

Benefit Plan Considerations for Cost Containment

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The push-pull between cost-containment and competitive benefits arrangements.

When it comes to employee benefits, Canadian employers face a complex struggle. On one hand, they seek to attract and retain the best talent and on the other hand, they look to effectively manage what appears to be ever escalating benefit plan costs.

Key cost factors.

For many years, cost containment has been a top goal for employers. While the emphasis may have shifted somewhat as to the culprits applying pressure on expanding plan costs, the primary factors can be attributed to:

- **Cost-shifting.** When private sponsor benefit plans were first established, they were designed to supplement publicly funded government programs. Over the years, cut backs in healthcare services at both the provincial and federal level meant more costs needed to be absorbed by corporate Canada.

- **Chronic disease and mental health issues.** Based on a 2015 benchmarking survey conducted by The Conference Board of Canada, the average cost of providing benefits for employees is \$8,330 per full-time equivalent. It's likely that this annual figure isn't going to decline any time soon given the rise in chronic disease and mental health issues being reported. The survey also highlighted that 52 percent of organizations reported increases in benefits costs for active employees, averaging 6.2 percent between 2013 and 2014.

- **We're aging.** As our population ages, so does the workforce and with it comes the potential for an increase in illness, injury and health-care costs.

- **New prescription drugs.** Fewer drugs are coming off patent while more new, improved or repackaged medications, available in easy to take formats, are driving up consumer demand. Additionally, more drugs are available to treat cancer and other illnesses, such as hepatitis C, carry with them a hefty price tag per protocol.

It's hard to take something away once it's been given.

When employees have been offered a benefit package, it isn't easy to modify in a way that reduces employer cost without risking the possibility of upsetting plan members and their eligible dependents. Keeping a close watch on avoiding employee dissatisfaction is important.

Since prescription drugs represent between 60 to 80 percent of most plans health care costs, employers tend to focus more of their attention in this area. Cost containment tactics include (but are not limited to):

- generic drug substitution;
- higher reimbursement percentages for generic drug use;

- changes to annual deductibles;
- encouraging employees to request 3 months' worth of a medication at a time in order to save on paying a per-script deductible every month (as well as the dispensing fee);
- changes to, or the introduction of, annual maximums.

Other non prescription drug related tactics include:

- changing vision care coverage
- limiting specific long term benefits (e.g., retirees or part-time employees)
- grandfathering benefits coverage
- introducing or enhancing health and wellness promotion programs
- introducing or promotion of health risk assessments and early intervention programs to reduce or eliminate absences and disability claims.

Build a strong communication campaign.

Regardless of the tactics considered, employers are well served when there is a comprehensive employee communication plan developed alongside any potential plan changes.

Communication tips to consider:

- tailored messages for different employee groups;
- ensure the change is clearly described including: why it is being introduced and what's in it for the employee (i.e. are benefit dollars being reinvested back into the plan to introduce or enhance a benefit?);
- use data and infographics or charts to illustrate what's happening through examples and simulations;
- start communicating pending changes as soon as possible;
- ensure the communications have a call to action especially if the employee is being asked to modify their role as a health care consumer.

We're here to help.

With the support of a trusted advisor, employers are able to focus more readily on developing and implementing creative plan designs that balance employee value while effectively managing plan costs. Frequent, relevant communication goes hand in hand with the introduction of any change.

With 30 years experience in the benefits industry, we invite you to [contact us](#). We understand the importance of addressing rising costs while still engaging employees. Our goal is to ensure you meet yours. As ever, we're here to help so that you can focus on what you do best.
