

THE FUTURE OF GOVERNMENT FUNDING: THE PUBLIC PROMISE WILL CHANGE

Canada's public healthcare system isn't going away anytime soon, but the public promise of universal care will have to change. So, what does this mean for health plans and consumers? You will be paying more.

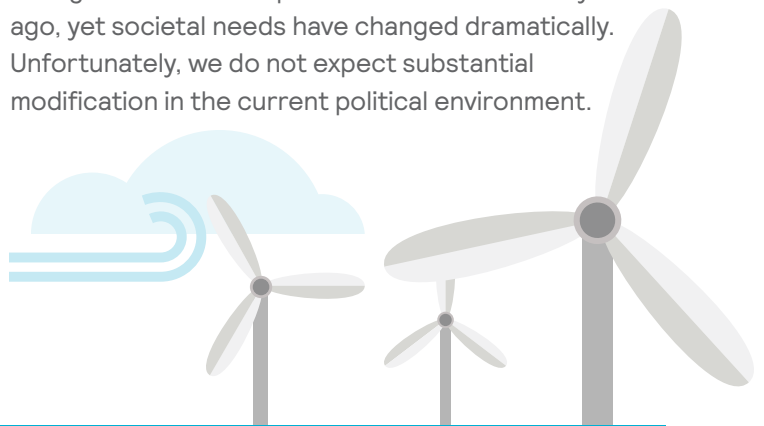
Canada's universal [healthcare system](#), implemented federally (and primarily financed provincially) in 1966 and modified in the Canada Health Act of 1984, provides all citizens with free healthcare coverage (aside from contributing tax dollars) for hospital services, physician care, and surgical-dental services.

While the system was created with good intentions, it is flawed and unsustainable as currently operated. According to the Canadian Institute for Health Information, total health expenditure in Canada was expected to reach \$228 billion, or \$6,299 per person, in 2016; 11% of Canada's GDP. Still, in most recent years, healthcare inflation has been modest – mostly due to the economic downturn – but double-digit inflation is coming your way – very soon.

CANADIAN MEDICARE

The public system provides the core around which employee benefit programs wrap around, but as healthcare spending approaches 50% of some provinces' total budgets, something must change. And most likely, it will include a combination of various measures.

One option is government reform. The current healthcare delivery system is outdated and not in line with current budget realities, consumer expectations and technological advancements. The system has changed little since implemented more than 50 years ago, yet societal needs have changed dramatically. Unfortunately, we do not expect substantial modification in the current political environment.



COST HIGHLIGHTS

In 2014, the public share of prescribed drug spending ranged from 29.8% in New Brunswick and 33.0% in Prince Edward Island to 45.5% in Quebec and 49.9% in Saskatchewan.

Since 1997, the public-sector share of total health expenditure has remained relatively stable at around 70%.

Services covered under the Canada Health Act are financed mainly by the public sector, while drugs and other professionals are financed primarily from private-sector sources.

Out-of-pocket expenditures accounted for 48.4% of private-sector spending in 2014, down from 58.1% in 1988.

Hospitals, drugs and physicians have been the top three categories of health spending in Canada over time. In 2014, they accounted for more than 60% of all health expenditures.

Source: Canadian Institute for Health Information

The most realistic scenario is that government will simply pass along greater financial responsibilities to plan sponsors and consumers. At a minimum, the provinces will no longer be able to fund existing commitments. Add in cost pressures from an aging population, and government will be forced to reduce coverage, extend wait times and remove the “free” aspect of universal care.

Why has the situation become so urgent? Here are a few of the most pressing challenges:

Aging population: As Baby Boomers and Gen Xers [age and retire](#), this is putting greater strain on already tight public budgets. In addition, Canadians are living longer than ever before.

Budget priorities: Healthcare accounts for about 50% of some provincial budgets, which is squeezing out funding for other priorities, such as education, public protection, infrastructure, and social services.

Expensive treatment protocols: The public system is exposed to medical inflation just as private health plans, and high-cost drugs have recently had a disproportionately high impact.

Pharmacare: And while the constraints on the private sector grow, some provinces continue to expand coverage. Ontario recently surprised many by increasing healthcare spending and by adding universal drug coverage for those 24 and younger. This has reignited a debate on the expansion of the healthcare system to include universal drug coverage for all Canadians. While laudable, we do not see this happening in the near future – for many reasons:

- The federal government has clearly stated it has no immediate interest in introducing a national pharmacy program and instead is focused on driving down drug costs.
- Healthcare policy and delivery is squarely in the provincial domain – a national pharmacare program would require all provinces and territories to agree on a common approach. In many cases, this would mean abandoning an existing model. Consensus on this issue would be very difficult.

- Some suggest that a national drug program may in fact save costs, however, there would be a transition period during which additional investments would be required. And most provinces are tapped out.

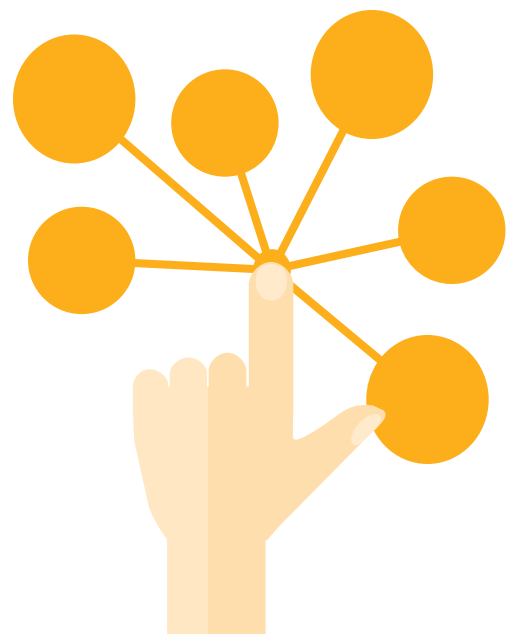
WHAT TO EXPECT

In short, with the shrinking public promise, your plans will be exposed to increasing costs. The public sector will first cut costs. Government will consider innovations and alternative funding models, but public entities are not known for their prudence or haste.

