

EMPLOYEE BENEFITS - OUT OF CONTROL

FEI VANCOUVER CHAPTER

3 NOVEMBER 2011



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Principal

Vancouver

Overview

- Current landscape – issues and trends
- Mathematics of employee compensation
- Benefit plan trends
- Proactive benefit plan management

- *Educate you???*
- *Scare you???*
- *Prepare you???*

Current Landscape – Issues and Trends

It used to be simple...

- Fringe benefit
- Affordable and predictable
- Light to moderate utilization
- One size fits all
- Narrowly defined range of benefits



Current Landscape – Issues and Trends

Not anymore...

- Significant and unpredictable cost
- High utilization rates driving inflation
- No relief in sight
- Diverse workforce – one size does not fit all
- Broadened scope of benefit programs
- Not strategically managed – for the most part

Benefits are anything but simple!



Current Landscape – Issues and Trends

Economic reality and the pressure to manage benefit plan costs

- Uncertainty is the new reality – requires a delicate balancing act
- Human capital imperative is real with higher costs to attract and retain
- Higher value placed on health care, post employment benefits, disability, critical illness, long-term care
- Benefit plan costs will continue to increase at rates higher than general inflation
- Chronic disease likely to increase
- Cost of post-retirement benefits will only increase

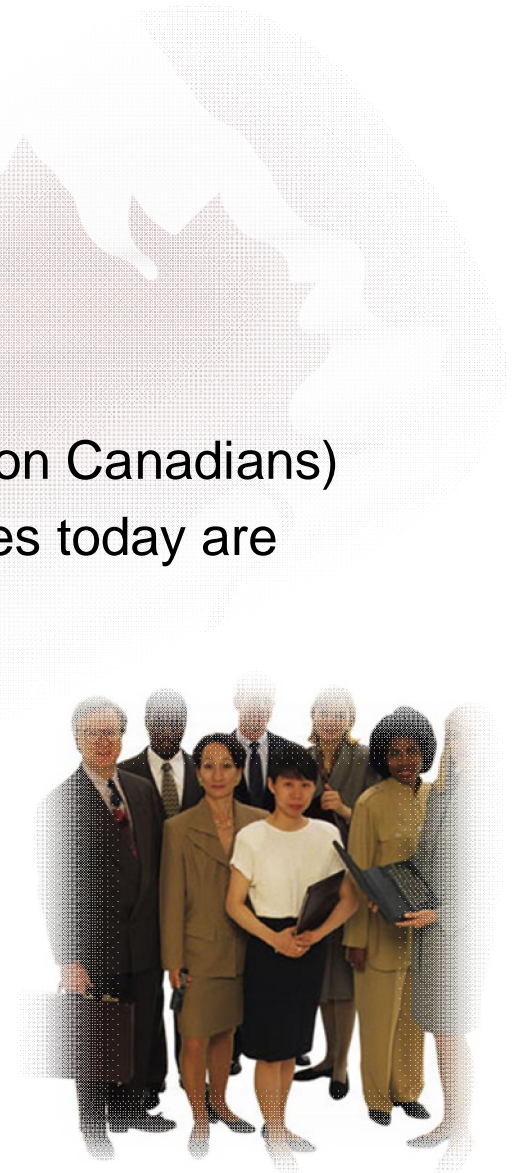


Current Landscape – Issues and Trends

Changing demographics and workforce diversity

- Our population is aging
 - Only three workers per retired Canadian in 2030
- Our health is a concern
 - Obesity rates ballooning
 - Chronic disease is 70% of all health care costs (9 million Canadians)
 - Mental health issues affect many but most health issues today are preventable and manageable
- Four generations in the workforce with different needs
- Increasing cultural diversity
 - By 2025, all labour market growth will come from immigration
- The definition of family is changing

Sources: Health Canada; Statistics Canada



Current Landscape – Issues and Trends

Canada's evolving health care system

- Unsustainable
 - \$170+ billion spent each year: up 60% over last 10 years
- Access to health care is a complex story
 - Benchmark wait times are largely being met, yet
 - 1 in 6 Canadians report difficulties in accessing routine care
- The age of biologic drugs is upon us
- Governments will:
 - Manage drug expenditures
 - Shift costs to plan sponsors
- Health care access issues may result in greater demand for queue jumping



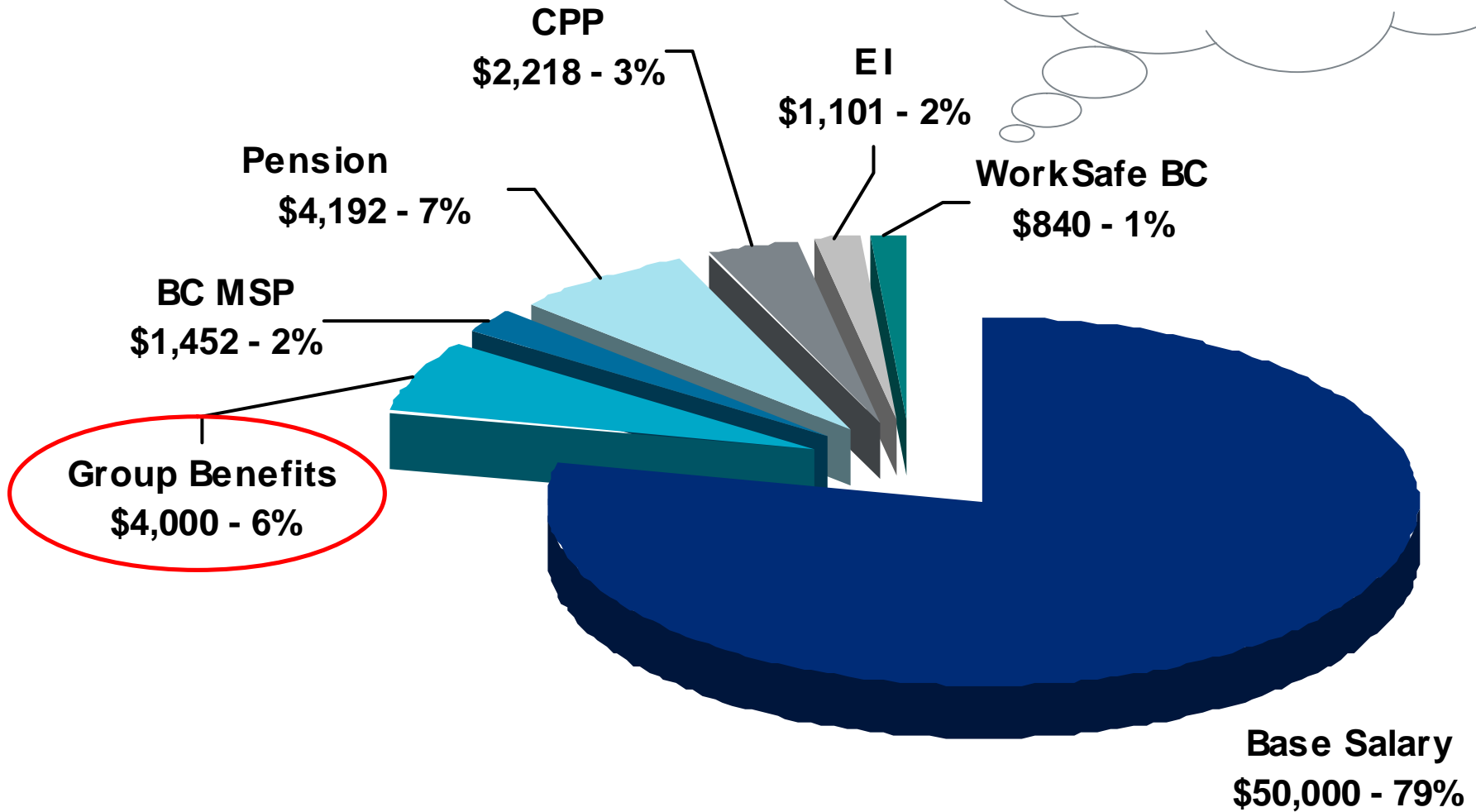
Source: Canadian Institute for Health Information – Health Care in Canada 2009 – A Decade in Review

Mathematics of Employee Compensation

Salary is just the beginning

2011 - Total Compensation - \$63,803

How much does it cost to pay an employee a salary of \$50,000 per year?

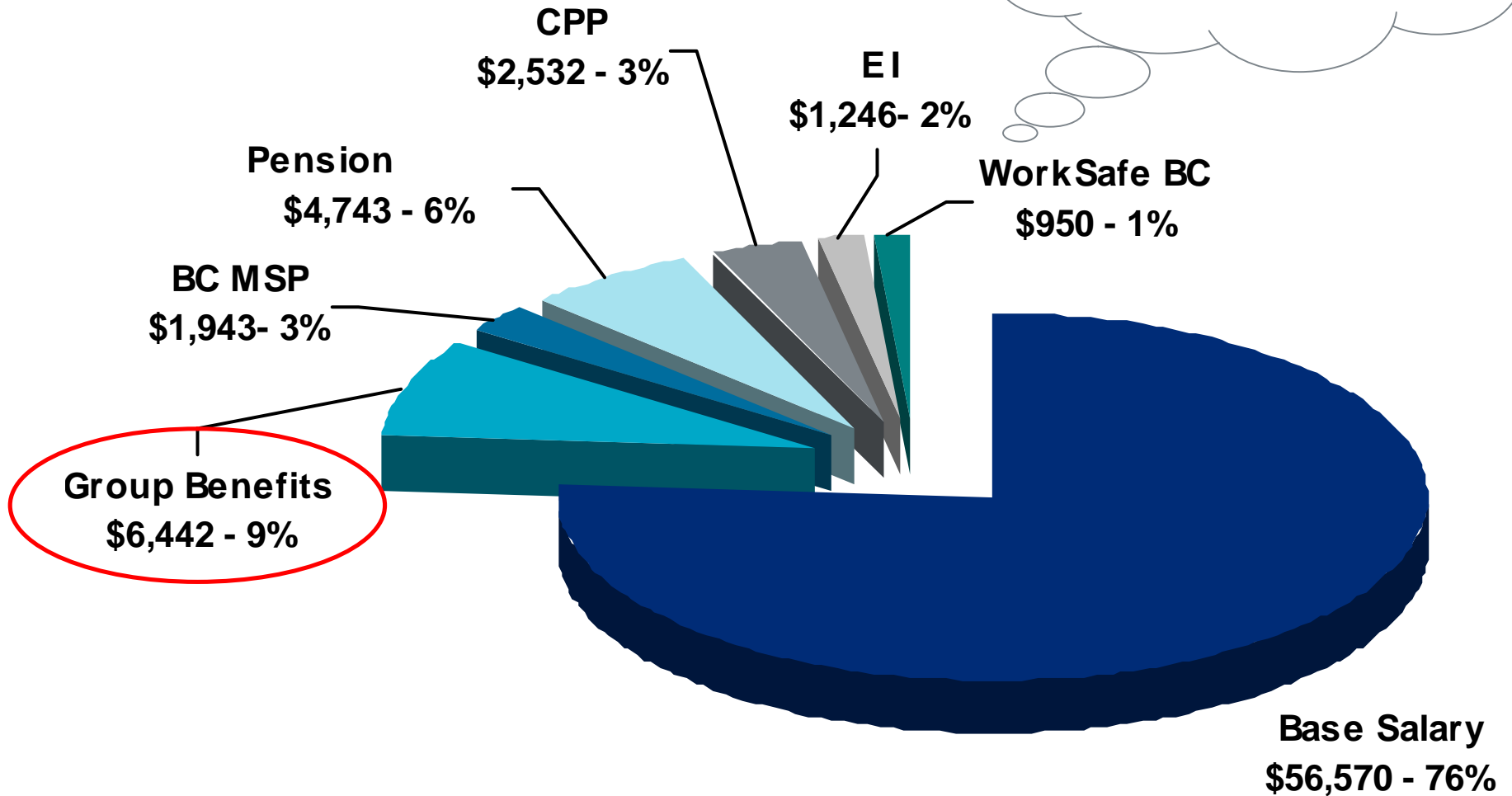


Mathematics of Employee Compensation

Benefit costs are growing faster than salaries

2016 - Total Compensation - \$74,427

How much does it cost to pay an employee a salary of \$50,000 per year?

