# ACT NOW, SAVE LATER

## Insurers can help plan sponsors focus on the long term to keep their benefits plans viable

*By Marcia McDougall*

Rising drug plan costs, tighter restrictions on government-paid medical coverage, more employees working past age 65—all of these factors will play a role in driving up benefits plan costs in the next few years. And with that knowledge comes increasing demands on group benefits providers to offer cost containment solutions, along with growing pressure to manage or even reduce fees to help with benefits plan affordability.

The challenge, according to insurers, is to convince plan sponsors to consider long-term solutions rather than quick fixes. As a result, insurers see 2012 as a year of education, discussion and research to ensure the ongoing viability of employee benefits programs.

### Price Checking

Greater focus on managing benefits plan costs opens insurers to scrutiny, and employers are asking carriers to justify their fees. "[Employers] used to go [to market] every five to seven years. Now we see some going more frequently and many willing to change providers for [fewer] cost savings than in the past," says Jamie Johnson, a senior consultant with Morneau Shepell. Alain Parent, director of sales, group insurance, with Assumption Life, agrees, noting it's a buyer's market, with "some employers going to market on *every* piece of business *every* year. Such a strategy simply delays the problem for a year." David Willows, vice-president, strategic market solutions, with Green Shield Canada, notes that group benefits are "no longer a purchase only of interest to HR. We definitely see more procurement department-led marketing exercises."

There is also growing demand for third-party insurance audits, primarily from employers with at least 1,000 plan members. "An insurance audit looks at three things," explains Gord Burke, principal with Burke & Company. "It tests the claims adjudication system for payment accuracy; ensures contractual compliance, aligning source documents with the system; and examines a statistically significant sample of actual claims across all parts of the plan (drugs, dental, medical, eligibility, etc.) to make sure they've been administered properly."

Insurer feedback suggests most are open to review. "A process that has been in place for quite some time should be looked at to see if it could be improved," states Parent. Marilee Mark, Manulife Financial's vice-president, marketing, group benefits, agrees. "We have to find more ways to be efficient in how we deliver our services, effective in claims management, and leverage our size and buying power to negotiate better prices with other vendors to allow us to pass on any savings in our pricing."

However, while fees and processes are important, Willows believes plan sponsors are looking beyond them in order to truly address benefits plan sustainability. "While clients are clearly cost-conscious, they are willing to consider a value proposition that provides long-term program savings in exchange for marginally higher administration costs," he says. "Employers are increasingly aware that the vast majority of their benefits program costs are related to claims, not carrier expense charges."

### Thinking Long Term

To help plan sponsors take a longer-term approach, providers are currently focusing on three elements:

**1.** encouraging plan sponsors to act now to implement solutions already available to them;
**2.** conducting research to establish the business case for certain drug plan cost management, disability management and wellness initiatives; and
**3.** helping with plan member education to encourage cost-conscious behaviour change.

"The point of these discussions is to focus on long-term financial stability, not just on meeting this year's budget," says Parent. "We need to help employers determine what they can do *today* that will help *tomorrow*."

But while employers are listening, many are slow to make changes. Tim Clarke, Canadian health and benefits innovation leader with Aon Hewitt, attributes this partly to employers not wanting to take anything away from employees. "In general, employers are prioritizing people over costs. It can be challenging to engage employees in tough economic times, so when cost reductions are imperative, they want to ensure those with significant health issues are protected in their time of need."

