31, 2012 | $ 915 |
| December 31, 2013 | 274 |

**7. Actuarial liabilities for plan benefit obligations:**

| | 2013 | 2012 |
|---|---|---|
| Long-term disability: | | |
| Admitted claims | $ 895,309 | $ 884,665 |
| Incurred but not reported claims | 114,498 | 125,983 |
| Group life, accidental death and dismemberment, dental and extended healthcare: | | |
| Disabled extended healthcare | 52,782 | 78,265 |
| Disabled dental | 15,492 | 15,528 |
| Disabled group life/accidental death and dismemberment | 30,125 | 30,475 |
| Incurred but not reported claims | 17,155 | 18,685 |
| | $ 1,125,361 | $ 1,153,601 |

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**7. Actuarial liabilities for plan benefit obligations (continued):**

Actuarial liabilities represent the present value of future benefit payments payable by the Trust. The actuarial valuation is performed annually by Morneau Shepell Inc. (Morneau Shepell) and George & Bell Consulting, with the effective date being consistent with the year-end reporting date. The actuarial liabilities were determined using accepted actuarial practices in accordance with the standard of practice established by the Canadian Institute of Actuaries. Liabilities primarily cover benefits payable to claimants on LTD, including both reported and unreported claims at December 31, 2013.

In addition to LTD benefits, actuarial liabilities also provide for the following:

- Incurred but not reported claims of active employees for EHC, dental, group life and AD&D.
- Future costs for EHC, dental, group life and AD&D for existing Health Authorities' disabled claimants (collectively, disabled non-income benefits).

These liabilities are only recognized in respect of certain types of participating employees.

In determining the liabilities of the Trust, the cost of claims, future changes in claims costs, the time value of money (to discount future claims to present value) and expenses to administer the benefits, are included in the calculations. These liabilities are dependent on economic and demographic experience. To determine the liabilities, assumptions about future economic and demographic experience are necessary.

Demographic assumptions are largely derived based on past experience. Economic assumptions, on the other hand, are based more on current market conditions than experience. Demographic and economic assumptions will change over time. It is possible that such changes could cause a material change in the actuarial present value of future benefit payments.

The following long-term assumptions were used in the actuarial valuation:

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 4.8% | 4.6% |
| Expense assumption (rate varies by benefit product) | 4.0 - 13.0% | 4.0 - 15.0% |
| IBNR assumption: | | |
| Group Life | $ 1,500 | $ 1,500 |
| AD&D | $ 500 | $ 500 |
| LTD[1] | 170% | 165% |
| Dental[2] | 17 / 365 | 17 / 365 |
| EHC[3] | 38 / 365 | 39 / 365 |
| Disabled non-income benefits[1] | 170% | 165% |
| Assumed Indexing rates[4] | 2.5 or 3.5% | 3.5% |

1. Percentage of liabilities incurred in previous 12 months.
2. Fraction of payments and expenses in previous 12 months.
3. Fraction of payments and expenses in previous 3 months annualized for full year.
4. Community Social Services agreements assumed 2.5% indexed wages rate increases, all others assume 3.5%.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**7. Actuarial liabilities for plan benefit obligations (continued):**

The rate of terminations of active claims and the Canadian Pension Plan approval rate are also critical assumptions used in the actuarial valuation. Details of these assumptions are included in the Actuarial Report.

Long-term economic and actuarial assumptions and methods are reviewed periodically. Management believes that the valuation methods and assumptions are, in aggregate, appropriate for the valuation.

The actuarial valuation involves making assumptions about the future. Actuarial assumptions are approved by the Board of Trustees. The rationales for key assumptions are:

- Discount rate: this has been set equal to the Trust's best estimate of investment return of 5.8%, reduced by 1.0% to reflect the implementation of a margin for adverse deviation. The resulting assumption used was 4.8%. Should the discount rate increase or decrease by 1.0% this would impact the actuarial liability by ($67,800,000) or $60,350,000, respectively (2012 - ($62,240,000) or $69,970,000, respectively).
- Rate of terminations of active claims: a study was performed by Morneau Shepell on actual claims terminations in November 2013. The termination assumption utilizes a single termination table provided by the Canadian Institute of Actuaries (CIA) which has been modified by 54 months of the Trust's actual experience to June 30, 2013. A risk could arise that the Trust's future experience is worse than past experience.
- Canadian Pension Plan (CPP) approval rate: a study was performed by Morneau Shepell in November 2013 on actual approvals of CPP disability claims by active claimants. The resulting assumption is the best estimate without margins and incorporates actual experience to June 30, 2013. The CPP approval rate assumption is based on age and duration since disability. There is a risk that the Trust's future termination experience differs from past termination experience. To mitigate this risk, the assumption was based on a study of CPP approval rates for the Trust's block of business using data up to June 30, 2013. This assumption further assumes application for the CPP benefit on the part of claimants, which is out of the Trust's control.

The Trust accepts insurance risk through its provision of health and welfare benefits for participating employees, and is exposed to uncertainty surrounding the timing, frequency, and severity of claims. The Trust manages its insurance risk within an overall risk management framework and through annual review of contribution rates.

The Trust further reduces exposure to insurance risk through stop loss insurance in respect of its dental, EHC and group life products. The Trust pays stop loss insurance to the third party administrators to cover claims costs in excess of predetermined levels each year. The stop loss insurance provides a maximum ceiling of uncertainty for incurred claims. To further tighten the insurance risk, the Trust has reinsurance in place on extended health to insure against large individual losses.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**7. Actuarial liabilities for plan benefit obligations (continued):**

There is uncertainty inherent in the estimation process. The actual amount of ultimate claims costs can only be ascertained once all claims are closed. Changes in key assumptions used to value insurance contracts would result in increases or decreases to the benefit obligations recorded, with corresponding decreases or increases, respectively to the change in net assets and deficit.

The Trust is exposed to a risk that actual claims experience will differ from the assumptions used in the rate setting process. As rates are set every year, based on the past experience and assumptions as to future events, this risk is mitigated through adjustments to the following year's rates. Any deficiencies are factored into the rate setting assumptions and will be recovered in future years. The Fund also has the ability to recover any deficit related to its plan benefit obligations. The Trust's participating employers are segregated into pools whereby each pool bears the risk of LTD claims experience. The Health Authorities are currently billed for their deficiencies in claims experience for LTD, as discussed in note 5, whereas the deficiencies incurred by the non-Health Authority employers' are recovered through deficit recoveries built into their rates. In addition, non-Health Authority employers that wish to leave the Trust are billed an exit levy that covers any deficiencies arising from excess claims experience.

The Trust is also exposed to concentration risk within its insurance activities with its operating exposure being primarily within BC and with a high percentage of participating employees working for a limited number of employers. Significant risks could potentially arise from epidemics, natural disasters and other catastrophes. However, the Trust's stop loss insurance would limit their exposure to losses that would arise from health related catastrophes.

**8. Economic dependence:**

The Trust receives approximately 87% (2012 - 86%) of its participant contributions revenue from the Health Authorities and is dependent upon the ability of the Health Authorities to meet future contribution rate payments and underfunded actuarial benefits receivable billings.