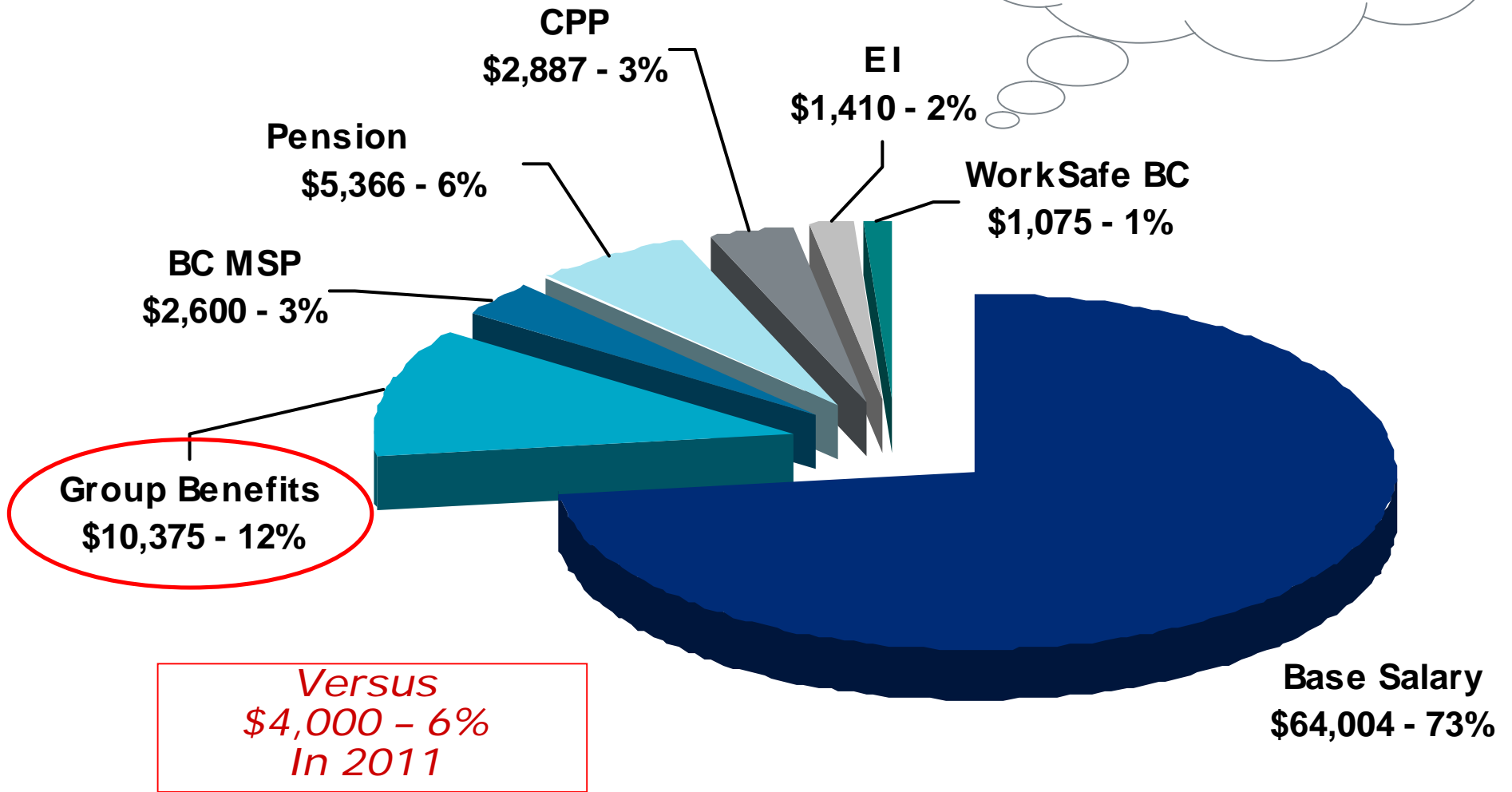


Mathematics of Employee Compensation

Are benefits sustainable in their current form?

2021 - Total Compensation - \$87,718

How much does it cost to pay an employee a salary of \$50,000 per year?

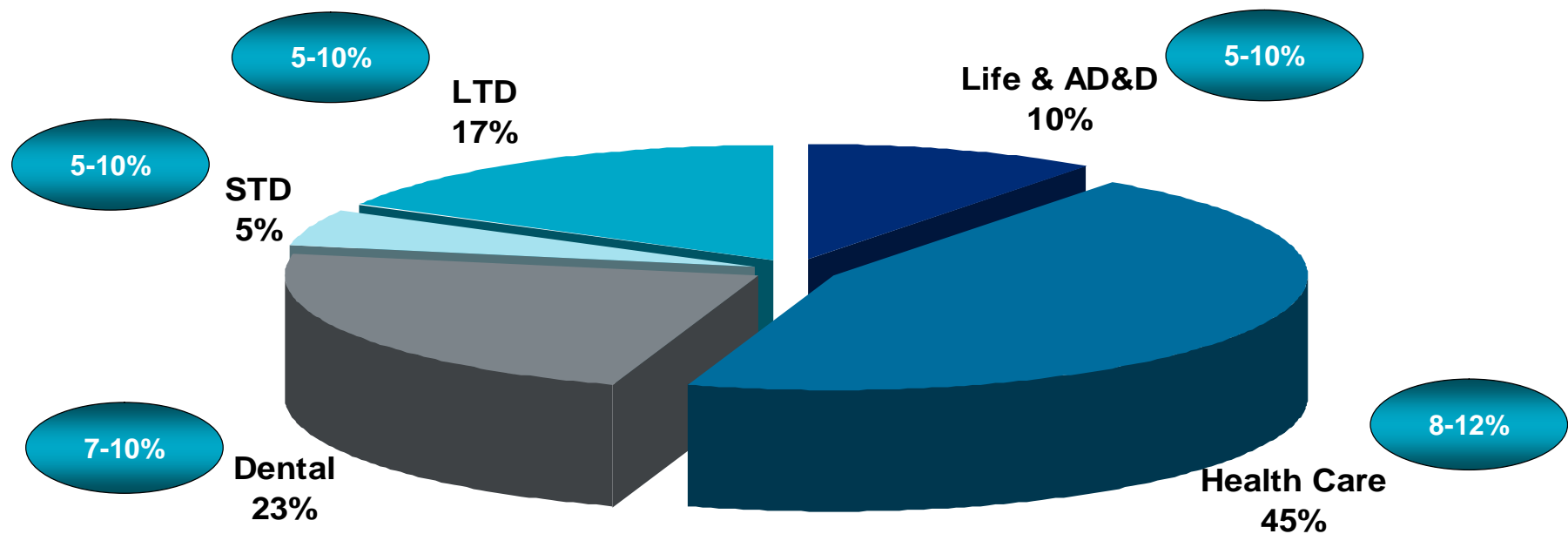


Benefit Plan Trends

Significant and growing cost ... but not strategically managed

- From 3.5% of payroll to **7.5% of payroll** in 10 years*
- Increasing, in aggregate, at **3 to 5 times the rate of regular inflation** (CPI) but increases vary significantly by benefit

Typical Benefit Plan Cost Distribution and Trend Factors by Benefit



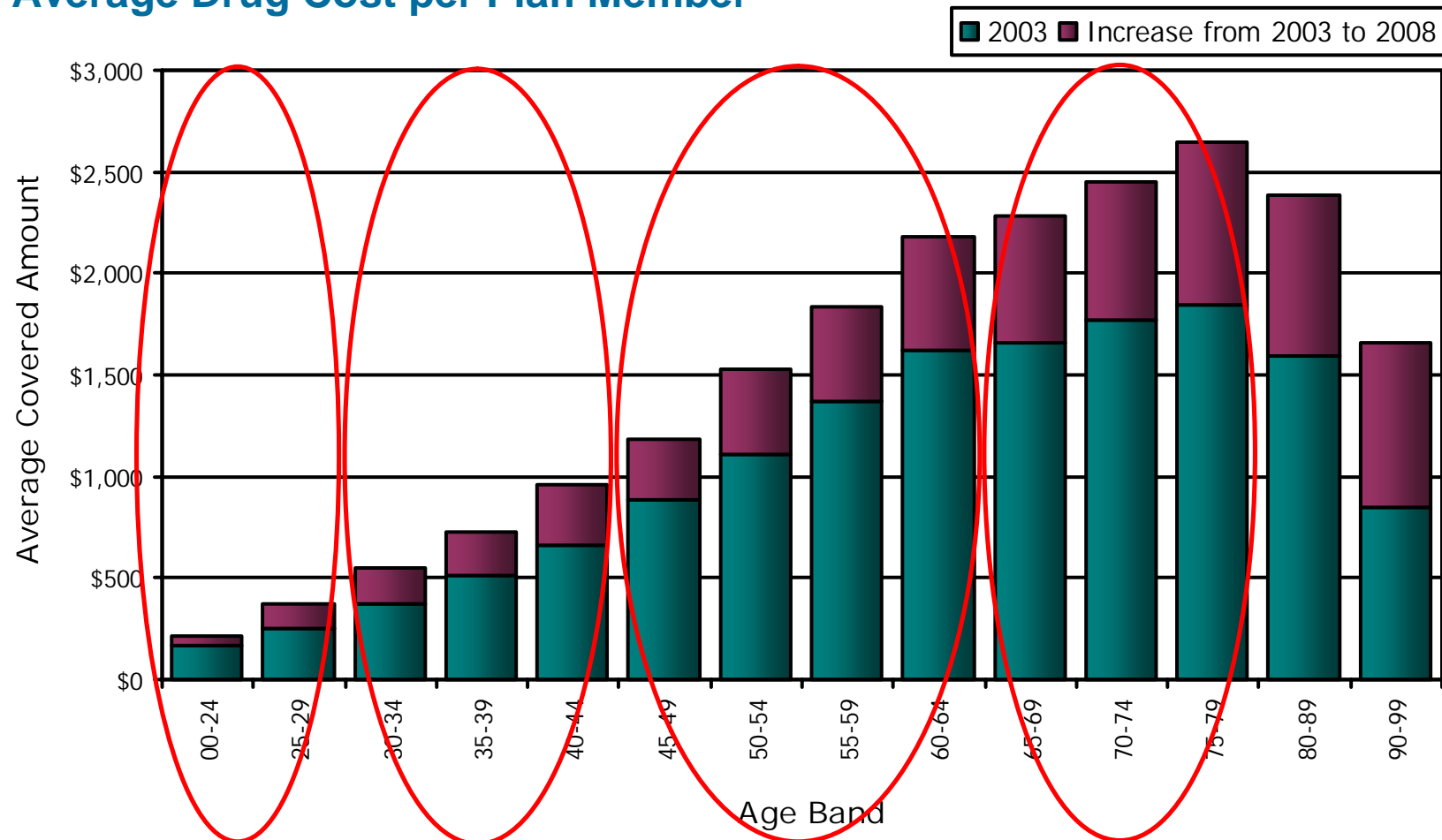
Source: Group Universe Report, Fraser Group

MERCER

Benefit Plan Trends

Demographic changes can drive costs ... but also perceived value

Average Drug Cost per Plan Member



Source: Great-West Life 2009

Generation Y

Generation X

Baby Boomers

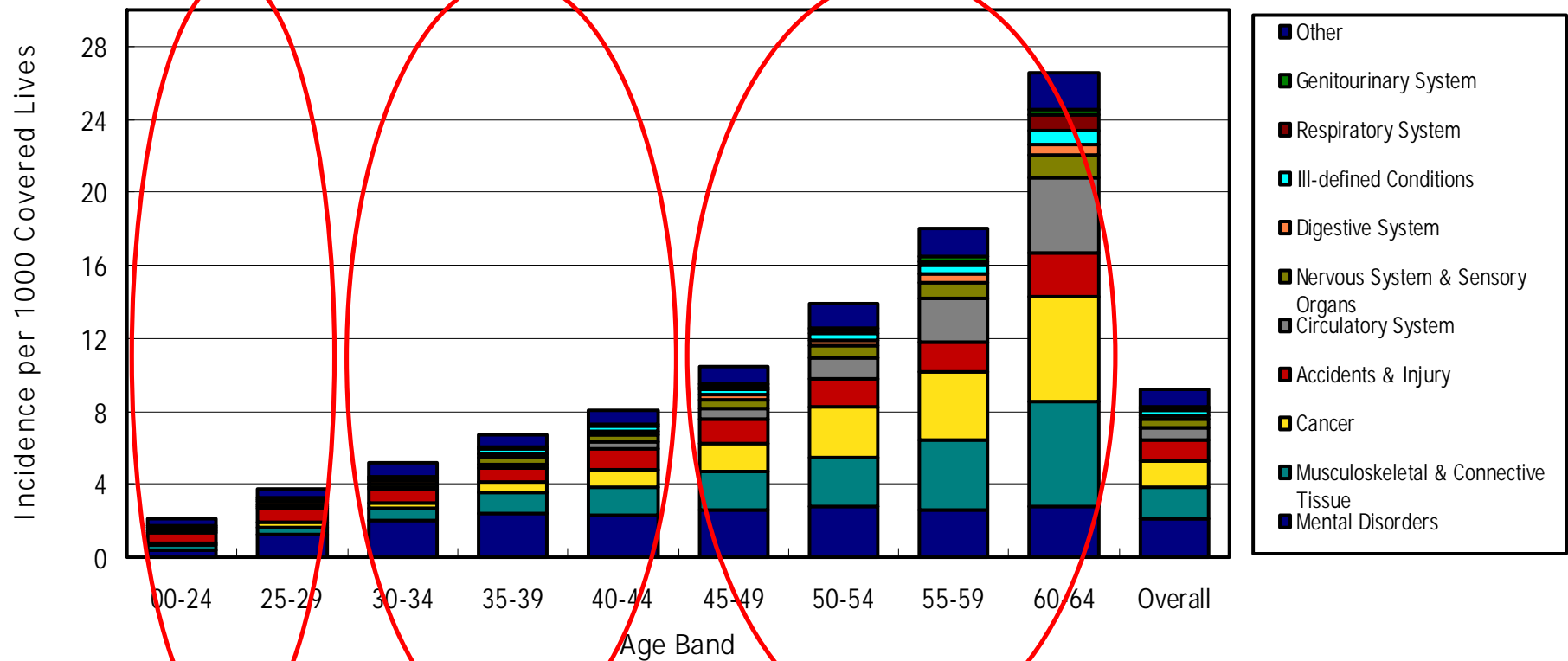
Traditionalists

Benefit Plan Trends

Demographic changes can drive costs ... but also perceived value

Long Term Disability – Incidence

Incidence by Diagnosis and Age



Generation Y

Generation X

Baby Boomers

Source: Great-West Life 2009

Benefit Plan Trends

Position for recovery and growth ... with expectations on new strategies

- Based on *Mercer's Global Snapshot Survey: Leading through unprecedented times* (2009), 63% of participants indicated they had or were somewhat to very likely to increase employee contributions for health coverage
- However, most organizations refrained from making significant changes to benefits while they focused on surviving the economic downturn
 - There was pressure instead to increase productivity and more proactively manage current benefit plan costs
- As the economic downturn fades, plan sponsors seem to be making some small efforts to restrain increases in benefit costs with some surgical plan adjustments, as per 2010-2011 trends in *Mercer's Plan Design Database*:
 - Decline in percentage of plans with 100% co-pay on drugs continues
 - Trend to introduce a dispensing fee maximum continues, as does the shift to a higher maximum
 - Reduction in the percentage of plans with 100% coinsurance on basic dental
 - Downward shift in the percentage of traditional plans that are 100% employer paid

Benefit Plan Trends

Position for recovery and growth ... but employees are disengaged!!