## TOP 20 | GROUP INSURANCE PROVIDERS

INSURED PREMIUMS AND NON-INSURED DEPOSITS (MILLIONS) AS OF DEC. 31, 2011

| | Company | 2011 | 2010 | % Variance |
|---|---|---|---|---|
| 1 | Great-West Life* | $7,188.3 | $6,916.6 | 3.9% |
| 2 | Sun Life Financial | $7,155.2 | $6,984.6 | 2.4% |
| 3 | Manulife Financial | $6,467.2 | $6,373.2 | 1.5% |
| 4 | Desjardins Financial Security | $2,014.6 | $1,872.9 | 7.6% |
| 5 | SSQ Financial Group | $1,295.1 | $1,231.0 | 5.2% |
| 6 | Green Shield Canada* | $1,264.4 | $1,210.7 | 4.4% |
| 7 | Pacific Blue Cross* | $1,032.6 | $1,007.8 | 2.5% |
| 8 | Medavie Blue Cross | $995.1 | $959.5 | 3.7% |
| 9 | Industrial Alliance | $974.6 | $894.3 | 9.0% |
| 10 | Standard Life | $711.5 | $672.2 | 5.9% |
| 11 | La Capitale assurance et gestion du patrimoine | $419.6 | $389.0 | 7.8% |
| 12 | Empire Life | $328.1 | $309.3 | 6.1% |
| 13 | Equitable Life | $273.9 | $256.9 | 6.6% |
| 14 | The Co-operators | $271.9 | $303.5 | -10.4% |
| 15 | Manitoba Blue Cross | $261.8 | $257.9 | 1.5% |
| 16 | RBC Insurance Company* | $246.6 | $245.4 | 0.5% |
| 17 | Blue Cross Life | $241.2 | $221.8 | 8.7% |
| 18 | Saskatchewan Blue Cross | $62.7 | $60.1 | 4.3% |
| 19 | Assumption Life | $54.9 | $54.4 | 0.9% |
| 20 | Wawanesa Life | $43.0 | $35.0 | 22.9% |
| | **Top 20 Total** | **$31,302.2** | **$30,256.2** | **3.5%** |
| | **Industry Total** | **$33,394.3** | **$32,277.3** | **3.5%** |

**Notes:** * 2010 value restated. Figures subject to a +/- variance due to rounding. Alberta Blue Cross reported $2,060.0 million in revenue. However, this figure includes premiums for government-sponsored benefits programs and has been excluded from the ranking. The revenue is included in the industry total.

**Source:** *Benefits Canada*/CIIN *2012 Group Insurance Survey*

And it may seem that there is no pressing reason to take immediate action. According to the Canadian Life and Health Insurance Association (CLHIA), total extended health claims grew by just 2.6% in 2010—well below the average annual growth over the past five years of approximately 7.5%. This moderate cost increase is due primarily to a slowdown in the pace of prescription drug cost growth, thanks to a number of high-volume brand drugs coming off patent. Over the past decade, CLHIA data indicate that drug costs grew at an average of 9% a year, but in 2010, the growth rate was 3%. "We were very encouraged by the willingness of the provinces to come to the table with us [the CLHIA, representing the insurance industry] to discuss how generic drug reform can benefit both private and public payers and allow us to better manage costs," states Stephen Frank, CLHIA's vice-president, policy development and health.

Organizations such as Canadian Tire Corp., however, are grappling with future cost increases now. "While it may be two to four years before costs really start to escalate, we recognize the landscape is changing and want to be proactive," states Jackie Goldman, vice-president, HR programs. "We're currently considering implementing cost management strategies that will be as least disruptive as possible to our employees."

Making informed decisions requires good information. Willows encourages sponsors to have their advisors and insurers provide individual data with respect to demographics, disease states, drug usage and disability claims. "Plan sponsors may get caught up in generalities. Specific data is always more useful." Adds Mark, "It's the provider's responsibility to make sure the information is meaningful and can drive actions. It's ideal if an integrated view can be provided—drug, LTD, STD, EAP and workers' compensation data—if it's available."