**9. Commitments:**

The Trust has entered into a lease agreement for the head office location, expiring March 2018, and the Kelowna location, expiring February 2023, covering office premises used in operations.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**9. Commitments (continued):**

The aggregate rentals and operating costs payable for the remaining terms of the leases are as follows:

| Year | Amount |
|---|---|
| 2014 | $ 869 |
| 2015 | 868 |
| 2016 | 887 |
| 2017 | 907 |
| 2018 | 306 |
| 2019 - 2023 | 289 |
| | $ 4,126 |

**10. Contributions:**

| | 2013 | 2012 |
|---|---|---|
| LTD | $ 216,529 | $ 209,027 |
| EHC | 125,794 | 129,542 |
| Dental | 123,639 | 122,956 |
| AD&D/Group Life | 11,524 | 11,250 |
| | $ 477,486 | $ 472,775 |

**11. Investment income:**

| | 2013 | 2012 |
|---|---|---|
| Interest from cash and cash equivalents | $ 310 | $ 327 |
| Income from pooled funds | 96,636 | 33,105 |
| Realized gain (loss) from foreign currency contracts | (24) | - |
| Investment expenses | (2,282) | (1,628) |
| | $ 94,640 | $ 31,804 |

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**12. Benefits paid:**

| | 2013 | 2012 |
|---|---|---|
| LTD: | | |
| Active LTD | $ 156,727 | $ 148,186 |
| Early Retirement Incentive Benefit | 4,616 | 6,282 |
| MSP | - | 1,810 |
| Internal EIP/Rehab Costs | 3,737 | 3,927 |
| GWL Rehab Costs | 1,463 | 1,177 |
| Other | 831 | 109 |
| EHC | 106,956 | 116,692 |
| Dental | 109,315 | 106,409 |
| AD&D/Group Life | 12,335 | 8,960 |
| | $ 395,980 | $ 393,552 |

**13. Operating expenses:**

| | Note | 2013 | 2012 |
|---|---|---|---|
| Staff costs | 14 | $ 7,886 | $ 8,208 |
| Trustee operations | | 300 | 222 |
| Actuarial fees | | 417 | 585 |
| Audit fees | | 106 | 83 |
| Other professional services | | 1,184 | 892 |
| Claims adjudication and administration | 14 | 15,176 | 13,842 |
| Amortization | | 1,026 | 994 |
| Office expenses | | 1,696 | 1,688 |
| Other | | 356 | 476 |
| | | $ 28,147 | $ 26,990 |

**14. Related party transactions:**

As per the Trust Agreement, the administration of the applicable health and welfare plan document requires direction from the Health Employers Association of BC. Therefore, the Health Employers Association of BC provides the Trust with administrative services in this regard at an annual cost of $10,000 (2012 - $55,595). These costs are included in claims adjudication and administration as reflected in note 13.

These transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by the related parties.

The Health Employers Association of BC appoints the trustees of the Trust.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**14. Related party transactions (continued):**

Key management personnel include senior executive officers of the Trust and members of the Board of Trustees. During the year, compensation of key management personnel, which is included in staff costs as set out in note 13, was as follows:

| | 2013 | 2012 |
|---|---|---|
| Salaries and short-term employee benefits | $ 1,484 | $ 1,338 |
| Long-term employee benefits | 141 | 144 |
| | $ 1,625 | $ 1,482 |

Short-term employee benefits include: EHC, dental, and MSP. Long-term employee benefits include: group life, LTD, AD&D, and dependent life and contributions to a post-employment defined benefit plan.

**15. Employee benefit plans:**

The Trust and its employees contribute to the Municipal Pension Plan (the MPP), a jointly trusteed pension plan. A Board of Trustees of the MPP, representing plan members and employers, is responsible for overseeing the management of the MPP, including investment of the assets and administration of the benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The MPP has over 440,000 active members and retired plan members and more than 900 plan employers.

Every three years an actuarial valuation is performed to assess the financial position of the MPP and the adequacy of plan funding. The most recent valuation available as at the date of this report was December 31, 2012. The MPP's actuary does not attribute portions of the unfunded liability to individual employers. The Trust paid $538,205 for employer contributions to the MPP in the year ended December 31, 2013 (2012 - $540,671).

In addition, the Trust itself is a participating employer in Healthcare Benefit Trust and its employees are covered for long-term disability and group life claims on the same basis as employees of other participating non-Health Authority employers. The Trust expensed $205,000 for employer contributions for these non-pension benefits in the year ended December 31, 2013 (2012 - $196,000).

**16. Fair value of financial instruments:**

The Trust's financial instruments consist of cash and cash equivalents, investments, accrued interest and other receivables, contributions receivable, underfunded/overfunded actuarial benefits, exit levies receivable and benefits and accounts payable.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**16. Fair value of financial instruments (continued):**

The fair value of a financial instrument is the estimated amount that the Trust would receive or pay to settle a financial asset or financial liability as at the reporting date. Investments are carried at fair value in the financial statements. The carrying value of cash and cash equivalents, accrued interest and other receivables, contributions receivable, exit levies receivables and benefits and accounts payable approximates fair value due to their short-term to maturity. The fair value of the underfunded actuarial benefits receivable is considered by management to equal to its carrying value as the interest charged against outstanding amounts is periodically adjusted to market rates.

The Trust has categorized the inputs used to value its financial instruments held at fair value into a three-tier fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets (Level 1).
- Inputs other than quoted prices included in Level 1 that are observable either directly (i.e., prices) or indirectly (i.e., derived from prices) (Level 2).
- Inputs that are not based on observable market data (unobservable inputs) (Level 3).

| | Valuation technique | | | |
|---|---|---|---|---|
| December 31, 2013 | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Canadian pooled fixed income funds | $ - | $ 572,421 | $ - | $ 572,421 |
| Canadian pooled equity funds | - | 203,614 | - | 203,614 |
| Global pooled equity funds | - | 517,120 | - | 517,120 |
| Infrastructure pooled funds | - | - | 2,653 | 2,653 |
| Foreign currency contracts | - | (83) | - | (83) |
| | $ - | $ 1,293,072 | $ 2,653 | $ 1,295,725 |

| | Valuation technique | | | |
|---|---|---|---|---|
| December 31, 2012 | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Canadian pooled fixed income funds | $ - | $ 539,671 | $ - | $ 539,671 |
| Canadian pooled equity funds | - | 220,353 | - | 220,353 |
| United States pooled equity fund | - | 61,471 | - | 61,471 |
| Global pooled equity fund | - | 215,470 | - | 215,470 |
| | $ - | $ 1,036,965 | $ - | $ 1,036,965 |

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**16. Fair value of financial instruments (continued):**

There were no transfers into or out of Level 1 or 2 during the years ended December 31, 2013 and 2012.

The following table reconciles the Plan's Level 3 fair value measurements:

| | |
|---|---|
| Opening balance, January 1, 2013 | $ - |
| Purchases | 2,568 |
| Realized gain | - |
| Unrealized gain | 85 |
| Closing balance, December 31, 2013 | $ 2,653 |

Level 3 investments are comprised of private market infrastructure investments owned indirectly through a Fund. Infrastructure investments are valued annually in accordance with the valuation policies established by the managers, and according to standard industry practices. The change in unrealized gain recognized in the Trust's statement of changes in net assets related to Level 3 investments is $85,000 (2012 - nil).

The Trust's other financial assets and liabilities, which are measured at amortized cost, are considered Level 2 because while observable prices are available, the instruments are not traded in an active market.

**17. Financial risk management:**

The Trust has exposure to financial risks associated with its financial instruments and benefit obligations. Analysis of sensitivity to specified risks is provided where there may be an effect on the financial position. These financial risks include credit risk, liquidity risk and market risks (currency, interest rate and other price risk). Sensitivity analysis is performed by relating the reasonably possible changes in the risk variables at December 31, 2013 to financial instruments outstanding on that date.

(a) Credit risk:

The Trust is exposed to credit risk resulting from:

- The possibility that parties may default on their financial obligations;
- If there is a concentration of transactions carried out with the same party; and
- If there is a concentration of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Trust does not directly hold any collateral as security for financial obligations.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**17. Financial risk management (continued):**

a) Credit risk (continued):

The maximum exposure of the Trust to credit risk at December 31 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Cash and cash equivalents | $ 26,413 | $ 18,854 |
| Investments (fixed income) | 572,516 | 539,671 |
| Accrued interest and other receivables | 43 | 139 |
| Contributions receivable | 30,897 | 35,429 |
| Underfunded actuarial benefit receivable | - | 86,499 |
| Exit levy receivable | 16,371 | 12,958 |
| | $ 646,240 | $ 693,550 |

*Cash and investments:*

Credit risk associated with cash and cash equivalents and fixed income investments is minimized substantially by ensuring that these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other creditworthy parties. The Trust's investment policy requires that a majority of fixed income investments are rated BBB or better. The Trust's investments in pooled fixed income funds are similar to equity instruments. While the Trust has no direct credit risk arising from its investments in pooled fixed income funds, the Trust is exposed to the credit risks of these funds' underlying investments. The manager of these funds ensures that the investments of these funds meet the Trust's investment policy.