- Mercer's *What's Working Survey* (June 2011) shows Canadian employees are less committed and less satisfied with many aspects of their work experience
 - One in three (1/3) is seriously considering leaving their organization
 - Another one in five (1/5) is ambivalent about whether to stay or go
 - One of the highest levels of disengagement globally
- Two primary factors are behind this shift in employee sentiment:
 - An evolving (redefined) employment deal viewed as a series of takeaways
 - Responses to the economic downturn (i.e., pay freezes, cuts, etc.)
- An engaged workforce is more necessary than ever but, at the same time, more difficult to achieve due in part to ongoing financial pressures
- Specific to benefits, about 48% agree that they play a significant role in their decision to continue to work for an organization
 - 57% of employees say their benefits meet their needs, likely since benefits were largely not modified during the economic downturn
 - However, 43% want more choice and control and 41% say they would be willing to use their own money for improved or new benefits

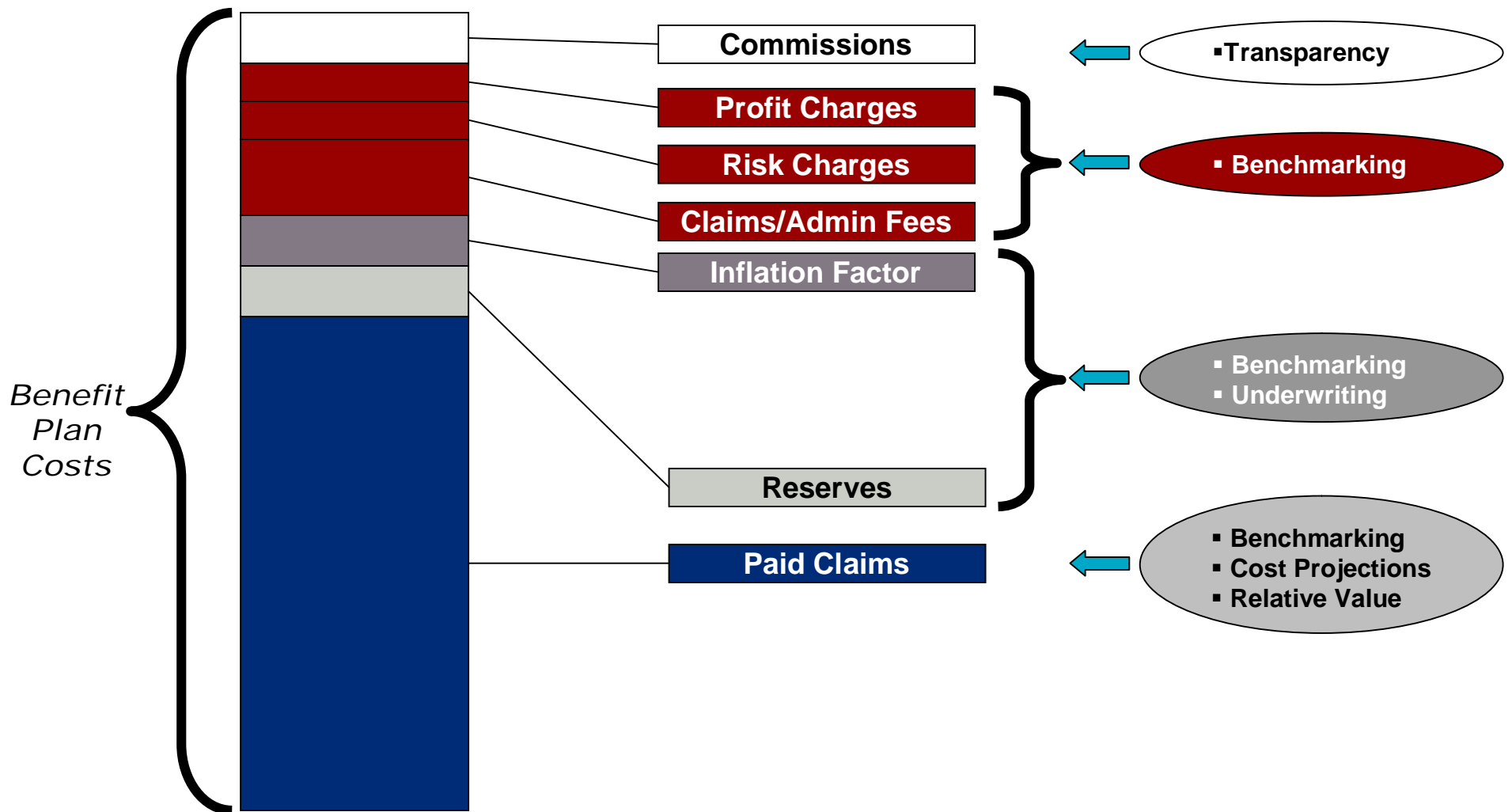
Benefit Plan Trends

Fewer options for plan sponsors ... the “old standbys” no longer work

- Marketing the benefit plan
 - Reduced number of carriers in Canada
 - Renewed focus on profitability
 - Adversely affected by the economic downturn
 - Reluctance to assume insured risks
 - Adverse reaction to recurring marketings (“blacklist”)
 - Inconvenience to plan administrators and employees / dependents
 - Loss of annual and lifetime plan maximums
 - “Whiplash” when “marketing discounts” disappear
 - **No longer provides effective nor sustainable cost management**
- Expanding traditional cost containment initiatives
 - Review scope of coverage
 - Revise plan deductibles, coinsurance, maximums, etc.
 - Assess premium cost sharing
 - Limit employer contributions
 - **Exhausts employee cost sharing and strains fiduciary responsibilities**

Proactive Benefit Plan Management

Understanding what is in the benefit plan costs



Short Term

Financing

Mid Term

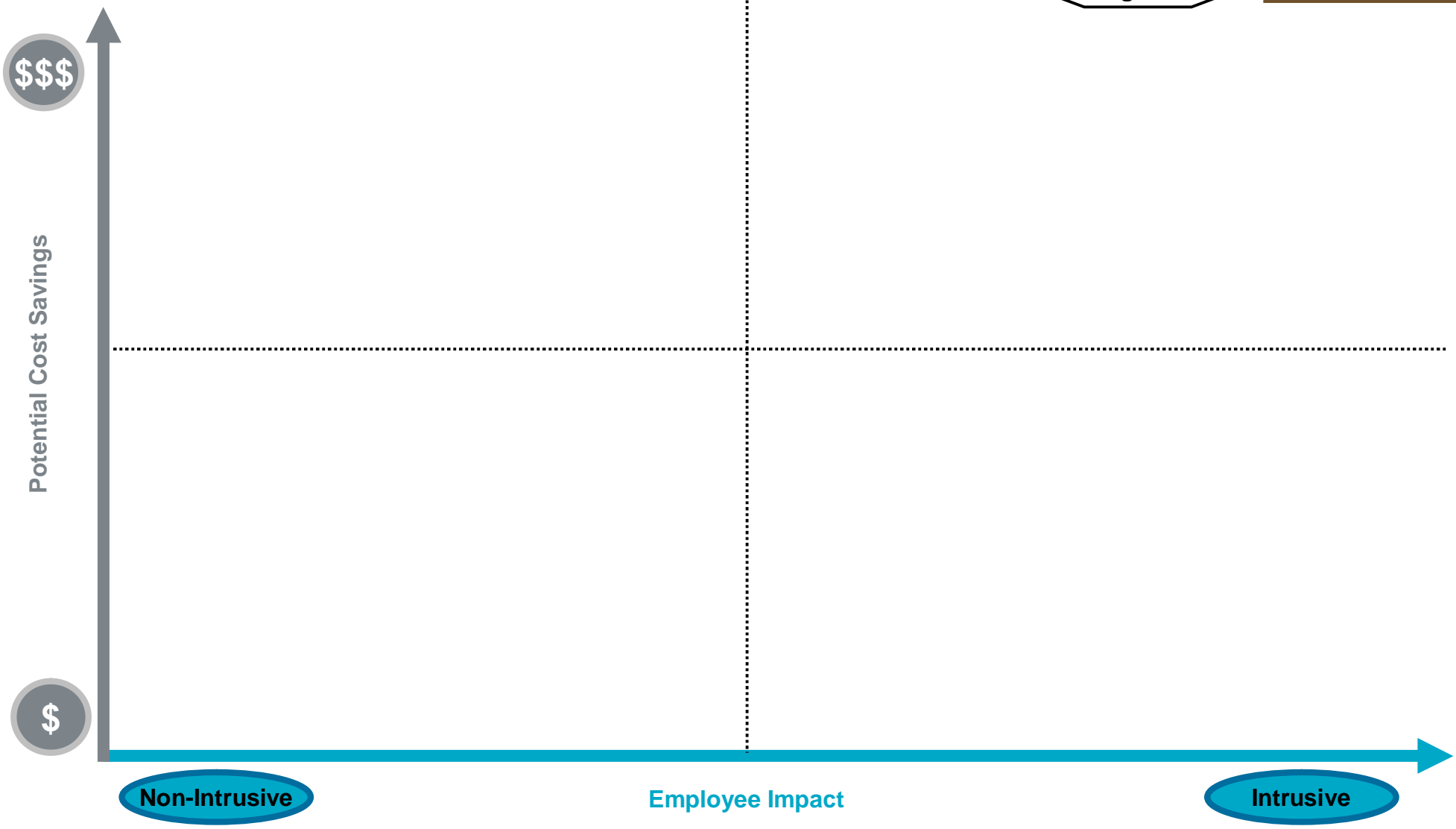
Design

Long Term

Delivery

Health Mgmt

Proactive Benefit Plan Management Developing your perspective on strategic governance



Short Term

Financing

Mid Term

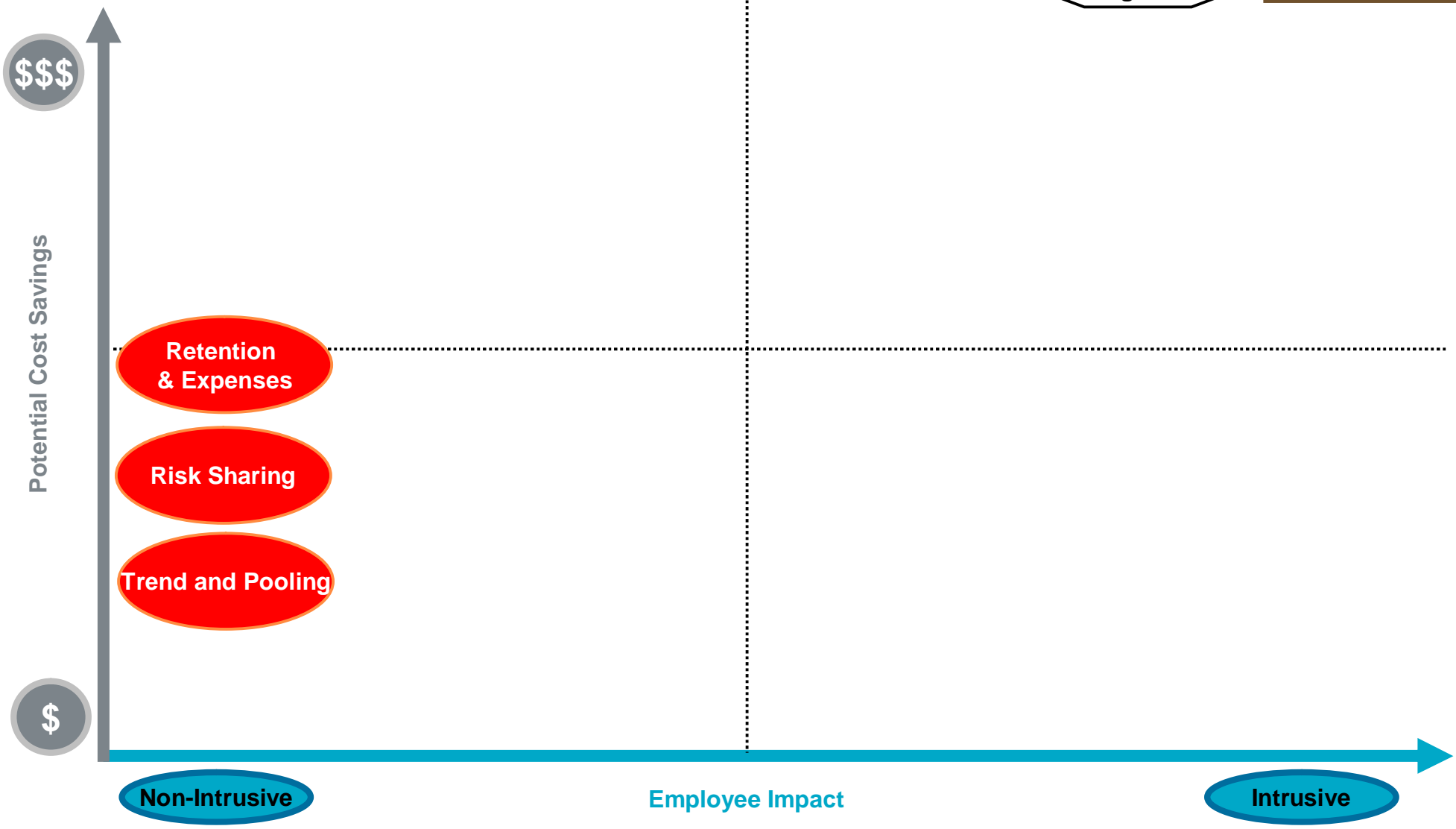
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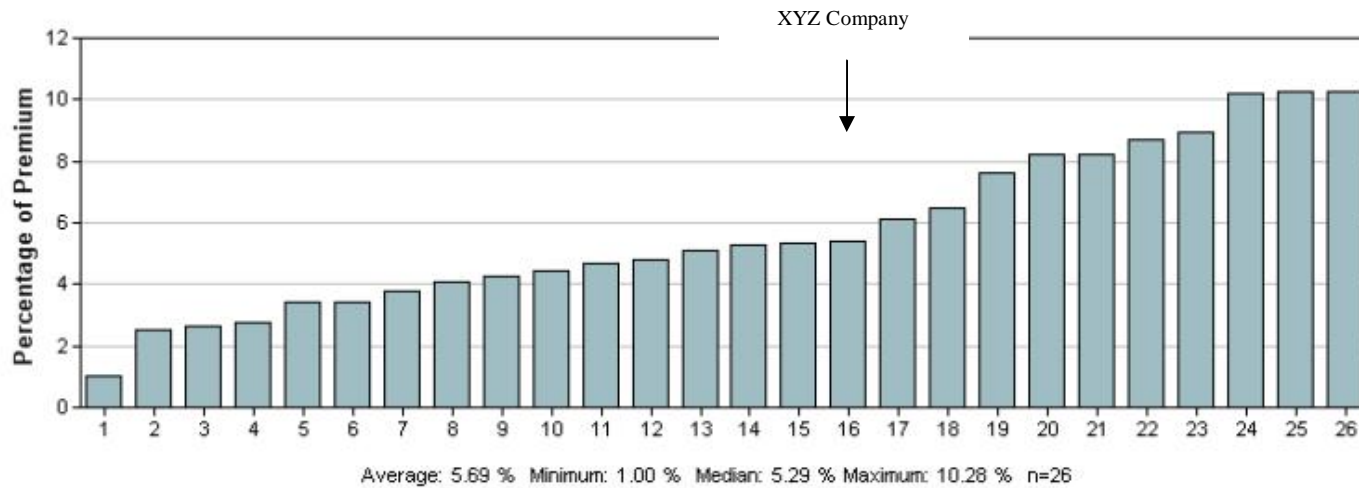
Proactive Benefit Plan Management Developing your perspective on strategic governance



