

REDEFINING MEANINGFUL BENEFITS STARTS WITH AN OPEN MIND

Prediction: By 2025, defined contribution group benefits will become a common, even popular, option in the Canadian group healthcare market, allowing more choice, lower costs, and portability.

When you hear the term defined contribution (DC), you might typically think of retirement plans. But, in the very near future, you'll have to ask: "Do you mean retirement or healthcare?" While DC-type health plans only make up about 5% of all group coverage in Canada, we expect this could increase to 40% in eight years.

And while we have not seen a significant shift in the benefit promise over the years, change is in the air. With this in mind, we see the need for a fundamental rethink of both the benefits we provide and how we provide them. At this important juncture, we encourage all plan sponsors to keep an open mind.

WHY THE NEED FOR A RETHINK?

- **Cost:** Over the next eight years, we project that healthcare [costs will increase](#) 130% after recent years of relatively flat growth. Much of this is due to the escalating costs of specialty medicines. For most organizations – if not all – a more than doubling of healthcare costs is a frightening scenario, and plan sponsors will increasingly look at how they might cap their expenditures.

- **Changing demographics:** There are now five generations in the workforce, and each one brings different needs, wants, and expectations as it relates to the benefits promise.
- **Opportunity:** There are far more products and services in the market today tailored to the needs of the individual. As a benefit plans sponsor, you have greatest opportunities to deliver on your benefit promise in a different way.

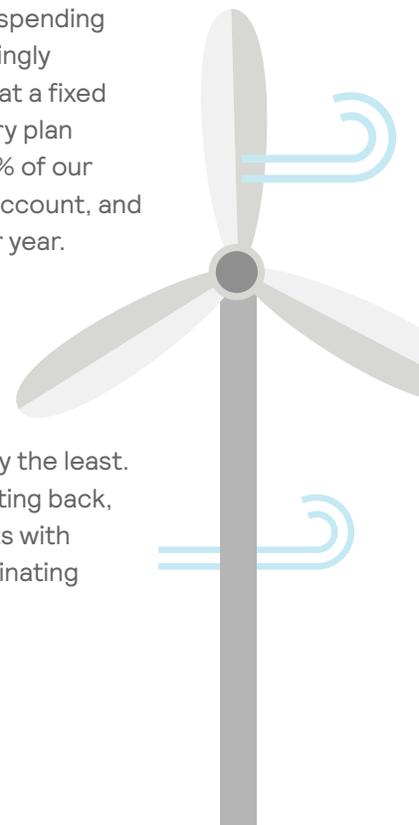
DC-TYPE APPROACH

We see continued interest in the use of a defined contribution-type approach in framing the benefit promise rather than the traditional benefit style. Taxable and non-taxable spending accounts are becoming increasingly popular in adding plan flexibility at a fixed cost. In addition, our proprietary plan design database shows that 28% of our clients have a health spending account, and we see this increasing year over year.

WHY THE CHANGES?

1. Companies Have to De-risk.

Managing healthcare risk is becoming a daunting task, to say the least. In response, companies are cutting back, which has included sharing costs with employees and reducing or eliminating coverage for retirees.



Some companies have elected to cost-share by offering catastrophic coverage with a Health Savings Account (HSA), in which the company contributes a certain amount toward the employee's deductible or toward the employee's choice of health options. More often, however, organizations are using HSAs to create spending accounts to supplement the core benefit promise.

An advantage to this HSA approach is that employees will typically become better stewards of their healthcare spending if they control the funds, versus having the plan reimburse a provider for services.

2. Voluntary Benefits. In most markets, private employers are looking for ways to reduce costs but also provide greater choices for their employees.

One approach is voluntary benefits. Partnered with a leaner benefits program, voluntary benefits are going to play a growing role in employer-sponsored programs. They offer employers a way to improve their offerings and meet their employees' needs without the expense.

The existing voluntary benefits market in Canada is relatively small – less than \$20 million in annual premiums. The US, by contrast, is significantly and relatively larger (even considering the larger population) at approximately \$5 billion USD in annual premiums. Most US benefit plan sponsors have embraced voluntary benefits as an opportunity to enhance the overall employment value proposition at an employee cost. And the market responded. In Canada, we see tremendous opportunities for Canada benefit plan sponsors, and already we are witnessing an increase in insurers positioning themselves to provide individual products through the worksite.