*Contributions and other receivables:*

The Trustees believe credit risk with respect to receivables is limited due to the credit quality of the parties extended credit. Credit risk associated with amounts receivable from the Health Authorities, which represent the Trust's largest receivables, is minimal as the Health Authorities form part of the government reporting entity of the Province of British Columbia.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**17. Financial risk management (continued):**

(a) Credit risk (continued):

*Contributions and other receivables (continued):*

The Trust maintains allowances for potential credit losses, and any such losses to date have been within the Trustees' expectations. The following table presents an analysis of the age of amounts outstanding at the year-end in respect of accrued interest and other receivables, contributions receivable, underfunded actuarial liabilities benefits receivable and exit levy receivable net of allowances for doubtful accounts:

| | 2013 | 2012 |
|---|---|---|
| Current | $ 29,592 | $ 56,375 |
| 30 - 60 days past billing date | 344 | 431 |
| 61 - 90 days past billing date | 234 | 280 |
| Greater than 90 days past billing date | 18,357 | 79,258 |
| | 48,527 | 136,344 |
| Allowance for doubtful accounts | (1,216) | (1,319) |
| | $ 47,311 | $ 135,025 |

Included in the greater than 90 days past billing date are the underfunded actuarial benefits receivables (UAL) billed to the Health Authorities in May of each year. The full value of the UAL is invoiced, however only the amortized portion over 15 to 20 years is due each month.

The Trust must make estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information, reasons for the accounts being past due and line of business from which the receivable arose are all considered in the determination of when to allow for past due accounts; the same factors are considered when determining whether to write off amounts receivable as a charge to the allowance account. The following table presents a summary of the activity related to the Trust's allowances for doubtful accounts.

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of year | $ 1,319 | $ 7,139 |
| Receivables written off during the year as uncollectible | (212) | (316) |
| Changes to the provision, net of recoveries | 109 | (5,504) |
| Balance, end of year | $ 1,216 | $ 1,319 |

In addition, in 2013, $43,000 of contributions receivable were written off, for which no provision had been set up previously (2012 - $1,000).

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**17. Financial risk management (continued):**

(b) Liquidity risk:

Liquidity risk is the risk that the Trust will not be able to meet its obligations as they come due.

The Trust meets its liquidity requirements by holding assets that can be readily converted into cash and preparing annual cash flow budgets, including capital expenditure budgets, which are monitored and updated as required.

(c) Market risks:

The Trust is exposed to market risks through the fluctuation of financial instrument fair values or cash flows due to changes in market factors. The significant market risks to which the Trust is exposed are interest rate risk, currency risk, and other price risk.

*(i)* Interest rate risk:

Interest rate risk refers to the risk that the fair value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in market interest rates.

The interest rate exposure of the Trust arises from its interest bearing assets and its fixed income investments including bonds and mortgages.

The Trust's cash includes amounts on deposit with financial institutions that earn interest at market rates. The Trust manages its exposure to the interest rate risk of its cash by maximizing the interest income earned on excess funds while maintaining sufficient liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash do not have a significant impact on the Trust's results of operations.

The primary objective of the Trust with respect to its investments in fixed income investments is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory investment return. Maturity position - December 31, 2013:

| | Demand | Less than twelve months | One to five years | Over five years | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 26,413 | $ - | $ - | $ - | $ 26,413 |
| Pooled fixed income funds underlying investments | - | 34,169 | 256,096 | 282,251 | 572,516 |
| | $ 26,413 | $ 34,169 | $ 256,096 | $ 282,251 | $ 598,929 |

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**17. Financial risk management (continued):**

(c) Market risks (continued):

*(i)* Interest rate risk (continued):

Maturity position - December 31, 2012:

| | Demand | Less than twelve months | One to five years | Over five years | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 18,854 | $ - | $ - | $ - | $ 18,854 |
| Pooled fixed income funds underlying investments | - | 1,792 | 202,178 | 335,701 | 539,671 |
| | $ 18,854 | $ 1,792 | $ 202,178 | $ 335,701 | $ 558,525 |

The weighted average yield of these financial instruments is 2.67% at December 31, 2013 (2012 - 2.46%). The weighted average term to maturity of interest bearing investments is 98 months (2012 - 114 months). Should prevailing market interest rates increase or decrease by 2%, with all other variables held constant, this would decrease or increase, respectively, the December 31 carrying value of the Trust's investments by ($83,413,225) or $ 99,717,983 (2012 - ($90,543,000) or $111,148,000).

*(ii)* Currency risk:

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

The functional currency of the Trust is the Canadian dollar. The Trust infrequently transacts in U.S. dollars due to certain operating costs being denominated in U.S. dollars.

At December 31, 2013, the Trust had $517,881,000 (2012 - $270,918,000) of investments denominated in foreign currencies. If the Canadian dollar had appreciated or depreciated by 2% against the underlying foreign currencies of these investments at that date, with all other variables held constant, the fair value of the investments would have decreased or increased, respectively, by $10,358,000 (2012 - $5,418,000).

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**17. Financial risk management (continued):**

(c) Market risks (continued):

*(ii)* Currency risk (continued):

The underlying foreign currencies in which investments are denominated are:

| | 2013 | 2012 |
|---|---|---|
| United States | $ 281,309 | $ 175,972 |
| Japan | 45,037 | 21,440 |
| European Union | 74,332 | 20,076 |
| Switzerland | 20,211 | 15,003 |
| United Kingdom | 48,188 | 13,106 |
| Hong Kong | 9,024 | 8,264 |
| Singapore | 3,612 | 7,010 |
| China | 120 | - |
| Other | 36,048 | 10,047 |
| | $ 517,881 | $ 270,918 |

*(iii)* Other price risk:

Other price risk refers to the risk that the fair value of financial instruments or cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Trust is exposed to other price risk through its investment in equities and private markets.

The long term investment policy provides for an asset mix at the end of 2013 of 45.5% fixed income investments, 45% equities, and 9.5% private market investments (2012 - 55% fixed income investments and 45% equities). Risk and volatility of investment returns are mitigated through diversification of investments in different countries, business sectors, and corporation sizes.

At December 31, 2013, the Trust's total investments exposed to other price risk is $723,292,000 (2012 - $497,294,000) and excludes pooled fixed income funds, which are otherwise subject to interest rate risk. The Trustee's best estimate of the effect on net assets as at December 31, 2013, of a reasonably possible increase or decrease of 10% in the equity and private markets, with all other variables held constant, would amount to an increase or decrease of approximately $72,329,200 (2012 - $49,729,000), respectively. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

## HEALTHCARE BENEFIT TRUST

Notes to Financial Statements
(Tabular amounts, excluding percentages, expressed in thousands of dollars)

