Proceed with Caution

Balancing group health benefits and costs out west.

BY AVINASH MANIRAM

Aging demographics. The economic boom. The financial meltdown. The economic recovery. Spiralling healthcare costs. Government off-loading. All of the buzzwords of the last five years have come together to create a benefits environment in which caution is the order of the day. Instead of attraction and retention or plan cutbacks, employers are now in a cautious status-quo mode when it comes to their benefits plans.

Against a backdrop of ever-changing provincial legislation, an uncertain economic environment and constantly escalating healthcare costs, the balancing act between costs and providing for members' needs has become trickier than ever.

The Economic Picture

Across the West, an economic recovery is beginning to take shape with investment in mining, energy and construction. While national unemployment levels hover around 8%, western Canada's unemployment is just slightly less, at 6.5%.

According to the Conference Board of Canada's *Provincial Outlook*, British Columbia will experience economic growth of 2.8% in 2011, driven by the recovery in the forestry, manufacturing and construction sectors. This decrease from a 3.8% growth in 2010 is expected as the effects of the Winter Olympics wear off and housing markets begin to slow down.

Measured growth continues in Alberta where growth in the traditional drivers of the economy—oil and gas—is being tempered by still-weak labour markets. In 2011, Alberta's economic growth is expected to surpass its 3.3% in 2010, increasing to 4.1%. This will likely be the result of continued development in oil and gas, combined with stronger housing markets.

Saskatchewan's expected GDP growth (3.5% in 2010) is 2.9% for 2011, driven largely by the recovery in mining. And Manitoba's economic growth for 2011 is an expected 2.1%, supported by a recovery in agriculture and manufacturing and a growth in mining. This is a slight decrease from the province's 2.2% growth in 2010.

Thus, with the exception of Alberta, growth in the West is expected to be slower in 2011 than in 2010.

PHOTO BY CURTIS TRENT

Debra Wilson, senior director of HR and administration, Afexa Life Sciences

Natural So lution

Keeping employees healthy comes easily to Afexa.

By April Scott-Clarke

Edmonton-based Afexa Life Sciences, maker of the popular supplement Cold-FX, has a bold ambition: to make the Canadian healthcare system proactive rather than reactive. It's undoubtedly a long-term vision, but this philosophy *is* getting results within its own organization.

Healthier Households, Healthier Employees

Healthy living is the foundation of this company, so it's not surprising the company offers its workforce its immune-boosting products for free. Each employee receives a year's supply of products (allocated on a biannual basis).

Complimentary or discounted product is common for organizations that offer consumer goods, but what's interesting about Afexa's policy—and what makes it stand out—is that there is a documented return on investment, something that can be tricky to track with perks or wellness initiatives.

At Afexa, the average employee sick day ratio is 0.79 days per year, per employee—astonishingly low compared with the national average of 7.8%, published by Statistics Canada. "I guess you could say we have some of the healthiest employees in Canada," boasts Debra Wilson, senior director of HR and administration. "Statistically, we may have more young people than might be found at your average company and, therefore, may have a bias toward good health. Since we are committed to improving people's health, we naturally attract people who are both personally and professionally committed to that goal. But," she adds, "we suspect that our program of providing free products to employees is certainly helping them to stay healthy. The figures seem to suggest that they may be almost eight times healthier, or at least less sick, than the national average."

As of January 2010, the company expanded the policy. Now it offers employees the ability to purchase discounted products for their families. "There may have been some inquiries with respect to [discounted products], but it was really a senior leadership initiative that we wanted to roll out," she explains. "The goal was to make households healthier."

Prior to the family discounts, the employee sick day ratio was 0.93 days per year. This number is still well below the national average, but by extending this benefit to family members, the company further reduced its sick days by 15%.

Engaged and Inspired

Despite the breadth of its brands, Afexa has only about 120 people on its payroll, which makes it difficult to implement the extensive employee programs that larger corporations offer. It provides healthcare benefits that are consistent with the market (and completely employer-paid), including the "must-have" employee assistance program, but Afexa doesn't have a formal ongoing employee wellness program. Yet the employees are inspired to stay healthy with the support the organization provides for their personal activities. For example, this summer, when a group of employees decided to do the Weekend to End Women's Cancers walk, the company stood behind them enabling them to fundraise on-site.

And, when the company does organize active-living initiatives—as it did during the Winter Olympics—employees don't waver on signing up. As a sponsor for the Olympics, Afexa held its own version of the event that was really just as much about being healthy as it was about engaging employees and boosting company morale. During the "Go for Gold" events, employees participated in outdoor athletic activities and trivia games, and even had their pictures taken with Chandra Crawford, 2006 Olympic cross-country skiing gold medallist. In addition, two employees (one in Edmonton and one in Toronto) won the opportunity to be part of the torch run. As for event prizes, there was an official closing ceremony equipped with a podium, with an ounce of gold taking the place of a gold medal and extra vacation days for the silver and bronze finalists. "We are continually trying to create an upbeat and positive environment," Wilson says.