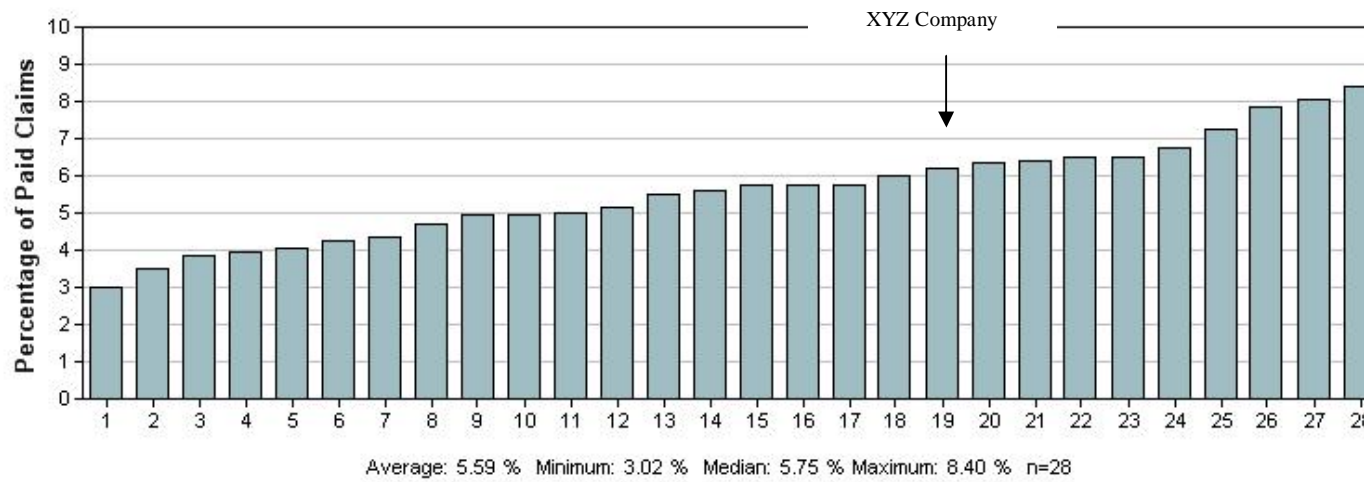
Proactive Benefit Plan Management

Benchmark retention and expense charges

LTD Retention Comparison



Health Retention Comparison



Proactive Benefit Plan Management

Evaluate risk sharing alternatives

Insured

**Non-Refund
Accounting**



Self-Insured

**Administrative
Services Only - ASO**

**Refund
Accounting
Advantages**

- Stable costs during the year
- No “deficits” to repay

- Stable costs during the year
- Employer keeps “surpluses”
- May walk away from a “deficit” depending on the financial agreement

- Added flexibility
- Employer keeps “surpluses”
- No risk charges
- Added negotiability
- Control of funding
- No premium tax (some Provinces)

Disadvantages

- Insurer keeps “surpluses”
- Least financially negotiable
- Limited claim exceptions

- Expected to repay “deficits” over time
- Risk charges

- Must repay “deficits” as incurred/negotiated
- Legal liability
- Fluctuations in cash flows

Short Term

Financing

Mid Term

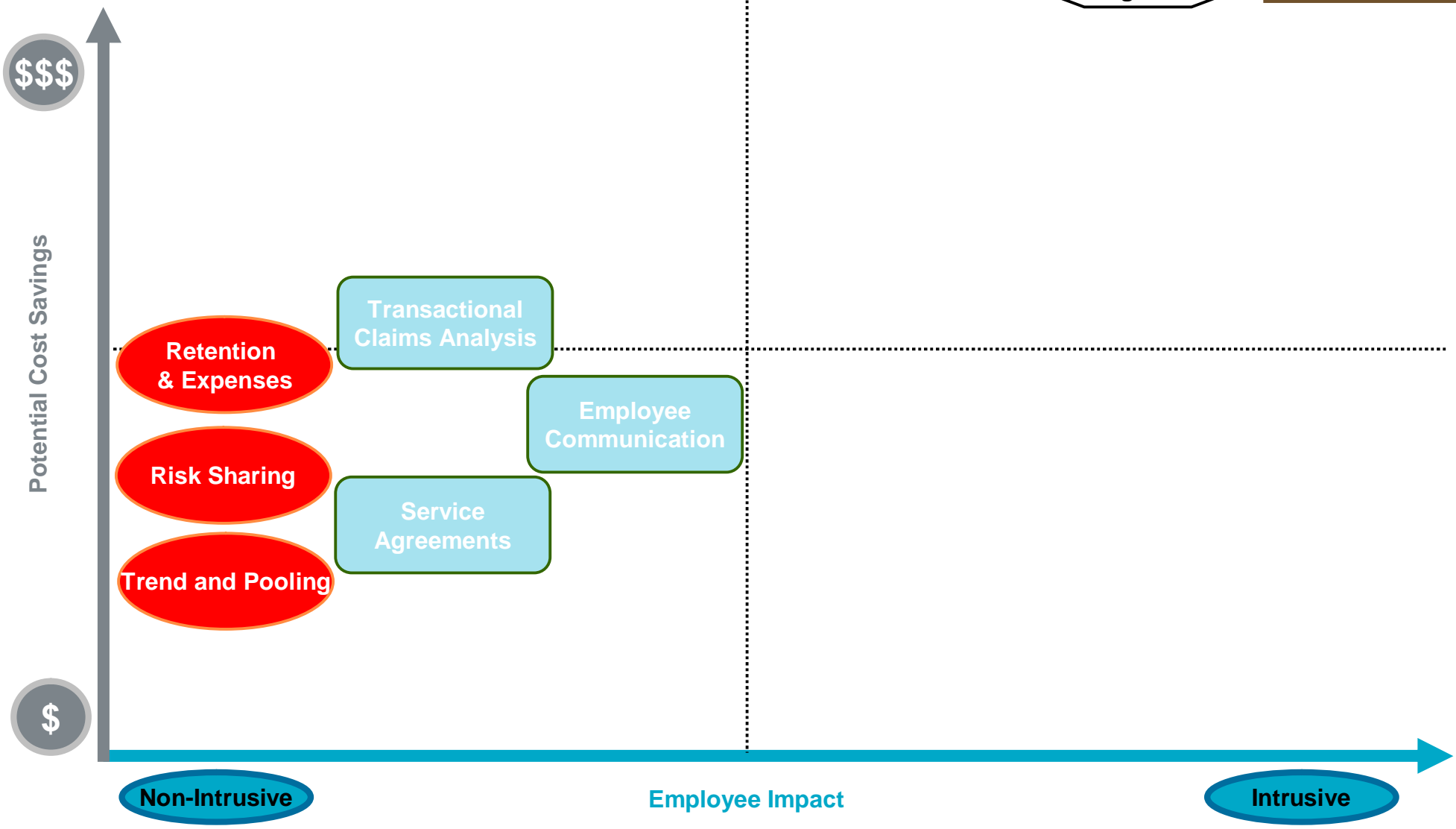
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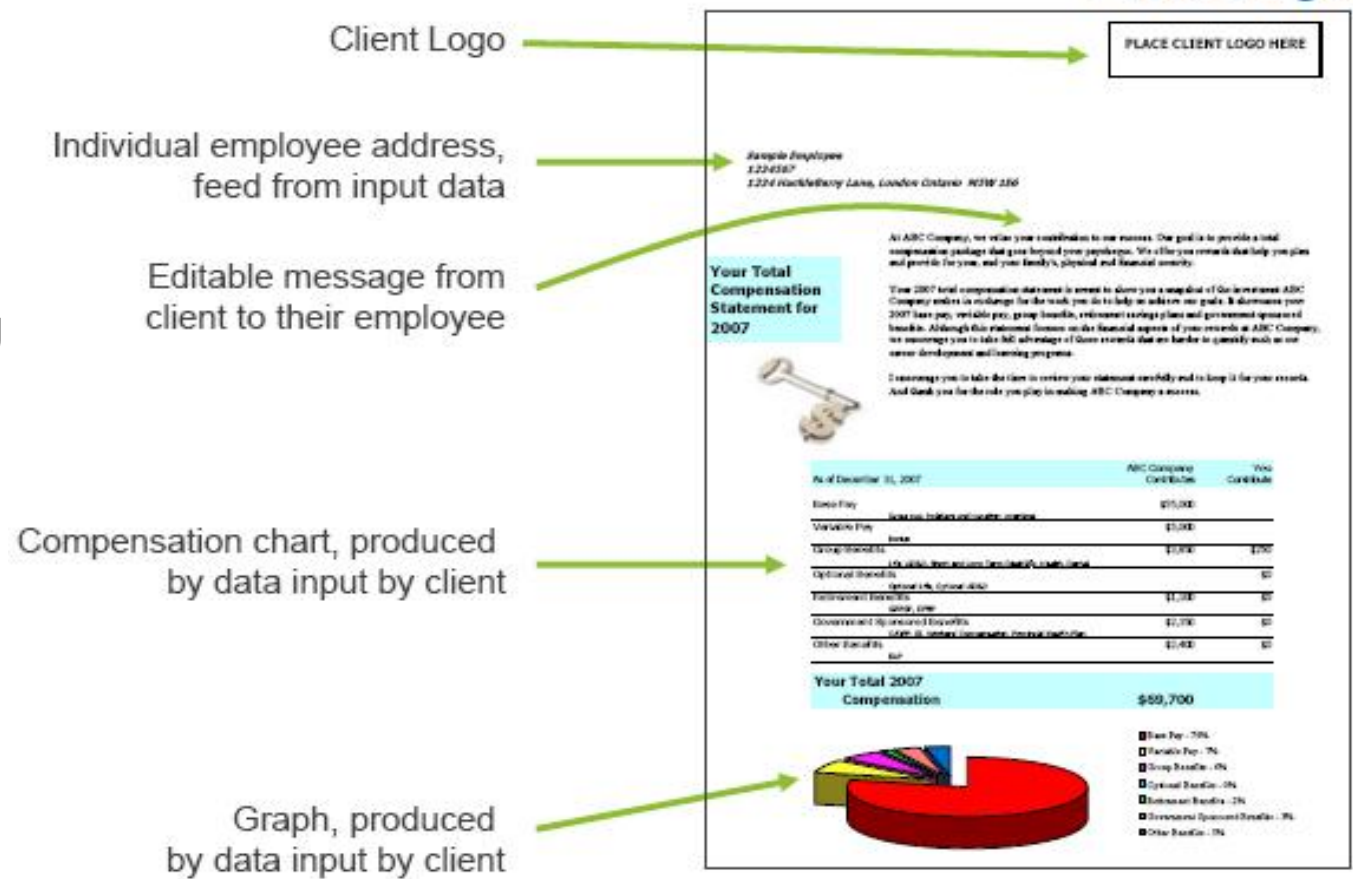
Proactive Benefit Plan Management

Enhance employee communication

- Strong benefits communication can help drive the following competitive advantages
 - Decreased turnover
 - Enhanced recruiting
 - More engaged and loyal employees
 - Improved productivity
 - Reduced benefits administration