Year ended December 31, 2013

**17. Financial risk management (continued):**

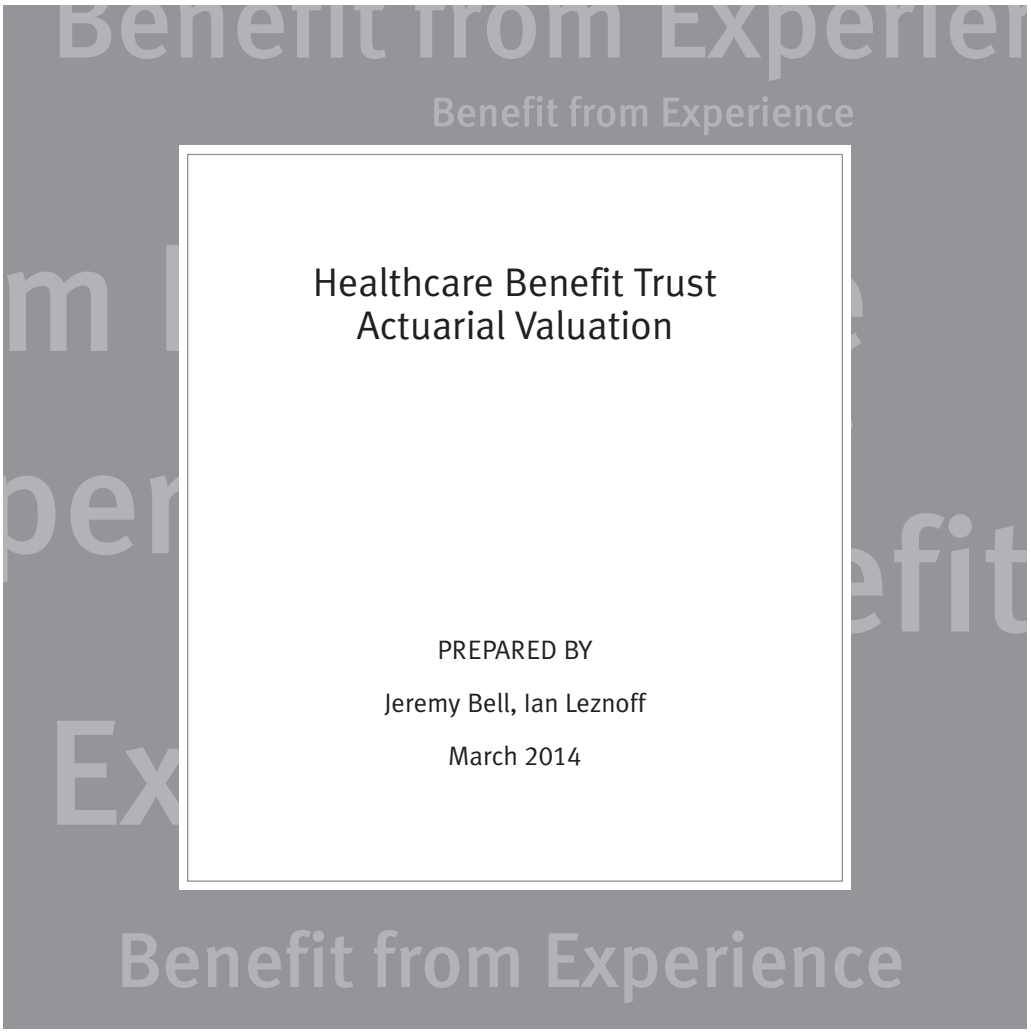
(d) Sensitivity analyses:

The sensitivity analyses included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may either magnify or counteract the effect on the fair value of the financial instrument.

HEALTHCARE BENEFIT TRUST

HBT

BENEFIT FROM EXPERIENCE

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## Table of Contents

## EXECUTIVE SUMMARY

This report represents the results of the actuarial valuation of the Healthcare Benefit Trust (the "Trust"), as of December 31, 2013. The next calculation date is set to be March 31, 2014.

The principal purposes of this report are:

- To provide a summary of the results of the actuarial valuation of the Trust's financial position to the Trustees, and
- To review the financial experience of the Trust in the year ending December 31, 2013.

References to assets, deficits or funded positions in this report exclude future contributions to relieve past deficits.

**Financial Position of the Trust**

The financial position of the Trust has improved since December 31, 2012. At December 31, 2012, the Trust's liabilities exceeded assets by $75,986,000. At December 31, 2013, the Trust's assets exceeded liabilities by $214,500,000. This represents an improvement in the funding position of $290,500,000 over the year.

The major reasons for this improvement were:

- Investment performance for the twelve months ending December 31, 2013 was good. The net investment return was 14.3% versus last year's discount rate assumption of 4.6%. *This resulted in a gain of $109 million*.
- Significant special payments to relieve deficits made during the twelve month period. *These amounted to an approximate $82 million gain in the period.*
- Contributions for active extended health, dental, life and accidental death and dismemberment exceeded claims, expenses and changes in reserves over the period. *This resulted in a gain of $35 million*.

- The CPP approval rate assumption was changed based on a study of HBT's block of business. *This resulted in a gain of $24 million.*
- Contributions for disabled extended health, dental, life and accidental death and dismemberment exceeded claims, expenses and changes in reserves over the period. *This resulted in a gain of $18 million.*
- Wage rate increase assumptions were replaced with bargained wage rate increases where known and CPP thresholds were updated. *This resulted in a gain of $15 million.*
- Reserves for claimants from the December 31, 2012 valuation are lower now than they were expected to be at the time. The primary reason was termination and demographic experience. At December 31, 2012, there were 6,336 active claimants in the valuation with a total net monthly benefit entitlement of $11,928,000[1]. At the time, the valuation projected that 5,297 of these would still be on claim at December 31, 2013 with a total net monthly benefit of $9,823,000. Only 5,256 of these remain at December 31, 2013 with a net monthly benefit of $9,551,000[2]. *This gain was approximately $16 million over the period.* $2 million of this gain was due to 57 claimants that participated in the ERIB program net of lump sum payments.
- The discount rate assumption was changed from 4.6% to 4.8% (both assumptions include a 1.0% margin). *This resulted in a gain of $13 million.*

[1]Including deemed CPP offsets and deemed indexing adjustments

[2]Including deemed CPP offsets and deemed indexing adjustments

Major items offsetting this improvement were the following:

- The termination assumption was changed based on recent experience. *This resulted in a loss of $9 million*.
- New claims have been higher than expected. Contributions for current coverage are collected to fund benefits for new claimants and changes in reserve for claims incurred but not yet reported. New claimants have arrived with higher frequency than anticipated. This has been offset partially as liabilities for claims incurred but not yet reported decreased over the twelve month period. *The result of these two factors was an approximate loss of $8 million*.

The remainder of this report covers:

- Data and assumptions underlying this report
- Financial position as at December 31, 2013
- Analysis of change in financial position
- Actuaries' Opinions

In addition, data, plan details and valuation assumptions are covered in the attached appendices.

## SECTION 1 – DATA, PLAN PROVISIONS AND ASSUMPTIONS

This section discusses the data, plan provisions and assumptions applied in performing the actuarial valuation. More detail is provided in the attached appendices.

**Data**

Data for this valuation was provided by the Trust.

*LTD Claimant Data*

Great-West Life provides the Trust with LTD Claimant information. For the valuation data, the Trust's Benefits, Design and Reporting Department reviewed and revised the raw claims data from their system. The Trust performs a series of tests on the valuation data prior to providing it to us to ensure that it is reasonable, complete and accurate for the purposes of our valuation.

In addition, certain claims had outstanding indexing to be applied as at December 31, 2013. We identified these claims and calculated an adjustment to the benefit entitlement.

*Other Claims Data*

Aside from LTD, the actuarial valuation does not require individual claim data to perform the valuation. Reserves held are based on either the aggregate payments in recent periods – for extended health and dental – or are held constant – for life and accidental death and dismemberment.

Aggregate claims data is collected from the Trust's Financial Services Department where checks and validation occur on receipt. The data is provided to the Financial Services Department by Pacific Blue Cross and Great-West Life, depending on benefit type. In this valuation, we rely on this data.

*Asset Data*

In performing this valuation, we use asset data and financial statements provided to us by the Trust's Financial Services Department. The calculation of the asset position of the Trust within this report is detailed in Appendix B.

Key Data is summarized in the attached Appendix A.

**Plan Provisions**

The plan provisions are varied, with different provisions by labour agreement and employer group.

For most of the LTD plans, the key provisions are:

- There is a 4, 5 or 6 month qualification period depending on agreement (must be disabled 4, 5 or 6 months before LTD benefits commence);
- Benefits are 70% of earnings up to a specified amount and 50% of the excess earnings, subject to a minimum of 66 2/3% of earnings;
- Benefits are offset by CPP, WCB, and rehabilitation earnings;
- For disabilities occurring after April 1998, benefits are indexed on the quadrennial anniversaries of the commencement of benefits. Indexing is done according to the collectively bargained wage increases for the particular union agreement (when indexing is calculated the CPP offset is revised to the current CPP benefit); and
- The definition of disability typically changes from own occupation to any occupation at 12, 19 or 24 months depending on agreement.

Plan Provisions are summarized in Appendix C.

**Assumptions**

The assumptions underlying this report are the same as those used at the previous valuation at December 31, 2012, except:

- The Extended Health IBNR assumption has been set as 38/365ths of the annualized Extended Health payments and expenses from the previous 3 months[3]. This is based on a study of the run off of claims from Pacific Blue Cross from the previous 24 months. In the December 31, 2012 valuation this was assumed to be 39/365ths of the Extended Health payments and expenses from the previous 12 months.

- A termination study based on the experience over the 54 month period ending June 30, 2013 was performed. The termination assumption for the December 31, 2013 valuation is based upon this study, which is, in general, more conservative than the termination assumption used in the December 31, 2012 valuation. A comparison of the current assumption to the December 31, 2012 assumption can be seen in Appendix D.

