From: Aaron Chan
Sent: February 18, 2022 1:29 PM
To: Nicholas and Jamie Lai; Wes Drewlo; Mark Peters; Mark Hutchinson; Tami Cooke; Erin Knott
Subject: RE: Urgent Finance Committee Email Vote

Dear Fincom Members,

Following is an analysis showing the financial impact of each of the options that Nicholas enumerated in his email below. Thank you, Nicholas.

Understanding the implications of each of the options will help us make an informed decision in the upcoming meeting. Please let me know if you have any question before the meeting, as I may not be able to answer your questions raised at the meeting when the data might not be readily available.

1. <u>10% increase</u>

   In the original Decision Profile, it was proposed that the premiums were to be increased by 10% in March. Now that the decision is postponed, the earliest we can increase the premiums is May 1 (because we need Dexcom approval – and probably the Lead Team's consent too, and we need to allow time for Nicki to revise the invoices).

   Increasing the premiums by 10% will increase the District revenue by $9K/month. The average deficit in the last 12 months was $25K/month. Assuming the deficit stays at $25K/month from Feb to Apr (which is quite likely, given that the deficit in Dec and Jan were $41K and $38K, respectively), starting from May the deficit will be reduced by $9K to **$16K**/month.

   Based on the above numbers, the reserve (i.e. deferred revenue) at the end of 2022 will be $35K, arrived at as follows:

Reserve at Jan 31, 2022	238K
Deficit from Feb to Apr (25K x 3)	(75K)
Deficit from May to Dec (**16K** x 8)	(128K)
Reserve at Dec 31, 2022	35K

   If we don't increase the premiums again in Jan 2023 and assuming the deficit stays at $16K/month, the reserve will be completely depleted by the end of Feb, 2023, which means after Feb there won't be any more reserve left to cover the deficit. Any further deficit will from then on directly hit the bottom line, which means we'll have difficulty balancing the 2023 budget.

2. <u>5% and 5% over a period</u>

   If we increase the premiums by 5% in May and another 5% in November, the reserve at the end of 2022 will be $8K, arrived at as follows:

Reserve at Jan 31, 2022	238K
Deficit from Feb to Apr (25K x 3)	(75K)
Deficit from May to Oct (20.5K x 6)	(123K)
Deficit from Nov to Dec (16K x 2)	(32K)
Reserve at Dec 31, 2022	8K

In this scenario, the reserve will be all gone by mid-Jan, 2023, and the same problem described above will ensue, i.e. further deficits will hit the bottom line and we'll have a hard time balancing the budget.

I asked Nicki about how she felt about the idea of splitting the 10% increase into two 5% increases. Her response was: "*I personally do not like the idea of the increase in two parts, especially if the plan is to do this in the same year. Invoices already have regular adjustments with new staff, terminations, salary changes etc. Add these regular adjustments with two separate increases would add more work (not to mention confusion on the front end (billing) but also adds additional reconciliation work for churches*."

BTW, if we decide to go this route, we need to be prepared to go through the same approval process (Lead Team, Fincom, and Dexcom approval) again when we raise the premiums a second time in the year – unless we announce the second 5% increase at the same time we announce the first, but that would defeat the purpose of splitting the increase, which is to allow us to decide on a rate geared to the claim trend in the next 6 months.

3. <u>4%, 3%, 3% over a period</u>

If splitting the increase into 2 smaller increases will create extra workloads and confusion to both the churches and the District, splitting the increase by three will create more problems and probably not an advisable alternative.

4. <u>Reduce benefits</u>

The Lead Team opposed the idea of reducing benefits. If the Fincom is in favor of reducing the benefits, I believe consent from the Lead Team is required.

Following is the year-to-year comparison of the claim expenses of those benefits that were increased in 2021 (**in $000**):

	2020	2021	Increase
Chiropractor	31	56	25
Massage therapy	29	65	36
Psychologist	28	52	24
Vision	45	68	23
Dental	324	463	139

If we, say, reduce the chiropractor benefit from $750/year back to $500/year, will the claim expenses be reduced by $25K? Will dental claims be reduced by $139K if we go back to 90% reimbursement (vs 100%)? I doubt so. But how much will the claims be reduced if we reduce the benefits? No one can tell for sure. Even Sean, our consultant, gave us a wrong prediction. He told us before we increased the benefits that increasing the first 3 benefits above (chiro, massage, psycho) would probably cost us $31.5K more, but it turned out that it cost us $85K more (25+36+24 – see above)!

5. <u>A combination of benefit reduction and premiums increase</u>

There can be any number of combinations. If anyone wants to know what the financial impact of a specific combination is, please let me know. I can work it out before the meeting, but please bear in mind that it's difficult to predict accurately the financial impact when benefits reduction is involved.

6. <u>Other alternatives</u>

The above list of options is rather exhaustive. The only other alternative I can think of is to stay put, i.e. to wait and see if the claim expenses would come down before deciding what % increase, if any, is required. Hopefully, this won't be something that Fincom will vote for because the longer we postpone the decision the faster the reserve will be depleted, and the bigger the increase in premiums will need to be in the end.

Sorry you were rushed to approve the increase when we sent you the Decision Profile last week. Our intent was to get Fincom and Dexcom approval quickly so we can have sufficient time to amend the premiums and invoices before March 1. (It's been our practice every year in the past 10 years to review, and revise the rates, if necessary, in March.) We could have sent you the DP earlier, but we had to wait for the annual report from the benefits consultant which came in only a short while ago.

I hope the above analysis will provide you with sufficient data to make an informed decision in the meeting.

Aaron Chan
Director of Finance

Canadian Pacific District
CHRISTIAN & MISSIONARY ALLIANCE

101-17660 65A Avenue | Surrey, BC | V3S 5N4
Tel: 604-372-1922 | Fax: 604-372-1923