3. Millennials are Ready. Millennials are already saying they want more options, and companies that don't deliver will find their talent moving on. Through a DC-type plan, employees can shop for coverage that meets their needs, lifestyle, and life stage. They also will have a greater voice in their personal care and in the quality of service they receive.

PERSONAL CONTROL CAN LEAD TO BETTER HEALTHCARE STEWARDS



26% report having a Health Savings Account (HSA), while 32% of plan sponsors without an HSA are interested in doing so.

Members with HSAs are more positive.

	With HSAs	Without HSAs
Meets Needs	60%	50%
Quality	55%	45%

Source: The Sanofi Canada Healthcare Survey, 2017

4. Tools will Help. Technology and [innovation](#) will play a major role in the move toward DC healthcare plans. The traditional group benefits model in Canada is somewhat outdated and isn't as responsive to consumer needs, especially among the more tech-savvy younger workers. Technology is driving change in Canadian healthcare and making it easier for consumers to make informed healthcare decisions just for them.

Technology can help differentiate your benefit value proposition – especially for the younger workforce – and increasingly, **the benefit is being defined by not only what it is but how it is delivered.** User experience has become as important as the benefit itself. And technology is facilitating the introduction of a wide range of products and services in the market like never before. The opportunity to expand the traditional notion of a benefit is limitless.

THE FUTURE BENEFIT PROMISE

BASIC PLAN COVERING ESSENTIAL FINANCIAL RISKS

VARIABLE FLEX DOLLARS EMPLOYEE CATEGORY, SENIORITY, SALARY,
COVERAGE STATUS, PERFORMANCE



SAVINGS

- Pension Plan
- RRSP
- Savings / Stock Purchase Plans
- Financial Planning
- TFSA



HEALTH

- Enhanced traditional benefits
- Critical Illness
- Out of Country
- Long Term Care
- Wellness Programs
- Elderly Care
- Child Care
- Subsidized Meals
- Gym Membership
- Health Exams
- Vaccination Clinics



LIFESTYLE

- Vacation
- Reward Programs
- Training
- Concierge Services
- Dry Cleaning Services
- Day Care
- Legal Counselling
- Computers / Cell Phones / Internet Access
- Group Home & Auto

THE FUTURE IS YOURS

The future of benefits will be a flexible, total compensation approach to plan design, and your employee compensation consists of a number of different, but equalled valuable components:

- It's your pay – base and bonus.
- It's your benefits and pensions.
- It's your leave policies – including vacation.
- It's your perks.
- It's your investments in training and development.

Imagine the potential of providing each employee with the opportunity to shift these investments around each year to better align with their own unique needs – to trade pay for benefits, to increase some elements and reduce others, to substitute pensions for additional training, and countless other options. With technology, this is all becoming more of a reality.

WHAT YOU CAN DO

In a short eight years, we envision a remarkably new healthcare environment in which defined contribution group benefits will become much more common, providing more choice, lower costs, and portability. Employees will be ready for this new approach, and technology will help drive change. Organizations that wish to be on the cutting edge of this new movement must not only keep an open mind but proactively seek tomorrow's solutions, today.

Get started on key pieces today and you will not only manage your costs but will deliver a better value proposition to your employees. And, you don't have to go it alone; we are here to help. As a firm, we believe we have a unique perspective on the future of healthcare, including plan redesign, technology, voluntary benefits and more. Yes, it's complicated. But, our dedicated team will partner with you to make it simple.

[CONTACT US](#) TODAY TO DISCUSS THE FUTURE.

ABOUT MERCER

At Mercer, we make a difference in the lives of more than 110 million people every day by advancing their health, wealth, and careers. We're in the business of creating more secure and rewarding futures for our clients and their employees – whether we're designing affordable health plans, assuring income for retirement or aligning workers with workforce needs. Using analysis and insights as catalysts for change, we anticipate and understand the individual impact of business decisions, now and in the future. We see people's current and future needs through a lens of innovation, and our holistic view, specialized expertise, and deep analytical rigour underpin each and every idea and solution we offer. For more than 70 years, we've turned our insights into actions, enabling people around the globe to live, work, and retire well. At Mercer, we say we *Make Tomorrow, Today*.

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