- For claims that are indexed to wage rate increases, these increases are assumed to be 3.5% per annum for all non-Community Social Services agreements, except where negotiated wage rates are known. For Community Social Services agreements, these increases are assumed to be 2.5% per annum, except where negotiated wage rates are known. Where negotiated wage rates are known, these negotiated wage rates apply. The assumptions of 3.5% and 2.5% include a 1.0% margin. This is based on input from bargaining agents for the collectively bargained agreements that incorporate wage rate indexing. In the December 31, 2012 valuation there was a 1.0% margin and wages were assumed to increase at 3.5% per annum from April 1, 2013 and for prior years where the wage increases were unknown.

[3]The previous 3 months of experience was used at December 31, 2013 because plan design changes in 2013 decreased extended health claims considerably during 2013. The previous 3 months of experience was considered to be more indicative of incurred but not reported claims at year end.

- The discount rate assumption in the December 31, 2013 valuation has been set at 4.8% (except non-taxable claims which are valued using an annual discount rate of 3.8%). The best estimate return after fees is expected to be 5.8%. A resulting 1.0% margin has been applied to the assumption in arriving at the 4.8% discount rate. In the December 31, 2012 valuation a discount rate of 4.6% was used for all claims (except non-taxable claims which were valued using an annual discount rate of 3.6%), which included a 1.0% margin.

- The LTD Disability IBNR is assumed to be 170% of active liabilities reported in the previous 12 month period. In the December 31, 2012 valuation this was assumed to be 165% of active liabilities.

- A CPP approval rate study based on HBT's experience was performed which updated the CPP approval rate study performed for the December 31, 2012 valuation assumption. As a result of this updated study, the CPP approval assumption was changed at December 31, 2013. A comparison of the current assumption to the December 31, 2012 assumption can be seen in Appendix D.

- Extended Health costs for disabled employees are assumed to increase by 7.0% in the first year. Further increases will decrease by 0.5% until reaching the ultimate increase rate of 5.0% per annum. This increase is based on the 2013 Morneau Shepell survey of economic assumptions. In the December 31, 2012 valuation extended health costs for disabled employees were assumed to increase by 8.0% in the first year and decreasing by 0.5% per year until reaching the ultimate increase rate of 5.0% per annum.

- The assumption for future expenses as a percentage of Life claims payments has changed based on the latest expense allocation study for HBT. The assumption for the December 31, 2013 valuation is 13%, compared to 15% for the December 31, 2012 valuation.

The resulting assumptions are best estimate assumptions, not incorporating provisions for adverse deviations, with the exception of:

- The discount rate, which explicitly incorporates a 1.0% margin.
- The wage rate increase for indexed claims, which explicitly incorporates a 1.0% margin.

Assumptions are summarized in the attached Appendix D.

**Rounding**

The sum of components may not equal the total within tables due to rounding.

## SECTION 2 – FINANCIAL POSITION AT DECEMBER 31, 2013

The following table shows the financial positions of the Trust at December 31, 2013 and December 31, 2012:

**Table 1**
**Trust Financial Positions ($000,000s)**

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | **$1,339.9** | **$1,077.6** |
| | | |
| Active Group Life and AD&D (IBNR) | $2.0 | $2.0 |
| Active Dental (IBNR) | $5.1 | $4.9 |
| Active Extended Health (IBNR) | $10.1 | $11.7 |
| Long-term Disability (IBNR) | $114.5 | $126.0 |
| Admitted LTD Claims (Reported) | $895.3 | $884.7 |
| Extended Health for Disabled Claimants | $52.8[4] | $78.3 |
| Dental for Disabled Claimants | $15.5 | $15.5 |
| Group Life and AD&D for Disabled Claimants | $30.1 | $30.5 |
| | | |
| **Total Liability** | **$1,125.4** | **$1,153.6** |
| | | |
| **Surplus/(Deficit)** | **$214.5** | **($76.0)** |

The financial position improved in the year ending December 31, 2013. The $76.0 million deficit at December 31, 2012 became a $214.5 million surplus at December 31, 2013. This represents an improvement of $290.5 million over the period.

[4] There was a significant gain in the reserve for extended health for disabled claims in the year, largely due to the implementation of Pharmacare Tie-in for certain collective agreements towards the middle of 2013. After reviewing expected impacts of these changes and initial claims experience, we have continued to apply the existing methodology for this reserve: projecting 12 months of claims experience net of employee contributions for the remaining claims period for disabled beneficiaries. There may be volatility, up or down, in this reserve until claims experience matures.

## SECTION 3 – ANALYSIS OF CHANGE IN FINANCIAL POSITION

As important as the financial position of the Trust is the understanding of how the financial position developed. In this section, we cover the change in financial position of the Trust. We provide detailed commentary on the Trust's financial position changes.

**Trust Analysis of Change in Financial Position**

The Trust had a deficit of $76.0 million at December 31, 2012. At December 31, 2013 the Trust had a surplus of $214.5 million. The following table reconciles the $290.5 million improvement in financial position over the period:

**Table 2**
**Trust Reconciliation of Financial Positions**

| | **$000,000s** |
|---|---|
| **Financial Position at 12.31.2012** | **($76.0)** |
| Contributions Different than Base Contributions | $81.7 |
| Interest on Funded Position | ($1.6) |
| Investment Return Different than Expected | $109.4 |
| LTD - Existing Claims (Non-ERIB Terminations) | $4.4 |
| LTD - Existing Claims (ERIB Terminations) | $2.1 |
| LTD - Existing Claims (Demographics) | $9.6 |
| LTD - New Claims | ($8.3) |
| Active EHC/Dental/Life/AD&D Experience | $34.9 |
| Disabled EHC/Dental/Life/AD&D Experience | $17.6 |
| Update to CPP thresholds / Wage Rate increases | $14.8 |
| Change in Assumptions | $27.8 |
| Data Changes | ($2.0) |
| Miscellaneous | $0.1 |
| **Financial Position at 12.31.2013** | **$214.5** |

# Actuarial Valuation

We now comment on the major components of the reconciliation of financial position:

*Contributions Different than Base Contributions*

Every dollar collected in excess of the contributions necessary for current coverage serve to improve the financial position of the Trust. During the year to December 31, 2013, these amounted to significant contributions, approximately $81.7 million dollars.

*Interest on Funded Position*

The plan was underfunded at December 31, 2012 and overfunded as at December 31, 2013. If invested assets were equal to the liability, investment income would be assumed to grow at the same rate as the liability. As invested assets were not equal to the liability during the year, even assuming assets growing at the same rate as liabilities, asset growth is not equal to liability growth.

The $1.6 million loss is calculated as the discount rate on the starting funded position and $^1/_2$ of the discount rate on the contributions in excess of base contributions (offsetting the loss somewhat).

*Investment Return Different than Expected*

In the December 31, 2012 valuation the discount rate assumption was 4.6% per annum. This means that future payments were brought back to the present day using a discount rate of 4.6%. For a funded plan, like the Trust, if assets are equal to liabilities, then the assets need to grow at the discount rate to keep pace with the growth in liabilities. If assets grow at a slower rate, losses develop. And, at a faster rate, gains develop.

During the year to December 31, 2013, assets returned 14.3% after investment management fees. If they had grown at the discount rate, they would have grown by 4.6% over this period. The difference in these two figures represents the gain on investments. In dollars, this amounted to a gain of $109.4 million over the period.

*LTD – Existing Claims (Terminations and Demographics)*

At December 31, 2012, the reserve in respect of reported claimants for disability income was $884.7 million. Underlying the calculation of this reserve are a number of assumptions. Key among them are:

- The rate that claimants terminate claim, return to work, no longer satisfy disability provisions, die or retire, and
- The amount of expected offset in the future.

We calculated the expected December 31, 2013 reserve based on the December 31, 2012 valuation and claims payments (including ERIB) during 2013 as part of this report to identify the reserve and number of claimants expected to be on claim at December 31, 2013. We had the following results:

- The anticipated reserve at December 31, 2013 for those on claim at December 31, 2012 was: $786.2 million.
- The anticipated number of claimants at December 31, 2013 that were on claim at December 31, 2012 was 5,297.