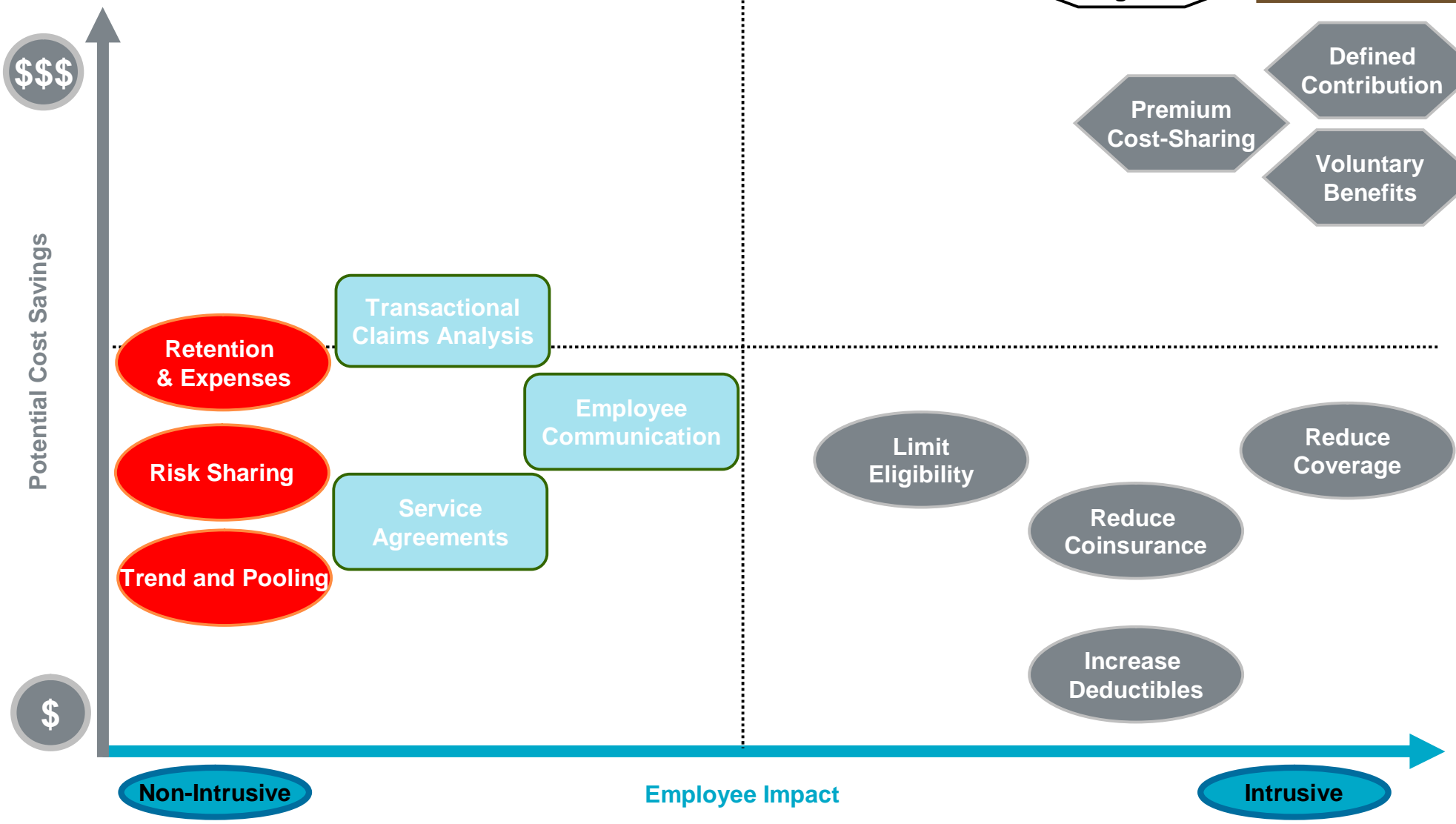
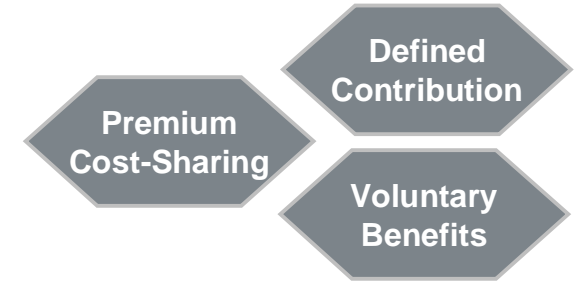
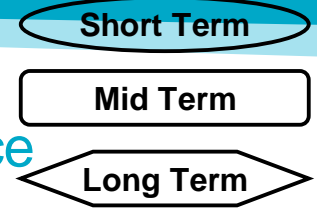
Mercer Total Compensation Statement Template

Front Page



Proactive Benefit Plan Management

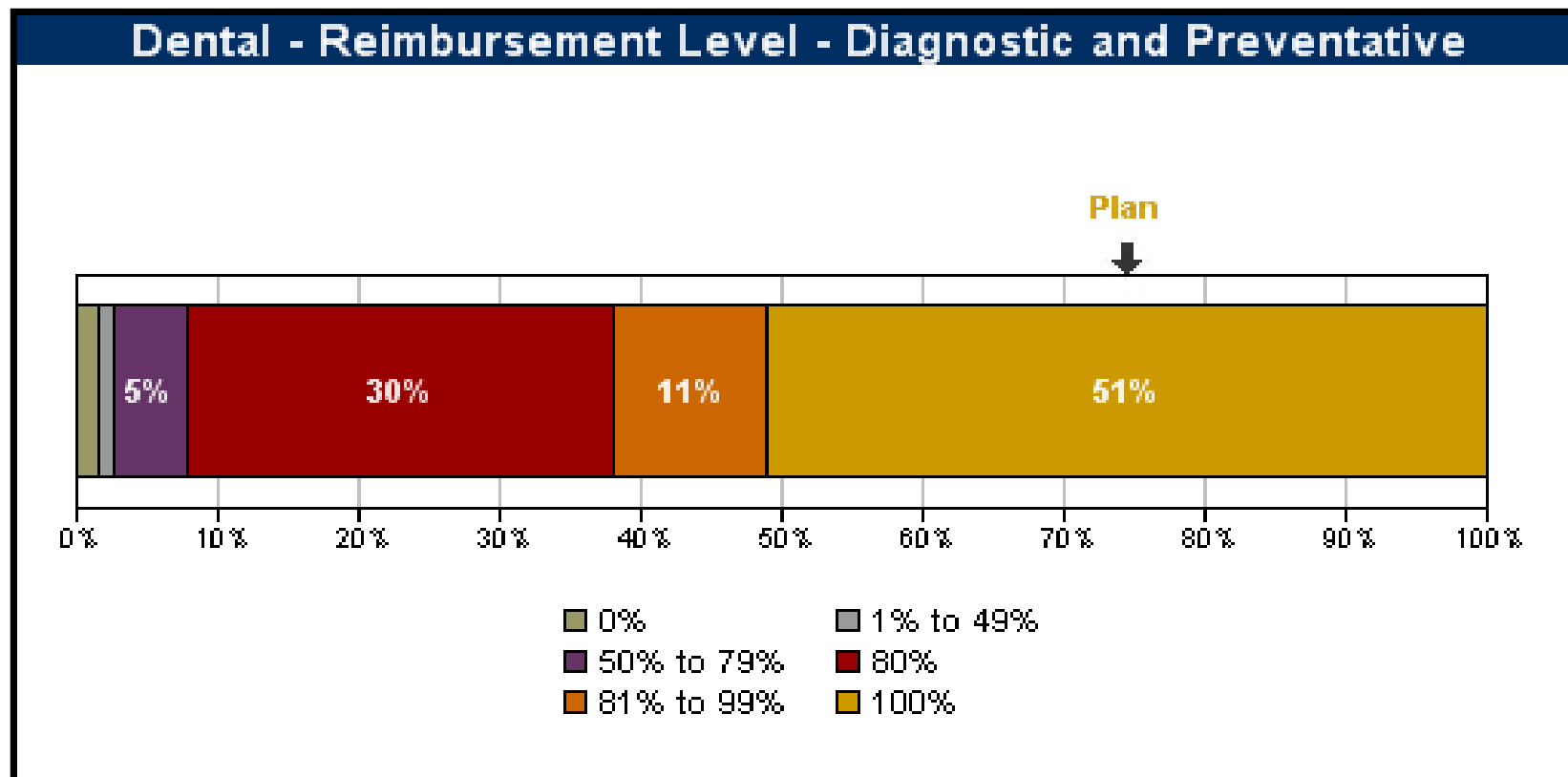
Developing your perspective on strategic governance



Proactive Benefit Plan Management

Benchmarking benefit plan design

- Access a comprehensive database with relevant plan sponsors and benefit plans
- Benchmark against market/comparator plan design provisions to identify competitive positioning

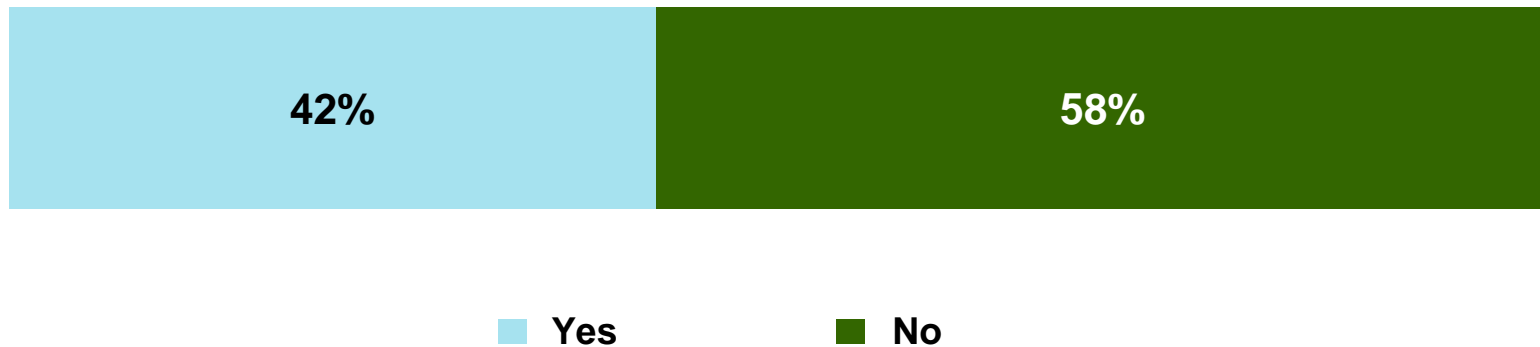


Proactive Benefit Plan Management

How are Canadian plan sponsors responding? Or not?

Extended health plans have deductibles – MYTH – The reality is that more than half (58%) of extended health plans do not have a deductible. For those plans with a deductible, the most prevalent deductible value is \$25 – an amount that has not changed in decades.

Single/Family Annual Deductible for Health



Source: Mercer Plan Design Database: health and benefits

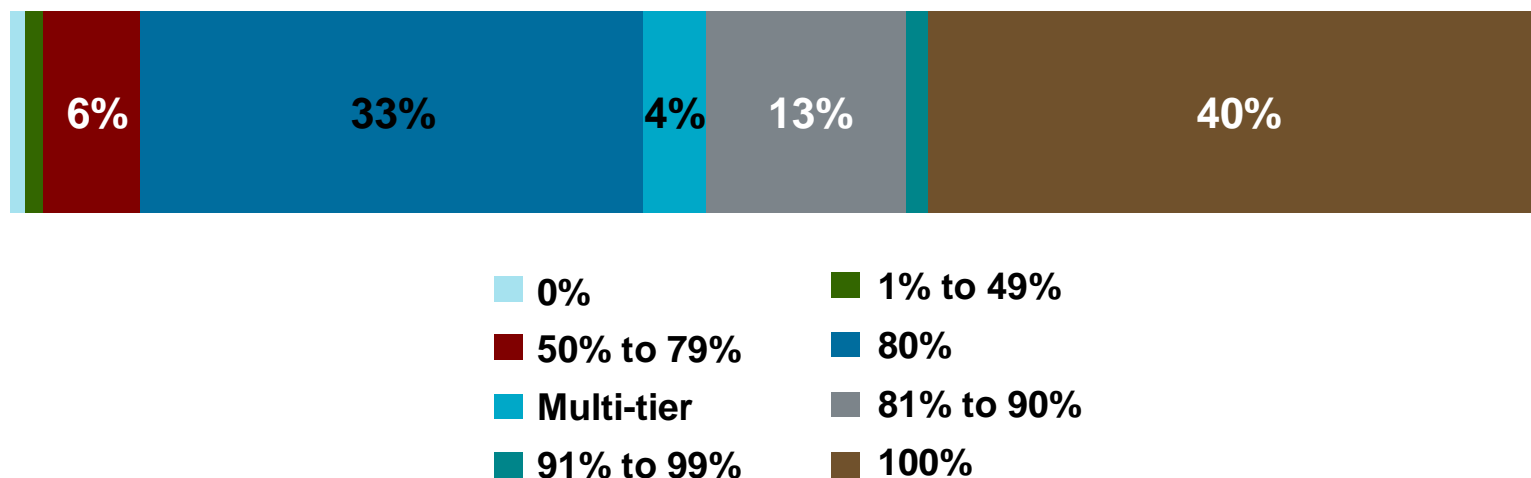
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Proactive Benefit Plan Management

How are Canadian plan sponsors responding? Or not?

Most drug programs are cost-shared with claimants through co-insurance – MYTH – The most common co-insurance percentage for the reimbursement of drug expenses is 100%.

