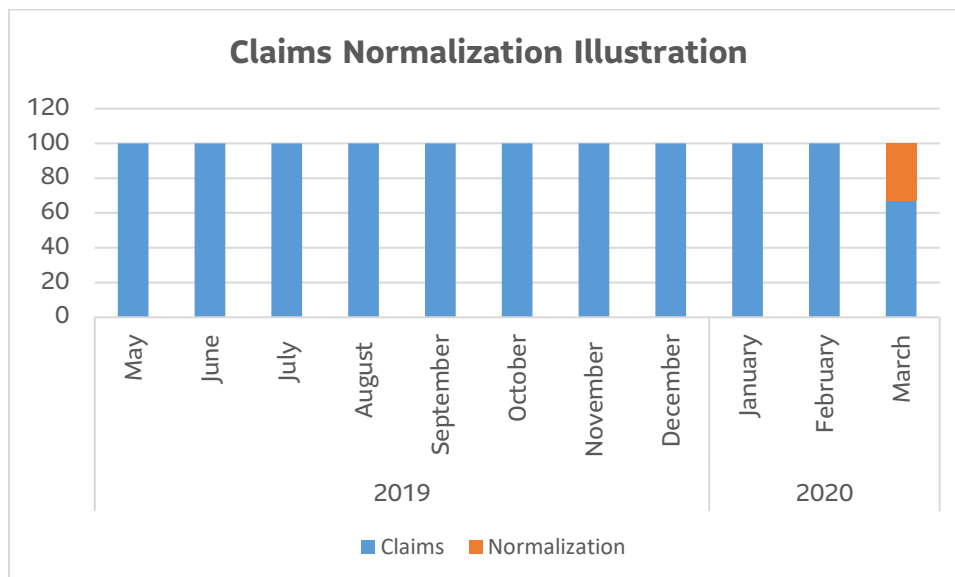


Claims Normalization

With the COVID-19 pandemic, insurers saw dental claims drop to unusual levels in March, and EHC and Dental claims to unusual levels in April and May 2020. If we use those lower claims to project our renewal rates, we will under-price. Sun Life's assumption is that claims will return closer to normal levels in the renewal period. The claims normalization factor included in the renewal is to adjust for the unusual level of claims in the renewal period and ensure the rates will be sufficient to cover future claims.

Below is a graphical illustration to show the concept visually:

- Assume \$100 in claims per month
- In March 2020 claims dropped by 33% to \$67
- Annual claims totalled of \$1167 instead of the normal/expected \$1200
- We expect renewal claims to go back to \$100 per month so need to price for annual \$1200
- To project a normal 12 months of claims, we divided 12 by 11.67 ($12/11.67 = 1.03$)
- By normalizing March 2020 to \$100 we end up with a "normal" claim level



Notes:

- The larger the drop in claims and the longer claims are "unusual", the larger the claims normalization factor will be,
- The claims normalization factor does not load rates because we expect claims will be higher than normal after the pandemic (assuming return to normal levels), and
- The assumption that claims will return to normal levels during the experience period has two major drivers, which we continue to review on a monthly basis as data becomes available:
 - Utilization
 - Underlying cost of the services