We identified those individuals who remained on claim at December 31, 2013. There were 5,256 of these individuals. The reserve at December 31, 2013 for these individuals, was $770.1 million. This gain of $16.1 million represents:

- A lower level of reserve due to a higher level of terminations of claims than anticipated which resulted in a gain of $4.4 million,
- Changes to the amount of offsets which resulted in a gain of $9.6 million, and
- Reserve savings due to the Early retirement Incentive Benefit (ERIB) program of $5.2 million.

The reserve savings due to the ERIB program were offset by $3.1 million of lump sum payments, which reduces the overall gain from existing claims to $16.1 million (after rounding).

*LTD – New Claims*

At the December 31, 2012 valuation, a reserve of $126.0 million was set aside for claims that had been incurred but not yet reported. By their very nature, these claims are unknowable, a provision is made based on past experience; but there is significant doubt until experience actually develops.

In addition, contributions in respect of current coverage for long-term disability amounted to $182.2 million over the period. These contributions are set to be equal to the cost of accruing benefits and expenses.

Put together, about $308.2 million was available to fund future benefits during the twelve month period. When adjusted for timing to December 31, 2013, this amount increases to $319.0 million.

Some of this liability didn't develop. The main components that developed, with the same valuation basis as was used at December 31, 2012, were:

- Claims costs in 2013 for claims that didn't exist at December 31, 2012: $37.6 million.
- 2013 LTD expenses allocated to claims that didn't exist at December 31, 2012: $1.9 million.
- Unallocated LTD expenses in 2013, funded by contributions during the year: $8.9 million.
- Reserve for reported claims that didn't exist at December 31, 2012 as at December 31, 2013: $158.9 million.
- Incurred but not yet reported reserve as at December 31, 2013: $120.0 million.

Between these components, $327.3 million was required for claims incurred during 2013. Overall, the resulting loss for new claims was $8.3 million.

*Active EHC/Dental/Life/AD&D*

Contributions collected in respect of these benefits exceeded claims plus expenses and any changes to incurred but not reported claims. This amounted to a gain of $34.9 million.

*Disabled EHC/Dental/Life/AD&D*

Contributions collected in respect of these benefits exceeded claims plus expenses and any changes to incurred but not reported claims. This amounted to a gain of $17.6 million.

The primary reason for this liability decrease was extended health plan design changes in 2013. In particular, for much of the disabled workforce, drug reimbursements from the extended health plan were limited to drugs covered on the BC Pharmacare Formulary.

After reviewing expected impacts of these changes and initial claims experience, we have continued to apply the existing methodology for this reserve: projecting 12 months of claims experience net of employee contributions for the remaining claims period for disabled beneficiaries. There may be volatility, up or down, in this reserve until claims experience matures, causing a gain or a loss in the December 31, 2014 annual valuation.

*Update to CPP thresholds /Wage Rate increases*

The CPP thresholds used for assumed CPP offsets were changed to reflect the amounts effective January 1, 2014.

In the December 31, 2012 valuation assumptions were made around unknown wage rate increases relating to both past and future years. During 2013 a number of collective bargaining agreements were ratified. The December 31, 2013 valuation includes the ratified wage rate increases from these agreements.

Combined, these changes amounted to a gain of $14.8 million.

*Change of Assumptions*

As discussed previously, various assumptions changed from the December 31, 2012 valuation to this valuation.

The primary three changes are:

- Change of discount rate from 4.6% for all taxable claims and 3.6% for non-taxable claims to 4.8% for all taxable claims and 3.8% for non-taxable claims, which resulted in a gain of $13.0 million.
- Updating of termination experience to the most recent 54 month period. This resulted in a loss of $9.5 million.
- Updating the CPP approval rates based on a revised study of HBT's block of business. This resulted in a gain of $24.1 million.

Overall, the change of assumptions resulted in a gain of $27.8 million.

The following table lists all of the assumptions that have changed and the resulting gain or loss:

**Table 3**
**Impact of change in Assumptions**

| | **Gain/(Loss) $000,000s** |
|---|---|
| LTD IBNR | ($3.9) |
| Active EHC IBNR | $0.9 |
| Life Expense | $0.5 |
| Termination from Disability | ($9.5) |
| EHC cost escalation | $1.9 |
| CPP Approval | $24.1 |
| Benefit Indexing – Indexing to Wage Increases | $0.2 |
| Discount Rate | $13.0 |
| Compounding Impact | $0.6 |
| **Total** | **$27.8** |

*Data Changes*

It was discovered during 2013 that the year end file used as the basis of the LTD valuation had a number of data errors. These related to either the gender, date of birth or assigned reporting entity for 57 claims. The December 31, 2012 valuation was recalculated with the revised data, resulting in a loss of $2.0 million.

## SECTION 4 – ACTUARIES' OPINIONS

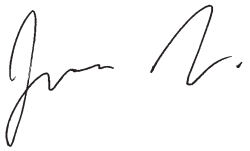
In our opinions, the membership and financial data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

In our opinions, the assumptions are appropriate for the purpose of the valuation.

In our opinions, the methods employed in the valuation are appropriate for the purpose of the valuation.

This report has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

Respectfully submitted,



Jeremy Bell, Fellow of the Canadian Institute of Actuaries

Ian Leznoff, Fellow of the Canadian Institute of Actuaries

## APPENDIX A – SUMMARY OF LTD CLAIMS DATA

In the following three tables we summarize the composition of LTD claimants, their benefits and their reserves at December 31, 2013.

**Table 4**
**Count of Disabled Employees as at December 31, 2013**

| Duration of Disability | Age at Disability | | | | | |
|---|---|---|---|---|---|---|
| | Under Age 30 | 30–39 | 40–49 | 50–59 | Age 60 and Over | Total |
| ‹ 1 year | 15 | 72 | 144 | 252 | 83 | **566** |
| 1 to 2 years | 31 | 140 | 269 | 400 | 100 | **940** |
| 2 to 3 years | 11 | 58 | 164 | 294 | 66 | **593** |
| 3 to 5 years | 16 | 91 | 237 | 449 | 36 | **829** |
| 5 to 10 years | 29 | 199 | 695 | 858 | | **1,781** |
| › 10 years | 89 | 521 | 920 | 241 | | **1,771** |
| **Total** | **191** | **1,081** | **2,429** | **2,494** | **285** | **6,480** |

**Table 5**
**Net Monthly Benefits after assumed CPP approval of Disabled Employees as at December 31, 2013 ($000s)**

| Duration of Disability | Age at Disability | | | | | |
|---|---|---|---|---|---|---|
| | Under Age 30 | 30–39 | 40–49 | 50–59 | Age 60 and Over | Total |
| ‹ 1 year | $32.8 | $180.8 | $348.3 | $576.4 | $198.3 | **$1,336.7** |
| 1 to 2 years | $58.3 | $283.5 | $555.3 | $867.7 | $205.8 | **$1,970.6** |
| 2 to 3 years | $20.5 | $116.2 | $318.6 | $578.0 | $130.2 | **$1,163.5** |
| 3 to 5 years | $32.5 | $184.1 | $461.6 | $813.7 | $75.7 | **$1,567.7** |
| 5 to 10 years | $61.5 | $366.7 | $1,222.8 | $1,582.0 | $0.0 | **$3,232.9** |
| › 10 years | $106.8 | $782.0 | $1,551.7 | $402.4 | $0.0 | **$2,842.9** |
| **Total** | **$312.4** | **$1,913.4** | **$4,458.2** | **$4,820.2** | **$610.0** | **$12,114.2** |

**Table 6**
**Actuarial Liability of Disabled Employees – Reported – as at December 31, 2013 ($000,000s)**

| Duration of Disability | Age at Disability | | | | | |
|---|---|---|---|---|---|---|
| | Under Age 30 | 30–39 | 40–49 | 50–59 | Age 60 and Over | Total |
| ‹ 1 year | $2.0 | $12.1 | $20.3 | $28.6 | $4.2 | **$67.1** |
| 1 to 2 years | $4.3 | $22.7 | $37.8 | $45.3 | $3.3 | **$113.3** |
| 2 to 3 years | $2.1 | $12.1 | $29.6 | $34.1 | $1.7 | **$79.6** |
| 3 to 5 years | $5.5 | $28.4 | $54.0 | $44.8 | $0.5 | **$133.2** |
| 5 to 10 years | $12.6 | $63.6 | $132.3 | $65.0 | $0.0 | **$273.5** |
| › 10 years | $16.1 | $98.6 | $105.2 | $8.7 | $0.0 | **$228.6** |
| **Total** | **$42.6** | **$237.5** | **$379.1** | **$226.5** | **$9.7** | **$895.3** |

## APPENDIX B – ASSET POSITION

**Trust Financial Statements**

The asset position is calculated from the Trust's financial statements (as provided by the Trust's Finance department), and excludes future contributions to relieve past deficits as well as current payables. The Trust's Financial Statements are prepared in accordance with International Financial Reporting Standards.