Armed with this information, employers can implement solutions. "There is no silver bullet for benefits cost savings," Mark points out. "However,

## TOP 10 | GROUP LIFE PROVIDERS

INSURED PREMIUMS (MILLIONS) AS OF DEC. 31, 2011

| | Company | 2011 | 2010 | % Variance |
|---|---|---|---|---|
| 1 | Great-West Life | $723.4 | $710.6 | 1.8% |
| 2 | Sun Life Financial | $609.7 | $591.0 | 3.2% |
| 3 | Manulife Financial | $592.9 | $573.2 | 3.4% |
| 4 | Desjardins Financial Security | $202.6 | $190.2 | 6.5% |
| 5 | SSQ Financial Group | $132.9 | $121.5 | 9.4% |
| 6 | Industrial Alliance | $95.9 | $93.1 | 3.0% |
| 7 | Standard Life | $72.1 | $63.5 | 13.5% |
| 8 | Blue Cross Life | $58.0 | $54.1 | 7.2% |
| 9 | La Capitale assurance et gestion du patrimoine | $40.7 | $38.7 | 5.3% |
| 10 | The Co-operators | $33.9 | $40.5 | -16.3% |
| | Top 10 Total | $2,562.2 | $2,476.4 | 3.5% |
| | Industry Total | $2,669.2 | $2,578.8 | 3.5% |

**Note:** Figures subject to a +/- variance due to rounding.

## TOP 10 | GROUP HEALTH PROVIDERS

INSURED PREMIUMS (MILLIONS) AS OF DEC. 31, 2011

| | Company | 2011 | 2010 | % Variance |
|---|---|---|---|---|
| 1 | Great-West Life* | $3,609.3 | $3,440.9 | 4.9% |
| 2 | Manulife Financial | $3,222.5 | $3,172.1 | 1.6% |
| 3 | Sun Life Financial | $2,766.9 | $2,651.1 | 4.4% |
| 4 | Desjardins Financial Security | $1,663.8 | $1,560.8 | 6.6% |
| 5 | SSQ Financial Group | $1,136.9 | $1,086.3 | 4.7% |
| 6 | Industrial Alliance | $794.0 | $685.1 | 15.9% |
| 7 | Standard Life | $501.4 | $460.7 | 8.8% |
| 8 | La Capitale assurance et gestion du patrimoine | $366.8 | $339.7 | 8.0% |
| 9 | Green Shield Canada | $357.2 | $341.4 | 4.6% |
| 10 | Medavie Blue Cross | $304.4 | $283.7 | 7.3% |
| | Top 10 Total | $14,723.2 | $14,021.7 | 5.0% |
| | Industry Total | $16,392.8 | $15,653.8 | 4.7% |

**Notes:** * 2010 value restated. Figures subject to a +/- variance due to rounding. Alberta Blue Cross reported $230.0 million in revenue. However, this figure includes premiums for government-sponsored benefits programs and has been excluded from the ranking. The revenue is included in the industry total.

**Source:** *Benefits Canada*/CIIN *2012 Group Insurance Survey*

employers should start with the 'low-hanging fruit': generic substitution, co-ordination of benefits, management of dispensing fees and drug markups, for example. Make sure all the basics are covered."

### Understanding the ROI

Beyond encouraging plan sponsors to consider the available solutions, providers pinpoint two areas of focus for cost-containment: drug coverage expenditures and disability management claims. "Plan design changes—such as evidence-based adjudication controls, more robust prior authorization and integrated health case management for high-cost drugs—can help plan sponsors strike the balance of containing costs while still providing a comprehensive drug benefits plan," says Brad Fedorchuk, vice-president, group marketing, with Great-West Life.