Health – Drugs – Coinsurance



Source: Mercer Plan Design Database: health and benefits

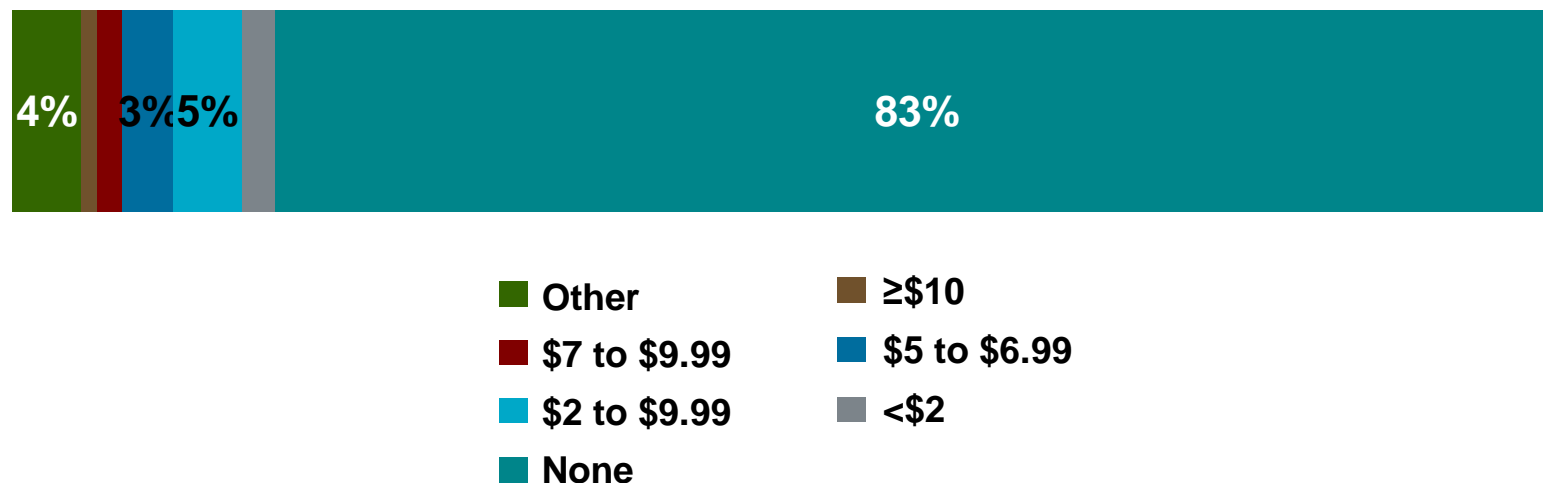
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Proactive Benefit Plan Management

How are Canadian plan sponsors responding? Or not?

In light of increasing drug costs, per-prescription deductibles are the norm – MYTH – Actually, only 17% of plans in the Mercer database have implemented a per-prescription deductible.

Health – Drug – Per Prescription Deductible - Prevalence



Source: Mercer Plan Design Database: health and benefits

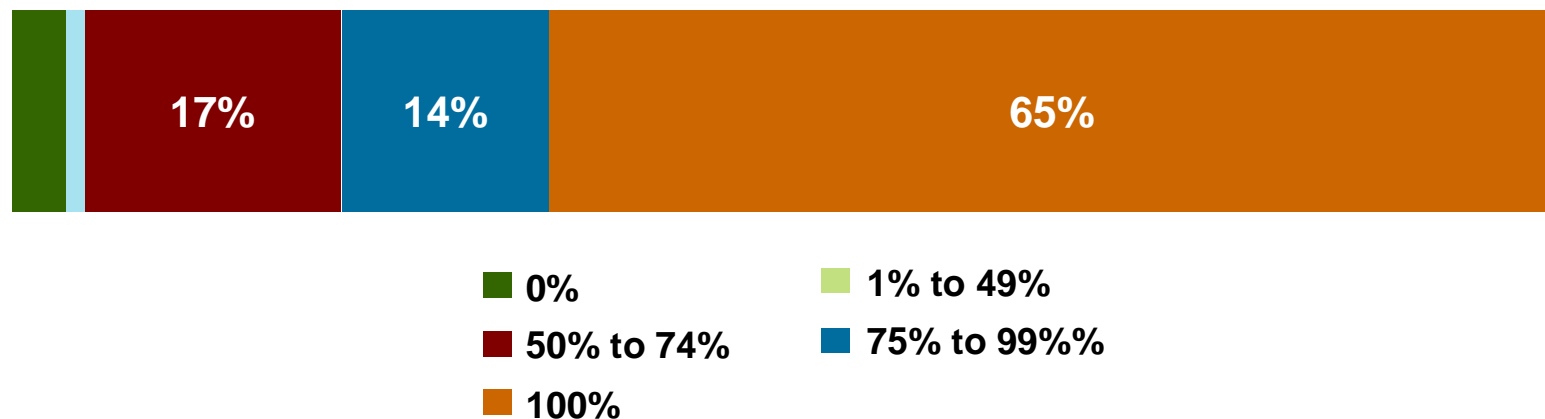
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Proactive Benefit Plan Management

How are Canadian plan sponsors responding? Or not?

Extended health coverage is often cost-shared – MYTH - 65% of employers still pay for 100% of the cost of extended health coverage.

Health – Employer Cost Sharing Summary - Traditional Plans Only



Source: Mercer Plan Design Database: health and benefits

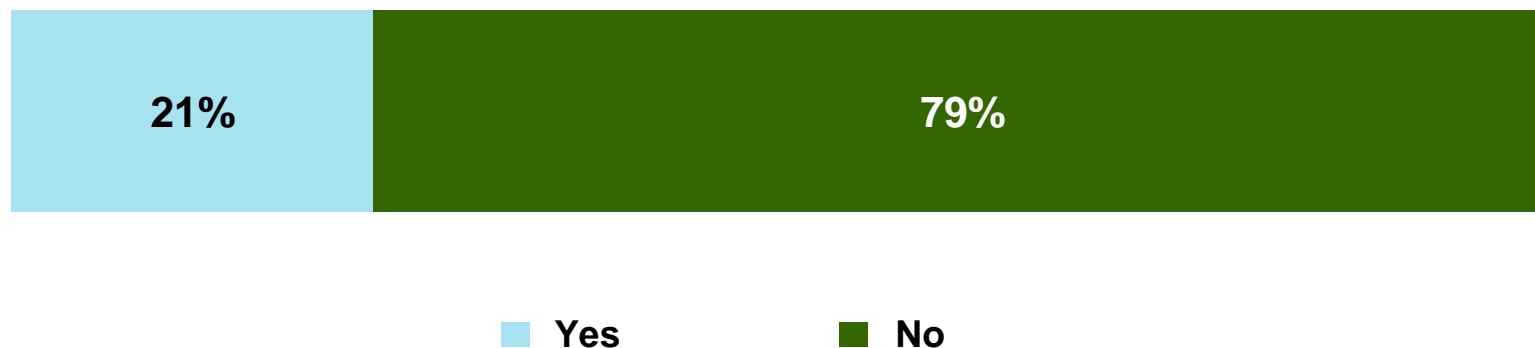
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Proactive Benefit Plan Management

How are Canadian plan sponsors responding? Or not?

Dental plans have deductibles – MYTH – For dental, the story is similar – only 21% of plans have a deductible with the most prevalent deductible being \$25 per single and \$50 per family. Similar to extended health, these levels have not changed in decades.

Dental – Single/Family Annual Deductible



Source: Mercer Plan Design Database: health and benefits

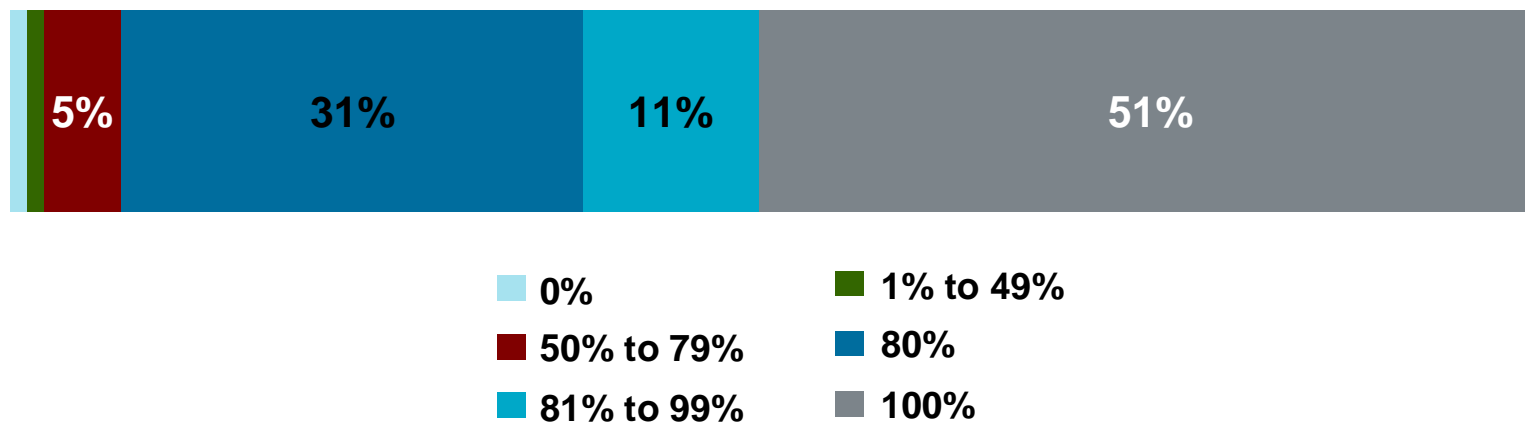
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Proactive Benefit Plan Management

How are Canadian plan sponsors responding? Or not?

Routine dental expenses are generally reimbursed at less than 100% co-insurance – MYTH – The most common co-insurance percentage for the reimbursement of routine or basic dental expenses is 100%.

Dental – Routine – Coinsurance



Source: Mercer Plan Design Database: health and benefits

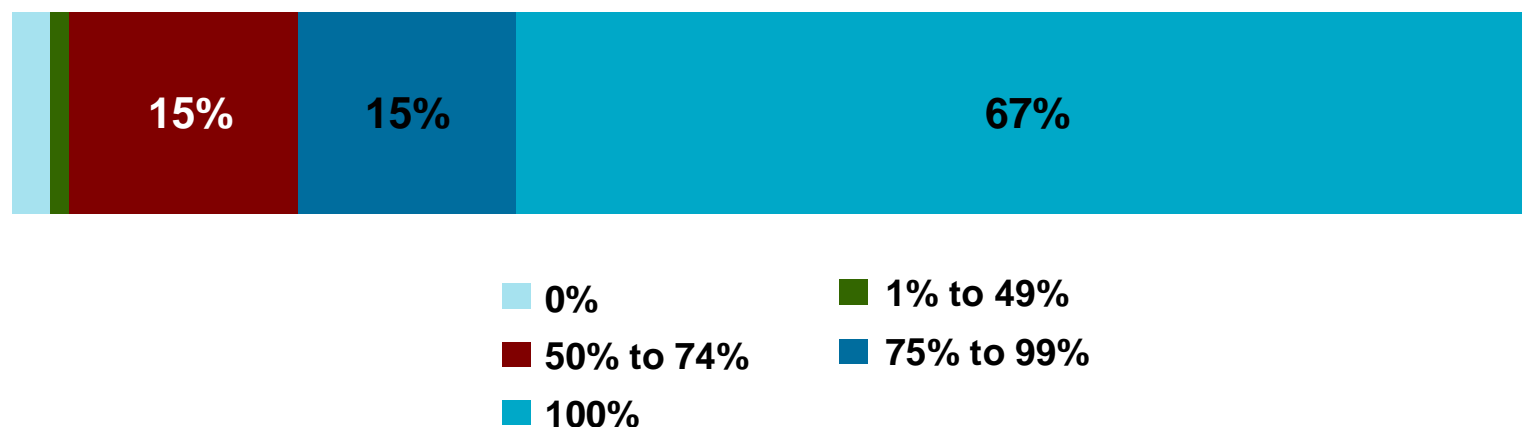
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Proactive Benefit Plan Management

How are Canadian plan sponsors responding? Or not?

Dental coverage is often cost-shared– MYTH – It might be growing but at a low rate – 67% of plan sponsors still pay 100% of the cost of dental coverage.

Dental – Employer Cost Sharing Summary – Traditional Plans Only

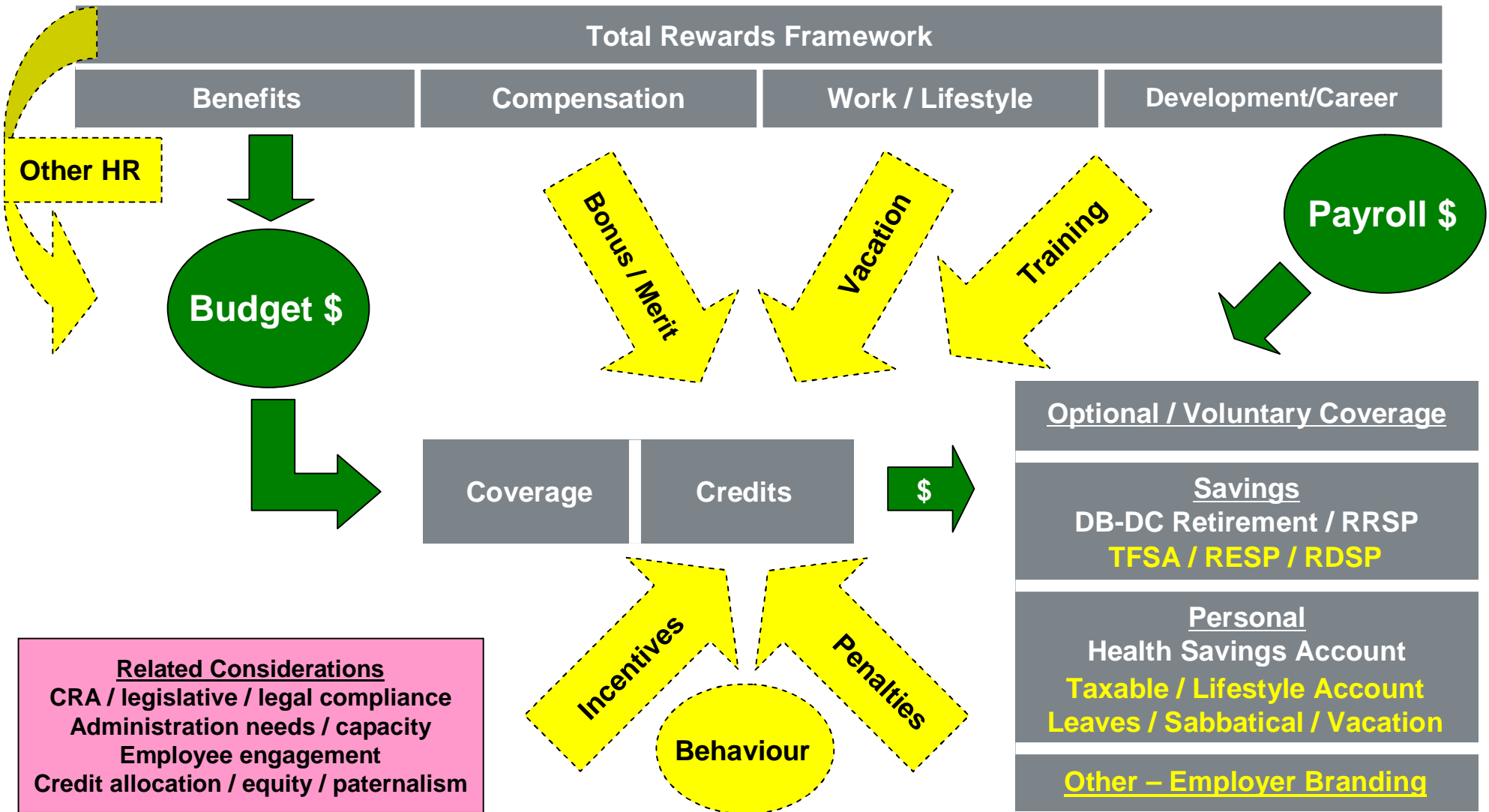


Source: Mercer Plan Design Database: health and benefits

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Proactive Benefit Plan Management

