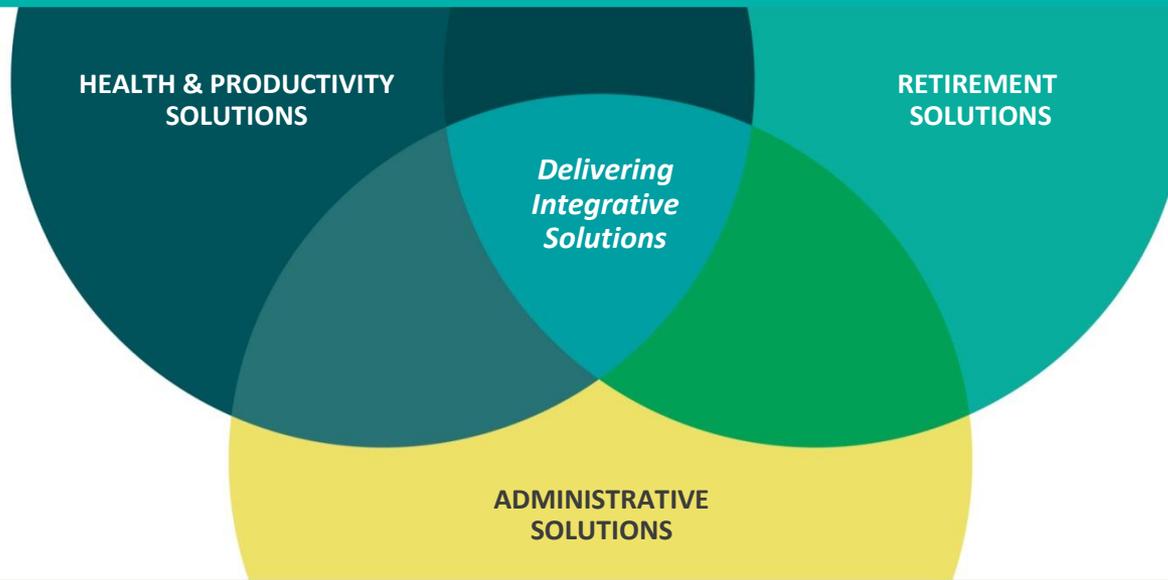




Banking on Productivity: Managing Employee Health Costs

May 10, 2013

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HEALTH & PRODUCTIVITY SOLUTIONS

- Health & Benefits Consulting
- Employee Assistance Programs
- Organizational Health Solutions

ADMINISTRATIVE SOLUTIONS

- Defined Benefit Pension Administration
- Health & Benefits Administration
- Defined Contribution Plan Administration

RETIREMENT SOLUTIONS

- Pension & Actuarial Consulting
- Asset & Risk Management
- Governance & Compliance Support

“Banking on Productivity”



The Current Landscape

- I. Workplace Mental Health Costs and Liability
- II. Disability Prevalence Trends and Plan Eligibility Issues
- III. New and Significant Drug Plan Cost Drivers
- IV. Pension Plan Trends and Fiduciary Responsibilities

The Financial Impact of Mental Health

Mental health is a leading cost driver of direct costs when aggregating:

- Employee absence
- Short-term disability
- Long-term disability
- Utilization of drug benefits
- Workers Compensation (as a primary cause or more frequently secondary factor related to the injury)

**Mental
Health**

Current Legislative Accountabilities

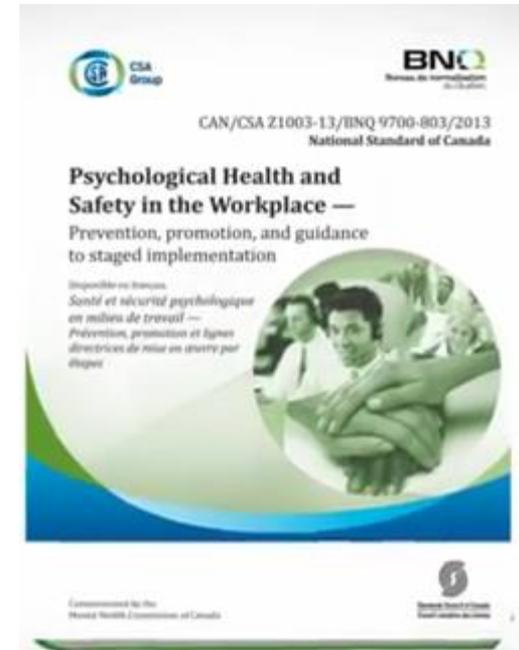
Workplace accountabilities for mental health are the same as for physical health:

1. Occupational health and safety
2. Workers' compensation
3. Human rights
4. Law of torts (negligence)
5. Employment standards
6. Labour relations
7. Employment contract

*From Tracking the Perfect Legal Storm
- M Shain*

The National Standard for Psychological Health and Safety in the Workplace

- Launched January 16, 2013
- Voluntary
- Built on the principles of Occupational Health and Safety
- The objectives are to:
 - Reduce mental health risks related to work or workplace conditions and in so doing, reduce the undue health cost
 - Promote a psychologically healthy workplace and in so doing, facilitate work productivity



Work Disability Trends

Mental Health Conditions

- Directly represent largest single category of claims at 25-30%
- Are a significant driver of extended absence for physical claims in another 35-40% of claims
- Are up to 30% longer on average
- Are **consistently more costly than physical health claims** given the extended duration and higher risk of long-term disability



Disability

Work Disability Trends

Musculoskeletal Conditions

- Are increasing in prevalence
- The driver is the aging workforce, lifestyle/weight
- Are increasing in severity and therefore duration/cost
- Are expected to continue to increase and **will have a more significant impact on long-term disability financial reserves**

Demographics and Eligibility Trends in Disability

Long-Term Disability (LTD)

- The end of mandatory retirement has raised questions regarding the appropriateness to **extend eligibility for long-term disability past age 65**

Worker's Compensation

- Both the **aging workforce** and trends to expand the definition of a “compensable” claims to include **cumulative work stress** are expected to increase both workers’ compensation costs/rates and have a greater impact on industries that currently have low rates

Drug Plan Cost Drivers

High Cost Specialty Medication

- Currently represent **20% of cost with less 2% of claims** and the increase in utilization /impact has been steady for the past five years
- The **trend increase has been “masked”** by the trend decrease related to generics, which is now coming to an end
- The **increase is expected to steepen** given that over 50% of new medications to be released within 3-5 years are specialty biologics
- The cost of most biologics range from **\$7,000.00 to \$42,000.00 per claimant per year** with some significantly more
- **New oral cancer medications that replace hospital infusion** medication, will impact private drug plans

Drug
Plan

Drug Plan Cost Drivers

These New Therapies are Expected to Have Significant Long Term Impact

- The typical conditions resulting in high-cost biologics are **chronic and not readily preventable** (*rheumatoid arthritis, Crohn's disease, multiple sclerosis, and others*)
- There are multiple patents on each high-cost biologic and when off patent, they are **not likely to be manufactured as generics** or even “bio-similars” at a significantly lower cost
- Currently have the **greatest impact on private plans** (*e.g. 80% of the Humira costs are borne by private payers*)
- The expected impact on **quality of life to the patient** has justified the significant cost of development and manufacture

Pension Issues

Defined Benefit Plans

- A perfect storm of poor asset returns and historically low interest rates have led to a dramatic increase in required employer contributions
- Changes to accounting standards have led to significant expense volatility
- **Benefits continue to be misunderstood and undervalued by members**

Pension Issues

- **Defined Contribution Plans**

- Historically low interest rates have led to concerns about retirement income adequacy, resulting in delayed retirement and an older workforce *(with a potentially higher productivity and health cost risk)*
 - › \$100,000.00 at age 65 bought a monthly pension of \$830.00 in 2002 and only \$550.00 in 2012
- **Potential litigation risk due to insufficient education to assist employees in making necessary decisions** *(e.g., contribution level, investments)*

The Pension Landscape is Rapidly Changing

Historical Trends

- DB plan design changes (*e.g., remove early retirement subsidies, reduce future accrual formula*)
- Close DB plan and move to DC plan



New Trends as a result of DC plan concerns

- Move to shared-risk / target benefit / jointly sponsored plans
- Increased risk management in DB plans (*e.g., reduced interest rate exposure, better asset-liability matching*)
- Less required employee decisions in DC plans (*e.g., fewer investment options, opt-out contribution levels*)



Survey Highlights

From a Cost Perspective

- Health benefits were deemed of greatest concern to most respondents with almost two-thirds ranking the issue significant or very significant (62%)
- Short- term disability was second (51%) and exceeded long-term disability (33%)
- Pension plan sustainability and workers compensation followed and were tied (27%)

The Top Drivers of Health and Pension Concern

- Drug cost were identified as the leading concern
 - 64% indicated that such costs were a significant or very significant risk
 - 19% have a strategy
 - 32% do not understand the drug plan cost risk trend well or at all
- The second leading risk was mental health
 - 55% indicated a significant or very significant concern
 - 22% do not address mental health directly in their organization
 - 67% do not understand the emerging legislative risk for mental health well