The table below shows the development of these assets from December 31, 2012 to December 31, 2013.

**Table 7 – Calculation of Asset position ($000,000s)**

| | |
|---|---|
| **Assets – 12.31.12** | **$1,077.6** |
| Regular Contributions | $443.2 |
| Deficit Recovery Contributions | $81.7 |
| Investment Return (net of investment expenses) | $161.3 |
| Benefit Payments | ($396.0) |
| Non-Investment Expenses | ($27.9) |
| **Assets – 12.31.13** | **$1,339.9** |

### Calculation of Asset Position

The following table shows the calculation of the asset position as at December 31, 2012 and December 31, 2013.

**Table 8 – Calculation of Asset position ($000,000s)**

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Cash and cash equivalents | $26.4 | $18.9 |
| Investments | $1,295.7 | $1,037.0 |
| Accrued interest and other receivables | $0.0 | $0.1 |
| Contributions receivable | $30.9 | $35.4 |
| Property, equipment and intangible assets | $1.0 | $1.7 |
| Benefits and accounts payable | ($14.2) | ($15.5) |
| **Asset Position** | **$1,339.9** | **$1,077.6** |

### Invested Asset Mix

The invested asset mix at December 31, 2013 of the Trust is broken down by category as follows:

| Asset | Actual | Long-term policy |
|---|---|---|
| Fixed Income | 44.2% | 42.5% |
| Equities | 55.6% | 45.0% |
| Real Estate and Infrastructure | 0.2% | 12.5% |

The Trust is in the process of implementing an allocation to real estate and infrastructure.

### Asset Valuation

Reliance is placed on the provided Financial Statements for the appropriate valuation of the assets as well as the benefits and accounts payable balance.

## APPENDIX C – PLAN PROVISIONS

**Summary of Plan Provisions**

The Healthcare Benefit Trust covers approximately 2,500 different plan provisions within 600 different benefit packages in accordance with over 18 collective agreements. The primary benefits are Life Insurance, Accidental Death and Dismemberment (AD&D), Long Term Disability (LTD), Dental and Extended Health Care (EHC).

Although benefit provisions do vary by benefit package, there are a number of the typical LTD benefit provisions which have been summarized below by the major collective agreements. This is not an exhaustive list and some benefit packages may have provisions which differ from those shown in the table.

| Provision | Community | Facilities | Nurses | Health Science Professionals | Community Social Services |
|---|---|---|---|---|---|
| **Qualification Period** | 5 months after the date of disability | 5 months after the date of disability | 4 months after the date of disability | 5 months after the date of disability | 6 months after the date of disability |
| **Eligibility for Benefits** | After the Qualification Period has elapsed; the claimant is eligible for benefits if they continue to meet the Definition of Disability criteria. | | | | |
| **Definition of Disability** | During the qualification period and for the subsequent own occupation period, the claimant is unable to perform each of the essential duties of their own occupation due to injury or sickness. After this period, the claimant is prevented from performing each of the essential duties of any occupation for which they are or may become reasonably qualified by education, training or experience. | | | | |
| **Own Occupation Period**[5] | 19 months | 19 months | 24 months | 24 months | 12 months |
| **Gross Benefit Amount** | 70% of basic monthly earnings to a limit[6] and 50% of the excess or 66-2/3% of basic monthly earnings, whichever is greater. | | | | |

[5]A common termination assumption is used for the Trust without adjustment for different own occupation periods by agreement.
[6]Adjusted annually for new claims based on increases in the weighted average wage rate.

| Provision | Community | Facilities | Nurses | Health Science Professionals | Community Social Services |
|---|---|---|---|---|---|
| **Limit for Gross Benefit Amount** | $3,540 as at April 1, 2013 | $3,540 as at April 1, 2013 | $6,199 as at April 1, 2013 | $5,863 as at April 1, 2013 | $3,121 ($3,143 for the Aborginal Services agreement) as at April 1, 2013 |
| **Indexation** | Adjustments every 4 years after the date of qualification based on weighted average wage rate. | | | | |
| **Offsets** | The Gross Benefit Amount will be reduced by other sources of income including CPP Disability, rehabilitation and Workers' Compensation benefits. | | | | |
| **Benefit End Date** | Benefits cease the earlier of recovery, failure to provide proof of continuing disability, death, retirement or the attainment of age 65. | | | | |

## APPENDIX D – ASSUMPTIONS

We summarize the key assumptions in this appendix.

**Incurred But Not Reported Liabilities**

| Benefit | Basis |
|---|---|
| **Life Insurance** | $1,500,000 |
| **Accidental Death and Dismemberment (AD&D)** | $500,000 |
| **Long Term Disability** | 170% of LTD liabilities for reported active disability claims incurred in the previous 12 month period. |
| **Active Dental** | Calculated as 17/365ths of the dental payments and expenses from the last 12 months. |
| **Active Extended Health** | Calculated as 38/365ths of the annualized extended health care payments and expenses from the last 3 months. |
| **Disabled Non-income Benefits (Extended Health, Dental, Life)** | 170% of corresponding liability for reported active LTD claims with dates of disability in the previous 12 month period. |

**Reported Liabilities**

| Assumption | Basis |
|---|---|
| **Termination from Disability** | Assumed based on adjustments for the plan's experience applied to the table of actual to expected ratios for females all elimination periods combined as published in Appendix 1 of the Canadian Institute of Actuaries Report entitled "Canadian Group Long-Term Disability Termination experience 1988-1994" dated May 1998. The adjustments are split into two tables for those below and above 40, which are provided with this appendix. |
| **Discount Rate** | 4.8% compounded annually for taxable claims.<br>3.8% compounded annually for non-taxable claims. |
| **CPP** | CPP approval rates are based on age and duration since disability. Where CPP is assumed, retroactive CPP to a maximum of 18 months is assumed.<br><br>Potential CPP benefits are calculated based on the following information (as set by the Canada Pension plan):<br>2014 Flat CPP monthly amount: $457.60<br>2014 Maximum CPP monthly amount: $1,236.35<br>2014 Yearly Maximum Pensionable Earnings: $52,500<br><br>Table is provided at the end of this appendix for more details. |

| Assumption | Basis |
|---|---|
| **Benefit Indexing** | ***Indexing to Wage Increases***<br>Annual wage increases of 3.5% are assumed for all non-Community Social Services, except where negotiated wage rates are known. Where negotiated wage rates are known, these negotiated wage rates apply.<br><br>Annual wage increases of 2.5% are assumed for all Community Social Services, except where negotiated wage rates are known. Where negotiated wage rates are known, these negotiated wage rates apply.<br><br>***Indexing to CPI***<br>Future CPI increases are assumed to be 2%.<br><br>***Red-Circling***<br>Benefits are never reduced below their original disability benefit. |
| **Expenses** | **Disability Income:** Expenses at 5%[7]<br>**Extended Health:** Expenses at 5%<br>**Dental:** Expenses at 4%<br>**Life:** Expenses at 13% |
| **Extended Health Escalation** | Extended health costs for disabled employees are assumed to increase by 7.0% in the first year and decreasing by 0.5% per year until reaching the ultimate escalation rate of 5.0% per annum. |
| **Dental Escalation** | Dental costs for disabled employees are assumed to increase by 4.5% per annum. |

[7]Assumed disability expenses aren't intended to cover all disability expenses. The majority of disability expenses are incurred at the beginning of a claim and are covered with contributions, but not incorporated in reserves.