## TOP 10 | ASO PROVIDERS

NON-INSURED DEPOSITS (MILLIONS) AS OF DEC. 31, 2011

| | Company | 2011 | 2010 | % Variance |
|---|---|---|---|---|
| 1 | Sun Life Financial | $3,782.9 | $3,744.4 | 1.0% |
| 2 | Great-West Life* | $2,855.5 | $2,765.2 | 3.3% |
| 3 | Manulife Financial | $2,652.9 | $2,630.7 | 0.8% |
| 4 | Green Shield Canada* | $907.2 | $869.3 | 4.4% |
| 5 | Pacific Blue Cross | $828.5 | $808.9 | 2.4% |
| 6 | Medavie Blue Cross | $690.7 | $675.8 | 2.2% |
| 7 | Manitoba Blue Cross | $171.2 | $171.1 | 0.1% |
| 8 | Desjardins Financial Security | $157.6 | $131.8 | 19.6% |
| 9 | Standard Life | $138.0 | $147.9 | -6.7% |
| 10 | Industrial Alliance | $84.6 | $116.1 | -27.1% |
| | **Top 10 Total** | **$12,269.1** | **$12,061.3** | **1.7%** |
| | **Industry Total** | **$14,352.3** | **$14,058.5** | **2.1%** |

**Notes:** * 2010 value restated. Totals for each company equal Group Health plus Group LIfe non-insured deposits. Figures subject to a +/- variance due to rounding. Alberta Blue Cross reported non-insured deposits of $1,830.0 million. However, this figure includes premiums for government-sponsored benefits programs and has been excluded from the ranking. The revenue is included in the industry total.

**Source:** *Benefits Canada*/CIIN *2012 Group Insurance Survey*

Data from Green Shield Canada's *2011 Drug Trends Study,* produced in partnership with IMS Brogan, indicate that use of a managed, evidence-based drug formulary—in which new drugs are assessed and approved based on need, efficacy, safety and cost—can greatly reduce a company's drug spend. The annual study looks at all of the drug claims that Green Shield Canada processes and compares costs for clients using its conditional drug formulary with those that aren't. The differences are striking. "The latter group is paying for newer drug therapies that are more expensive but for which research does not show more advantageous patient outcomes," says Willows. While managed formularies have been available for some time, he believes usage will now begin to increase.

More research—or broader sharing of findings—is also needed for small business. "It's incumbent on insurance carriers to make more resources available to smaller organizations, so that they understand the impact of their plan design," Mark says. "One specialty drug claim could be more than they spend on their benefits plan annually." Brian Bockstael, president of Coughlin & Associates Ltd., agrees, pointing out that even self-insured employers with stop-loss insurance will eventually feel the pinch. "The cost of stop-loss coverage will increase with the prevalence of biologics."

In the disability management area, many providers are focusing their research on prevention, heading off disabilities before they arise. "Employers are no longer dabbling in wellness—they intuitively understand that wellness increases engagement and productivity and absolutely want to have a wellness plan," says Stuart Monteith, senior vice-president, group benefits, with Sun Life Financial. "But research is needed that clearly establishes the financial benefit of investing in wellness." Sun Life Financial recently partnered with the Richard Ivey School of Business at Western University in London, Ont., to conduct such research.

However, new solutions require employer participation and support. "We look for proactive advisors and plan sponsors that will participate in pilot groups for new tools and products. We need their involvement to ensure that we're meeting employer needs," says Jean-Guy Gauthier, manager, strategy and product development, group insurance, with Standard Life.

### Bringing Employees on Board

Communication is key to ensure that employees support efforts to preserve benefits. Canadian Tire, for example, uses a variety of media, including TV screens in office lobbies. Says Goldman, "We want to raise the cost management issue with our staff, explain the situation and our rationale, and gain their buy-in." Insurance providers can help to get employees, plan sponsors and advisors on board by offering education and engagement tools, adds Fedorchuk.

And results from the 2011 *sanofi Canada Healthcare Survey* suggest that employees are willing to help. Of plan members surveyed, 41% say they would prefer to pay higher premiums to maintain their current benefits, in the event that their employer is unable or unwilling to pay for increased costs. Just 12% would opt for reduced benefits to avoid higher premiums.

It's a challenging environment for plan sponsors. But insurers are confident they can help contain cost increases and provide valuable coverage for employees to keep benefits plans sustainable for years to come. BC

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