In Confidence and Future Risk

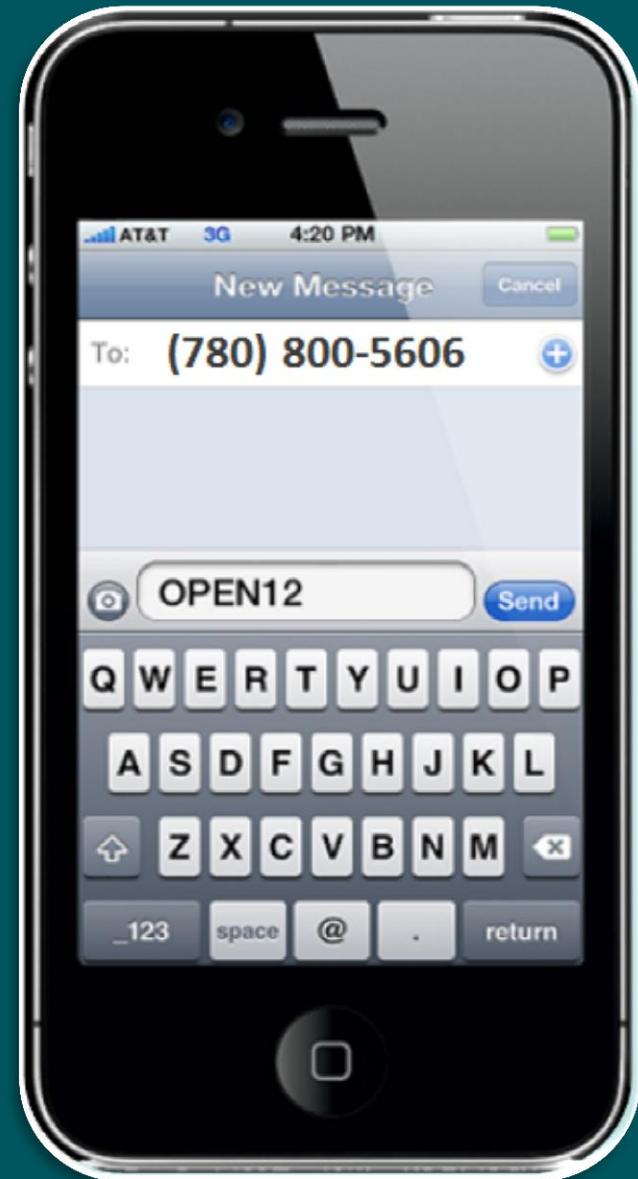
- For pensions planning and cost management had a clearly split response in the level of confidence
 - Near equal high (35%) and low (33%) overall
 - The greatest confidence is evident in larger employers (60%); 36% of medium and 35% of smaller employers had similar confidence
- Over half indicated engagement and recruitment as the greatest threats to productivity in the next 5 yrs
 - In the Roundtable some reconsideration of the trend to DC was noted, given the value that defined benefit pensions offer as part of an attraction and retention strategy for experienced talent

Quick Polls

For TEXT Enter TO: **(780) 800-5606**

OR

For WEB go to **PollEv.com/morneau**
Select your response from the options
that are provided



Quick Poll #1

- Do you believe that Defined Benefit Pensions will regain popularity to address challenges in recruitment?



**Send Your Response as TEXT a CODE to
780-800-5606**

Response Options	Address To <u>780-800-5606</u> then <u>Text CODE (below)</u>
YES	DB111
NO	DB222

- We have no access to your phone number
- Capitalization doesn't matter, but spaces and spelling do

Quick Poll #2

- What do you believe is the most significant business reason for a mental health strategy? (You may select more than one)



**Send Your Response as TEXT a CODE to
780-800-5606**

Response Options	Address To <u>780-800-5606</u> then <u>Text CODE</u> (below)
Engagement and Performance	E111
Legal Compliance	L222
Cost Containment	C333
Other	X444

FEIQ2

Quick Poll #3

- Which of the following areas is your organization likelihood to address, within the next 6 months? (You may select more than one)



**Send Your Response as TEXT a CODE to
780-800-5606**

Response Options	Address To <u>780-800-5606</u> then <u>Text CODE (below)</u>
Workplace Mental Health	MH111
Drug Cost / Health Plan	D222
Pensions	P333
Absence / Disability / WCB	A444
None of the above	N555

FEIQ3

Quick Poll #4 – Your Feedback

- **Comments or questions?** Please include your contact information for a response.



**Send Your Response as TEXT a CODE to
780-800-5606**

TEXT Instructions

Address To **780-800-5606** then
Text **IHPM** before writing your comments

WEB Instructions

Go to **PollEv.com/morneau**
Enter your comments in the space that is provided



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