| Assumption | Basis |
|---|---|
| **Death from Disability** | Assumed to be in accordance with CIA 88-94 Mortality Tables for Males and Females. |
| **Provision for Adverse Deviations** | The Trust's liabilities have been calculated with a 1.0% margin with regards to the discount rate and a 1.0% margin with regards to wage increases. |

**HBT LTD Valuation Assumptions – Termination Rates**

The table below shows the December 31, 2013 valuation assumption as a percent of the 1988-1994 Canadian Institute of Actuaries (CIA) study of Disability Termination experience. The table also provides the December 31, 2012 valuation assumptions expressed as a percentage of the same CIA table.

| Months since Disability | Dec 31, 2012 Assumption - To age 40 | Dec 31, 2012 Assumption - After age 40 | Dec 31, 2013 Assumption - To age 40 | Dec 31, 2013 Assumption - After age 40 |
|---|---|---|---|---|
| 4-12 | 35% | 50% | 45% | 55% |
| 13-24 | 85% | 115% | 85% | 120% |
| 25 | 105% | 105% | 100% | 105% |
| 26 | 105% | 105% | 100% | 105% |
| 27 | 105% | 105% | 100% | 105% |
| 28 | 60% | 60% | 50% | 60% |
| 29 | 500% | 660% | 550% | 725% |
| 30 | 140% | 165% | 70% | 110% |
| 31 | 90% | 85% | 85% | 65% |
| 32 | 90% | 127% | 85% | 100% |
| 33 | 90% | 127% | 85% | 100% |
| 34 | 90% | 127% | 85% | 100% |
| 35 | 90% | 127% | 85% | 100% |
| 36 | 90% | 127% | 85% | 100% |
| 37-48 | 115% | 105% | 100% | 90% |
| 49-60 | 165% | 125% | 145% | 125% |
| 61-72 | 145% | 145% | 145% | 155% |
| 73-84 | 145% | 145% | 145% | 155% |
| 85-96 | 145% | 145% | 145% | 155% |
| 97-108 | 145% | 145% | 145% | 155% |
| 109-120 | 145% | 145% | 145% | 155% |
| 120+ | 105% | 105% | 105% | 105% |

**HBT LTD Valuation Assumptions - CPP Qualification Rates**

The table below shows the assumed probabilities of eventual CPP qualification. The rates differ by duration of claim and age at the date of disability.

| Duration of claim (months) | Age of Disability | | |
|---|---|---|---|
| | ‹ 55 | 55-60 | › 60 |
| Less than 12 | 40.0% | 60.0% | 60.0% |
| 13-24 | 40.0% | 60.0% | 60.0% |
| 24-36 | 50.0% | 65.0% | 45.0% |
| 37-48 | 45.0% | 75.0% | 50.0% |
| 49-60 | 40.0% | 50.0% | 50.0% |
| 60+ | 0.0% | 0.0% | 0.0% |

For comparison purposes the table below shows the assumed probabilities of eventual CPP qualification that was used for the December 31, 2012 valuation.

| Duration of claim (months) | Age of Disability | | |
|---|---|---|---|
| | ‹ 55 | 55-60 | › 60 |
| Less than 12 | 25.0% | 45.0% | 45.0% |
| 13-24 | 30.0% | 45.0% | 45.0% |
| 24-36 | 35.0% | 50.0% | 45.0% |
| 37-48 | 40.0% | 50.0% | 50.0% |
| 49-60 | 40.0% | 50.0% | 50.0% |
| 60+ | 0.0% | 0.0% | 0.0% |

## APPENDIX E – CLAIMS MOVEMENT

The table below shows the movement of active LTD claims from December 31, 2012 to December 31, 2013 by notional pool within the Trust. Active LTD claims and termination rate by pool.

**Table 9 – Movement of Active LTD claims**

| Notional Pool | Claims as at Dec 31, 2012 | Termination Reasons | | | | | New Entrants/ Reopened Claims | Claims as at Dec 31, 2013 |
|---|---|---|---|---|---|---|---|---|
| | | New Claims in Period | Age 65 | Death | Return to Work | Other | | |
| **Fraser** | **1,144** | (69) | (37) | (16) | (94) | (60) | 325 | **1,193** |
| **Coastal** | **852** | (28) | (28) | (7) | (49) | (73) | 177 | **844** |
| **Island** | **929** | (34) | (30) | (13) | (61) | (87) | 253 | **957** |
| **Interior** | **1,079** | (67) | (54) | (13) | (68) | (75) | 295 | **1,097** |
| **Northern** | **310** | (17) | (16) | (6) | (14) | (33) | 104 | **328** |
| **Provincial** | **223** | (17) | (6) | (1) | (23) | (19) | 96 | **253** |
| **Providence** | **256** | (13) | (9) | (3) | (17) | (16) | 71 | **269** |
| **Affiliates** | **1,033** | (22) | (60) | (12) | (33) | (41) | 185 | **1,050** |
| **CSSEA** | **416** | (8) | (25) | (3) | (8) | (20) | 44 | **396** |
| **Non-HEABC** | **44** | (2) | (3) | (1) | (5) | (3) | 15 | **45** |
| **Non-taxable** | **50** | (1) | (5) | (1) | (3) | 0 | 8 | **48** |
| **Total** | **6,336** | **(278)** | **(273)** | **(76)** | **(375)** | **(427)** | **1,573** | **6,480** |

## APPENDIX F – SENSITIVITY ANALYSIS

**Discount Rate**

The discount rate used within the valuation is 4.8% for all taxable claims and 3.8% for non-taxable claims, compounded annually. The effect on the total actuarial liability of a 1% increase and 1% decrease to the discount rate is shown in the following table:

**Table 10 – Discount Rate Sensitivity Analysis**

| Discount Rate Change | Liability (000,000's) | Original Liability (000,000's) | Gain / (Loss) (000,000's) |
|---|---|---|---|
| -1% | $1,193.16 | **$1,125.36** | ($67.80) |
| +1% | $1,065.02 | **$1,125.36** | $60.35 |

## APPENDIX G – ADMINISTRATOR REPRESENTATION

With respect to the information used within this report, I hereby confirm that to the best of my knowledge and belief:

- The LTD claimant data provided to the actuaries and summarized in Appendix A and Appendix E are a complete and accurate description of all individuals meeting the definition of disability under the Plan;
- The financial data provided to the actuaries and summarized in Appendix B are a complete and accurate representation of the contributions, claims and expenses by benefit line and notional pool;
- The plan provisions summarized in Appendix C are an accurate description of the provincial collective agreement disability related plan provisions in effect at the valuation date; and
- There have been no events subsequent to the valuation date that would materially change the December 31, 2013 valuation results or the Plan's financial position or cost.

Sarah Hoffman
Chief Financial Officer

April 10, 2014

Darren McKnight
Director, Benefits Administration & Reporting

April 10, 2014

## APPENDIX H – BEST ESTIMATE RECONCILIATION

**Margin**

Both the discount rate and the wage increase assumptions include a 1% margin. The best estimate liability and the impact of these margins are shown in the following table:

**Table 10**
**Liability as at December 31, 2013 ($000,000s)**

| | Best Estimate | Impact of wage increase margin | Impact of discount rate margin | Liability with margin |
|---|---|---|---|---|
| Active Group Life and AD&D (IBNR) | $2.0 | $0.0 | $0.0 | $2.0 |
| Active Dental (IBNR) | $5.1 | $0.0 | $0.0 | $5.1 |
| Active Extended Health (IBNR) | $10.1 | $0.0 | $0.0 | $10.1 |
| Long-term Disability (IBNR) | $104.6 | $3.8 | $6.1 | $114.5 |
| Admitted LTD Claims (Reported) | $813.0 | $33.3 | $49.0 | $895.3 |
| Extended Health for Disabled Claimants | $49.7 | $0.0 | $3.1 | $52.8 |
| Dental for Disabled Claimants | $14.6 | $0.0 | $0.9 | $15.5 |
| Group Life and AD&D for Disabled Claimants | $28.8 | $0.0 | $1.3 | $30.1 |
| **Total Liability** | **$1,027.8** | **$37.2** | **$60.3** | **$1,125.4** |

ANNUAL REPORT 2013

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