Meanwhile, wait times will continue to worsen. Canada has some of the longest wait times for access to healthcare among peer nations. It can be quite challenging to even find an available general practitioner, let alone schedule a visit with a specialty care provider months out, sometimes even a year.

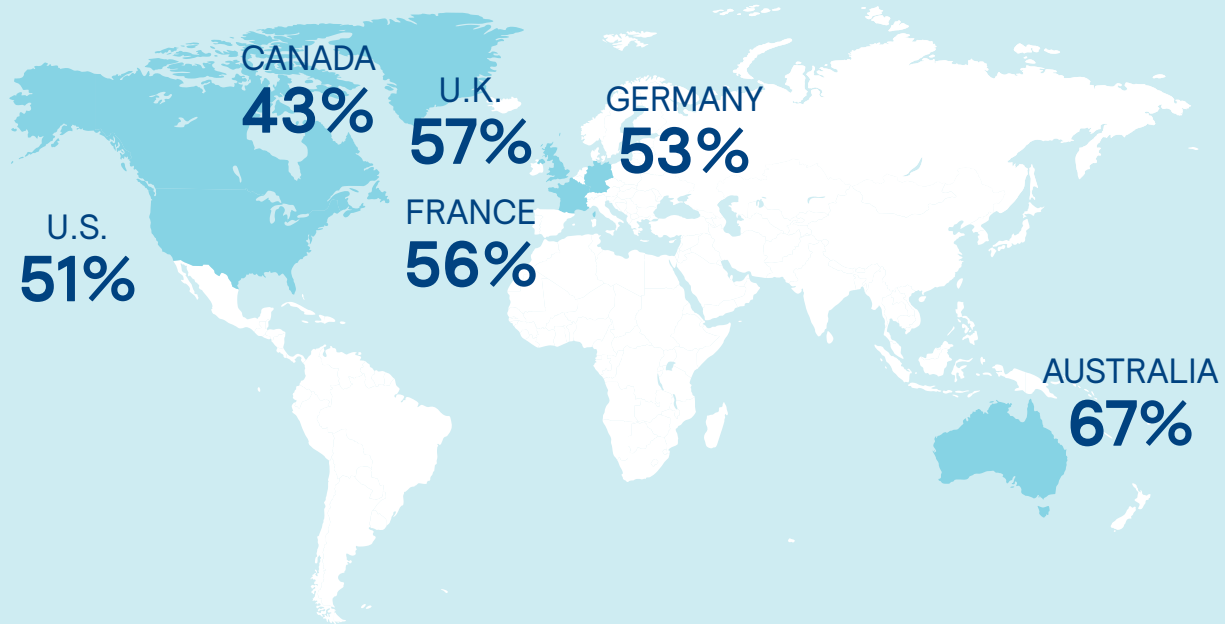
In today’s technologically advanced world, [consumers](#) expect immediate gratification, from next day deliveries of online purchases to instant answers to questions. Though Canadians have become accustomed to healthcare wait times, expect younger workers to press this narrative.

As costs and consumer demands pressure government leaders, expect governments to introduce trial balloons and pilot programs to investigate change and innovation. But at the end of the day, change will most likely come from the private sector.



HOW EASY IS IT TO ACCESS THE HEALTH SYSTEM...

Percentage of family doctors who report their patients can get a same-or next-day appointment



Source: The Commonwealth Fund, 2016 International Health Policy Survey.

WHAT CAN PLAN SPONSORS DO

Enough of the doom and gloom, here's what plan sponsors can do today to get ahead of these challenges, build upon their fiduciary responsibilities, and create a new, innovative healthcare offering that actually puts the consumer first.

- 1. Act now.** No one knows for certain what the healthcare landscape will look like by 2025, but you can be assured that it will cost more, provinces will be contributing less, and consumers will be demanding more. Acknowledge and completely understand the interplay between your plan and the public system, and begin internal discussions to develop a plan to get out front of the impending "train wreck."
- 2. Know the hard realities.** You will be asked – and possibly required – to pick up the slack from provincial cuts. Employers will need to make decisions in terms of picking up some elements that the government no longer covers. This means thoughtful conversations on your obligation, the employee value proposition, and key decision points for employer plans. If not mandated, do you step in and fund the gap? Do you cost-share with employees? Do you contribute a set amount for their premiums and expect them to shop for care?
- 3. Immunize your plan.** If – or when – the public plan shrinks, make sure that your plan language doesn't include provisions to automatically pick up the difference. You might elect to do so, but protect your plan by ensuring appropriate contract wording that clearly stipulates responsibilities from all parties.
- 4. Look for innovative solutions.** There are currently dozens of specialty vendors that have created niche products and services that help organizations save money, improve the quality of care and enhance the patient/user experience. Their numbers and expertise will increase exponentially in the coming years, providing new technology, creative thinking and enhanced customer service.

[CONTACT US TODAY TO DISCUSS YOUR NEXT STEPS.](#)

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