HEALTH WEALTH CAREER

RISING HEALTHCARE COSTS? IT IS GOING TO HURT

MAKE TOMORROW, TODAY MERCER

Consider this: the CFO for "ABC Co." tells company leaders that production costs for their leading product will more than double over the next eight years. Do you think the board would respond, "Well, that's just business." "What can we do about it?" "Let's wait and see."

No, but that's how many organizational leaders are responding to healthcare cost projections. Be warned: costs are going up and it will hurt. But how much pain it causes will be determined by what actions you take – or don't take – today.

We project that the cost of healthcare – one of workers' leading value proposition elements – will increase 130% by 2025. How your organization responds might just determine how it fares in the next eight years.

Here are some of the reasons why we expect more pain and a return to double-digit medical inflation:

- Biological drugs. Innovative biologic drugs offer tremendous promise in treating some of society's most debilitating diseases, but this comes at a price. These specialty drugs account for the greatest percentage price increase in healthcare. In a 2015 Express Scripts Canada report, the use of specialty drugs was up 7.3% and its costs were up 11.3%.
- Chronic health. Consumers are increasingly becoming less healthy and are being diagnosed with, and treated for, chronic and mental illness at a record pace. For example, obesity rates doubled in the past 30 years for adults and tripled for youth, according to the Canadian Institute for Health Information. Organizations will need to look for better access points to find new products and services that could save money while addressing these new needs.
- Additional benefits. Workers are requesting more healthcare related services – such as massage therapy and chiropractic care – and are increasingly receiving it. Again, this comes at a cost.
- Fraud. Benefit fraud is becoming a bigger issue, which further strains the entire system. For more resources on healthcare fraud in Canada and worldwide, go to www.ghcan.org

CHRONIC AILMENTS

- One in four (26.4%) adult is obese.
- One in four (24.9%) is diagnosed with hypertension.
- Nearly one in ten (8.4%) suffers from ischemic heart disease.
- About 700,000 Canadians (2.7%) 20 and older are living with diagnosed stroke.
- More than 800,000 Canadians (2.4%) have been diagnosed with cancer the past 10 years and are still alive.
- Nearly one in ten (9.6%) Canadians 35 and older is living with COPD.

Source: "How Healthy are Canadians?" Government of Canada

- Pooling costs. Health pooling costs are increasing as insurers struggle with the profitability of their health pools. Insurers are reportedly losing money on the pools, which are meant to cover high-cost claims. This implies there are more high-cost claims being charged. As a result, insurers are increasing pooling rates by 30% to 50% while also lessening plans' pooling protection.

SOME PAIN, SOME GAIN

It's unlikely that any other business segment would simply accept a 130% cost increase in eight years. But, armed with this information, wouldn't you do something about it? Many plan sponsors are reluctant to make material changes to their benefit promise, and so far, we've been able to rely on a competitive insurer market to help manage costs. But, the market might be hardening, and insurers are becoming less open to renegotiations.

We're at a significant decision point for plan sponsors. When we return to double-digit inflation, do we stick our heads in the sand and let it evolve? Is this just the price of doing business and we'll just keep making this investment in the plan? No. It's time to treat healthcare inflation the same as any other substantial cost increase to business.

This begins by looking at your cost drivers and determining what change today can be enacted that will at least help slow the rate of cost increase. Next, look to make plan design changes to share and manage risk. And finally, look to new funding approaches, such as changes to prescription drug benefits, prior authorizations, co-pays, claim limits and even innovative pharmacogenetics.

The DC Approach

There's a growing movement toward a more personalized, defined contribution (DC) approach to benefits, which could mitigate cost increases. In a DC-style system, the organization would commit a fixed dollar amount with the member responsible for costs above the defined contribution. With increases year over year, the plan must decide whether to increase its contribution.

While DC-type health plans only make up about 5% of all group coverage in Canada, we expect this could increase substantially in eight years. Perhaps the biggest reason is that companies simply HAVE to de-risk. One way to do this is 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.

Another reason for the shift toward a DC approach is that "everyone else is doing it." In most markets, private employers are looking for ways to reduce costs but also provide greater choices for their employees.

Also, expect Millennials to lead the change. Millennials want – and even expect – more options, and 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.

GOING FORWARD

Yes, it's going to hurt. And, some organizations fear that getting too far out ahead of the issue could harm their employment brand. As with everything, there's a balance between doing nothing and too much, too soon. But one thing is certain: If you do little or nothing, it will hurt a great deal and could even substantially harm your talent management and overall profitability.

GOING FORWARD REQUIRES A DATA DRIVEN, EXPERT-GUIDED APPROACH. CONTACT US TODAY TO HELP GET THE CONVERSATION STARTED.

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*.

For further information, please visit:

www.mercer.ca

Join the conversation:
On Twitter: @MercerCanada
On LinkedIn: www.linkedin.com/company/mercer-canada

MARSH & McLENNAN COMPANIES