The future - additional flexibility and choice in benefits plans



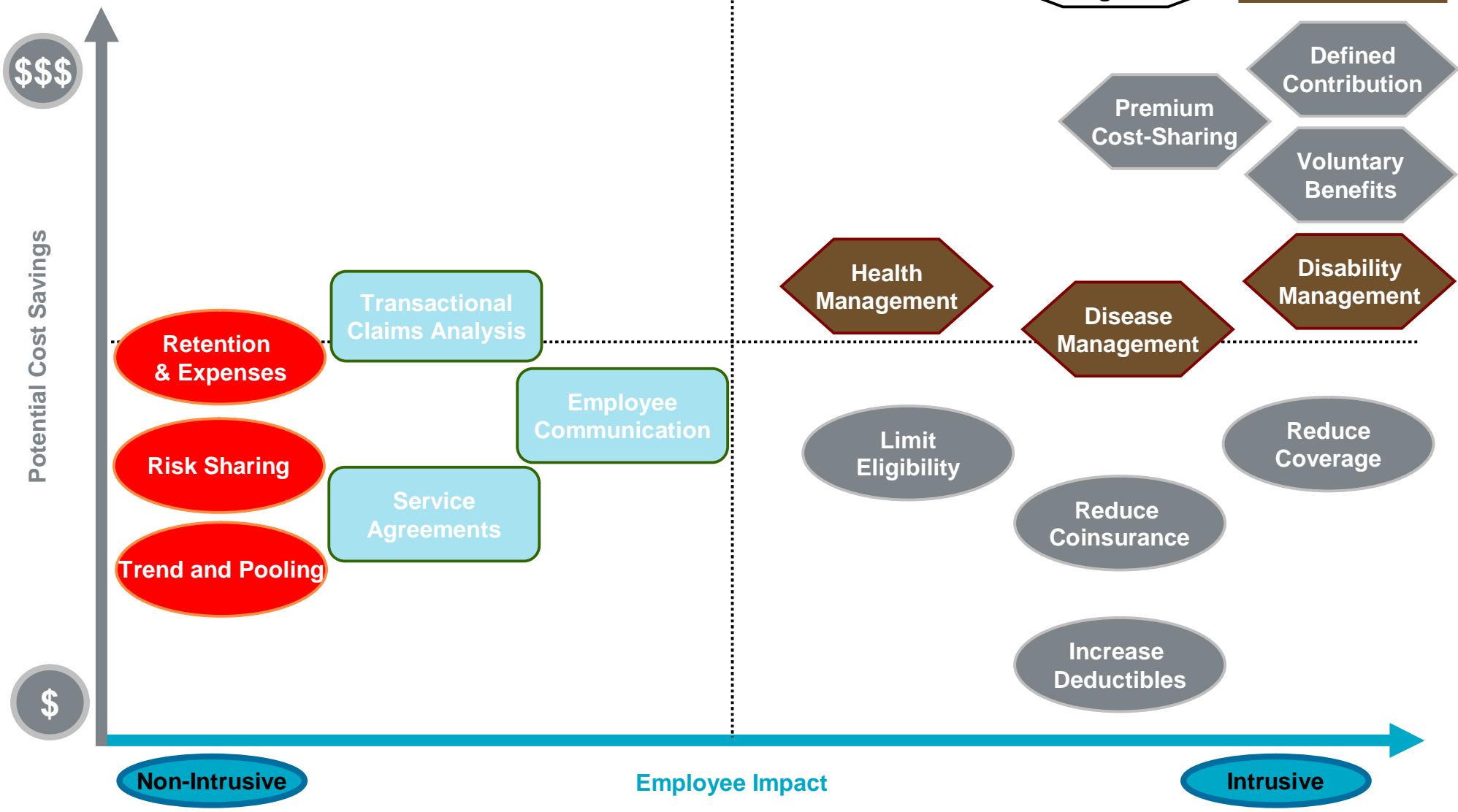
Related Considerations
 CRA / legislative / legal compliance
 Administration needs / capacity
 Employee engagement
 Credit allocation / equity / paternalism

Short Term
 Mid Term
 Long Term

Financing
 Design
 Delivery
 Health Mgmt

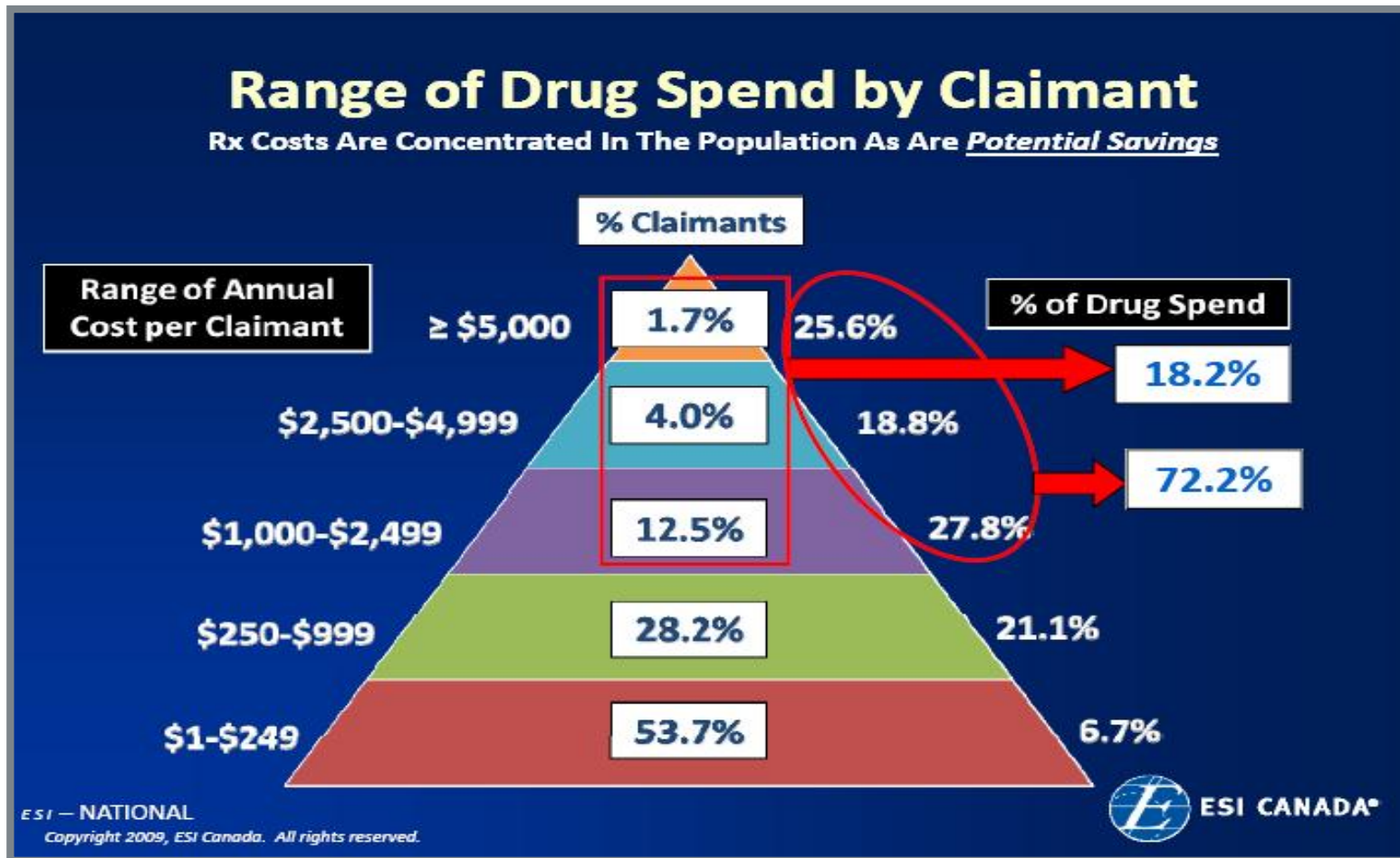
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Developing your perspective on strategic governance



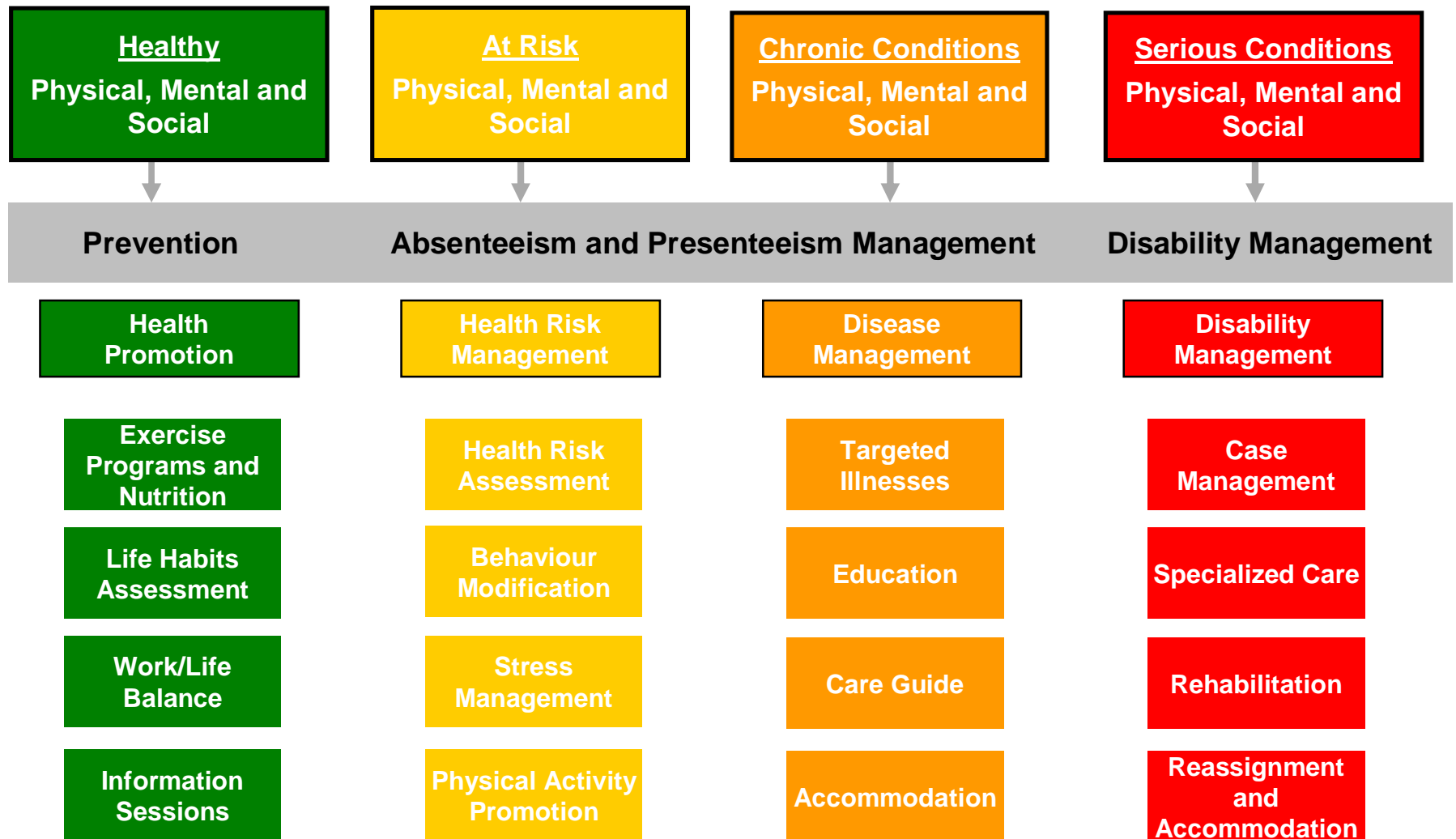
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80/20 Rule – 80 per cent of claims / 20 per cent of population