Creating a work environment with these goals in mind not only resonates with employees, it also has great "FX" on the company's bottom line. **BC**

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Healthy Saving

To help employees save for retirement, Edmonton-based Afexa Life Sciences has a voluntary group RRSP with a company match. Employees also have access to an employee share purchase plan, which also features a company match. And, all employees are eligible for stock options on an annual basis, granted at the discretion of the board of directors.

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Prescription Drug Plans

Following Ontario's lead, Alberta and B.C. have implemented changes that will reduce the cost of generic drugs in each province. Unlike Ontario, in which the changes were legislated, both Alberta and B.C. achieved the cost cuts through negotiations with the pharmaceutical industry. In addition, both provinces implemented a schedule of transition fees to pharmacists designed to mitigate the impact of the changes in generic pricing. In turn, the response from the pharmacies out west has been muted in comparison to their eastern counterparts' reaction to the changes announced in Ontario earlier this year. Given the large number of name brands that are scheduled to lose patent protection soon, it is anticipated that the proportion of claims filled using generics will increase significantly over the course of the next two years. It's expected that these moves by Alberta and British Columbia will result in significant cost reductions.

Counterbalancing the expected cost reductions created by the generic pricing reforms is the increasing use and associated costs of biologic and specialty drugs within drug plans. Currently, biologics and specialty drugs represent a small proportion of the prescription drug spend. According to ESI Canada's 2010 *Outcomes Report,* of the approximately 275 new drugs expected to be introduced into the marketplace, approximately 50% would fall into the specialty/biologics category. This is expected to lead to an increase in drug cost trend factors within the next three years. In the absence of provincial reforms, ESI estimates a 30% increase in the annual drug spend per person over the course of the next five years. Factoring in the potential impact of the reforms reduces this increase to approximately 10% for the affected provinces.

Shaping Private Plans

With the April 2010 delisting of chiropractic care in Saskatchewan, the process of off-loading provincially covered benefits onto the private sector continues. In Alberta, the changes to the seniors drug benefit announced in the spring were designed to link coverage levels to income. While the implementation has been put on hold, when put into effect, these changes will result in higher costs to privately sponsored retiree healthcare plans. In B.C., provincial premiums increased for the first time in five years and will continue to increase in the future with the cost of inflation.

Most notably for plan sponsors in B.C., however, was the implementation of the harmonized sales tax (HST) on July 1, 2010. This resulted in an automatic increase in costs for administrative services only plans. The ultimate impact of the HST remains to be seen as the government has indicated that all HST revenue will be returned to the system in the form of healthcare funding.

With higher proportions of unionized workers, B.C., Saskatchewan and Manitoba also have a large number of workers covered for benefits through health and welfare trusts. In February 2010, the government proposed changes to the *Income Tax Act* that may result in the creation of employee life and health trusts (IT-85R2) as a vehicle for group benefits coverage in Canada. This proposed structure contains a number of provisions, which would differ from the administrative practices set forth in IT-85R2. While the new rules would apply to trusts set up after April 1, 2009, it is not yet clear whether trusts set up per IT-85R2 will be required to convert to the new structure.

Bargaining Environment

The economic downturn of 2008 brought with it long-term implications for those working under collective agreements in the West. While the statistics indicate that the rate of recovery in the West has exceeded that in the rest of Canada, unemployment levels are still high relative to pre-2009 levels. For those at the bargaining table, this has resulted in a push for reduced wages and benefits from employers. Additionally, in B.C., there are an estimated 200,000 public sector workers who are covered by contracts that will expire by Dec. 31, 2010. The government has maintained that there will be no additional funding for wage increases as these agreements come up for renewal.

What Does it Mean?

For plans in western Canada, these mixed messages have created a dynamic in which both employers and plan members are in caution mode. Unlike the days of the energy boom where employees were pushing for improvements in perks and benefits, today's plan members are focused on maintaining their current offerings. At the same time, the potential of lower costs due to generic pricing reform and an improving economic picture has shifted plan sponsors' focus away from the need for benefits cuts.

Instead, the focus for plan sponsors has started to shift to a risk management approach toward group benefits. While the risks inherent in any group benefits plan are generally well known, sponsors are beginning to focus on digging deeper into plan data to manage those risks. Carriers' enhanced reporting capabilities, combined with the increased market penetration of pay-direct cards, have spawned an entire industry dedicated to mining prescription drug spend data. In addition, sponsors are looking toward the link between the drug spend as a predictor of their disability claims experience. For those involved with disability claims management, more efforts are being made to collect data related to the operation of their disability plans. By implementing robust reporting processes around their sick leave and short-term absence programs, sponsors are beginning to develop an understanding of these once-silent periods of disability. In addition, for those plans with early intervention programs, sponsors are increasingly looking at involving their financial experts in the planning process to ensure that practical metrics are developed and tracked so that the elusive return on investment can be captured.

Implementation of this detailed analysis and monitoring of plans, combined with the economic backdrop in the West, has led sponsors away from making drastic cuts or improvements to their benefits programs. Instead, while the possibility of such changes might lie on the horizon, today's sponsors are using this analysis to make intelligent tweaks to their programs in the hope of maximizing the financial gains while minimizing the impact to members. **BC**

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