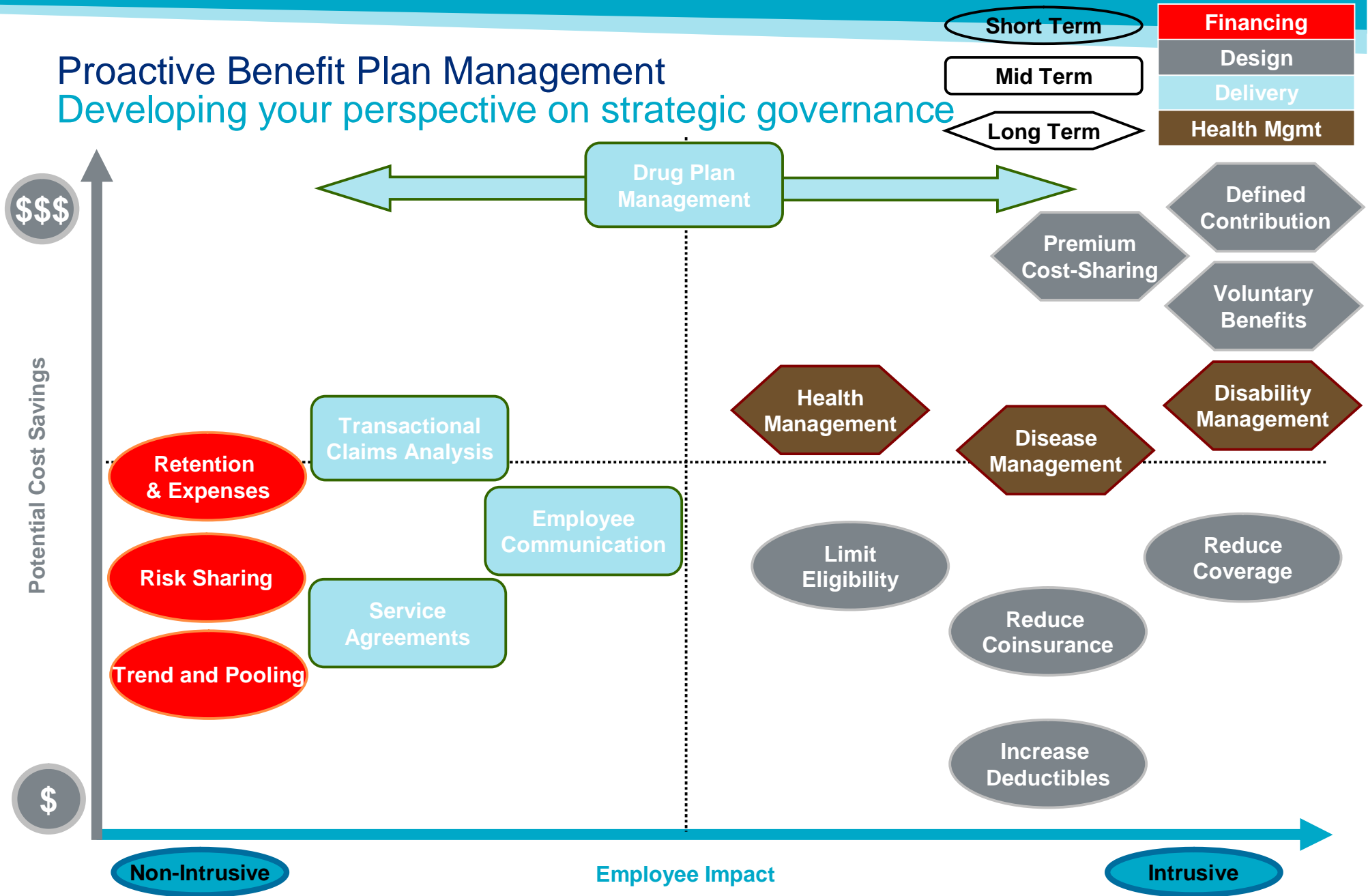
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Focus on organizational health continuum



Proactive Benefit Plan Management

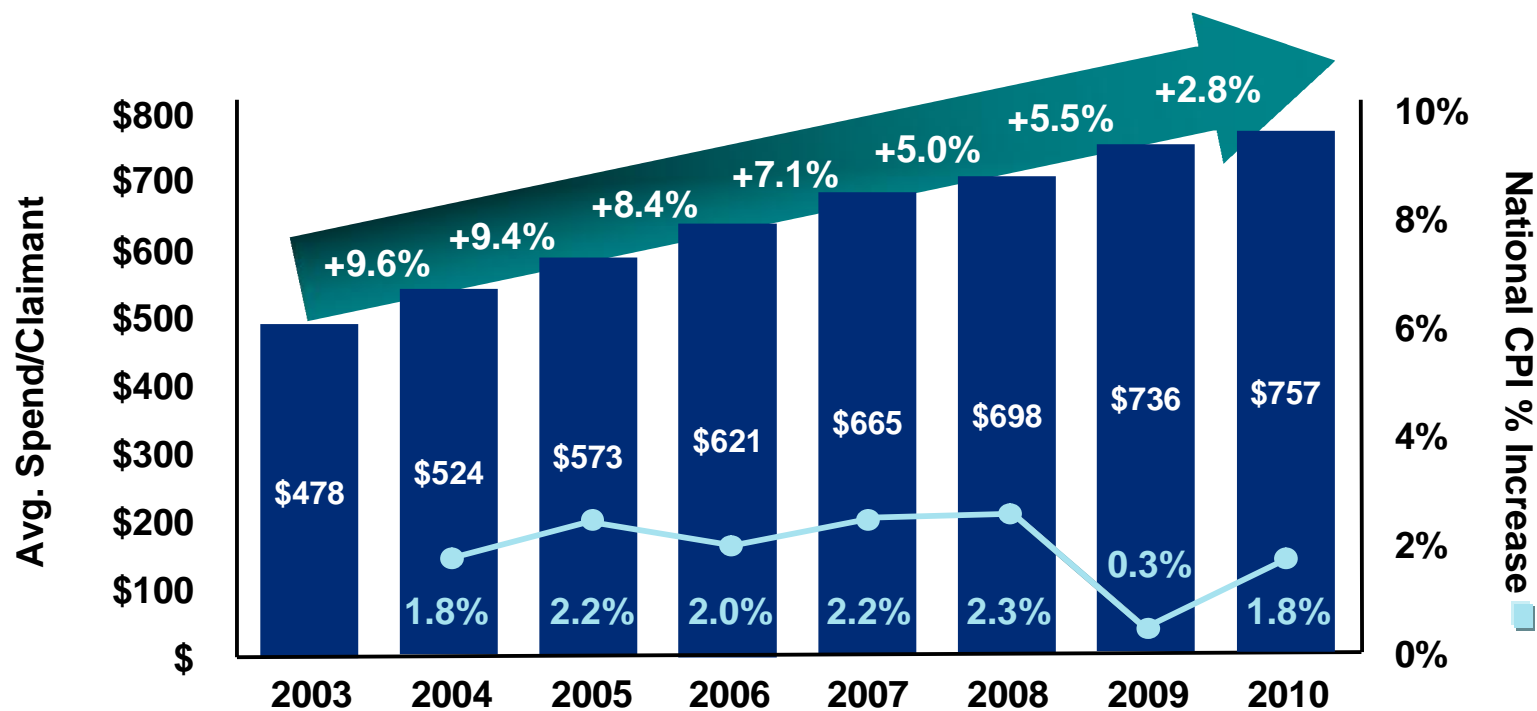
Developing your perspective on strategic governance



Proactive Benefit Plan Management

Looking ahead – drug costs are still the biggest concern

Annual Drug Spend Per Claimant

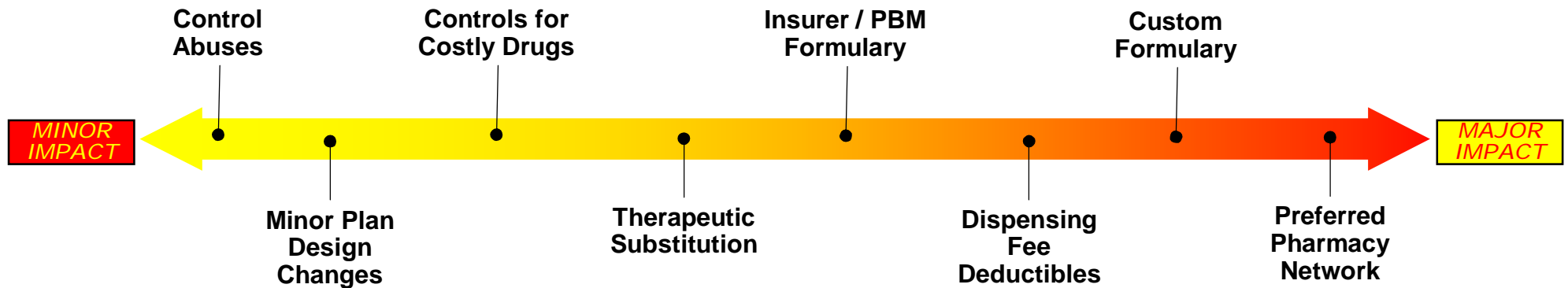


- Drug spend up; however **percent increases cooling**
- Still outpaces annual inflation rate

Source: ESI Canada

Proactive Benefit Plan Management

Assess drug plan management strategies

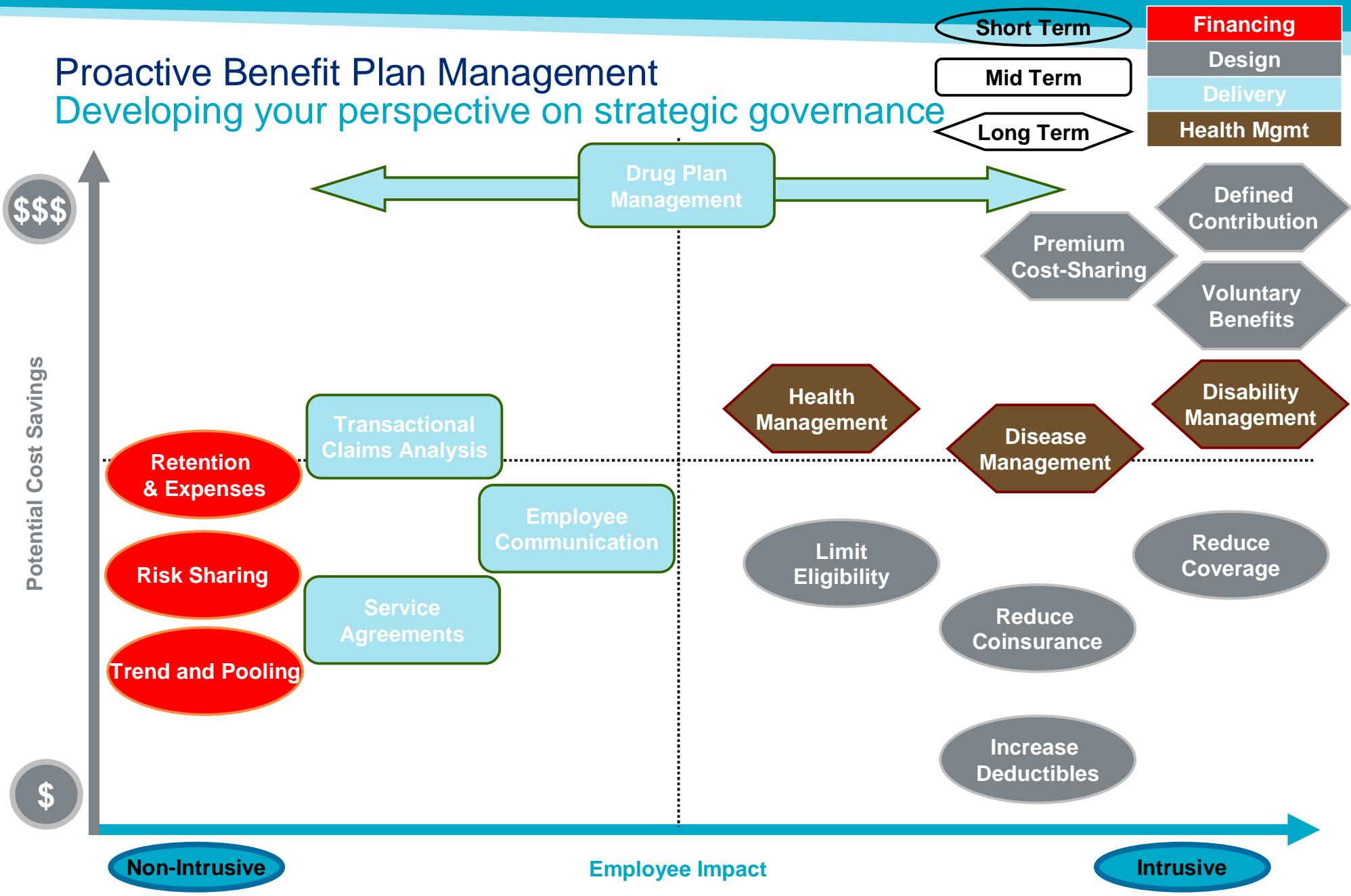


PLAN SPONSOR CONSIDERATIONS

- Current and future drug utilization
- Pipeline of new and costly drugs under development
- “Patent cliff” on brand name drugs
- Government regulatory reform and private plan impact
- Current versus future role of pharmacies
- Role of drug card in pharmacy management
- Employee education and communication (consumerism)
- Role of health management

Proactive Benefit Plan Management

Developing your perspective on strategic governance



Summary And Questions ...

- Stay on top of issues and trends in the market
- Understand the realities of your current plan
- Develop strategies that address both your plan-specific issues and broader market trends
- Take a long term perspective



About Dan Eisner

Principal – Health & Benefits Business, Vancouver

- Dan applies his experience as a human resource consultant and employee benefits specialist, and his skills as a Chartered Accountant to partner with organizations to maximize the value and ensure the sustainability and relevance of their benefits strategies.
- His passion is facilitating the dialogue between human resource and finance professionals to develop employee benefits strategies that recognize the increasing financial complexity of benefits and their integration into the broader business strategy.
- Dan regularly speaks at industry events, most recently focusing on workforce strategies to enhance the level of employee choice and flexibility, to implement proactive benefit plan management strategies, and to address issues related to the aging workforce.
- Dan has been very active in the community and is a past President of the Alzheimer Society of BC and a past director of the Alzheimer Society of Canada. In 2003 he received *H.R.H. Queen Elizabeth's Golden Jubilee Award* for public service in Canada, in 2006 he was recognized with a *Community Service Award* from the Institute of Chartered Accountants of British Columbia, and in 2007 he received the *Clyde and Lanny Slade Leadership Award* from the Alzheimer Society of BC.



