THE BOTTOM LINE

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Rising healthcare costs called a national corporate dilemma

By Peter Merrick

About a year and a half ago, I experienced the most frightening event of my life. I had just arrived home one evening after seeing the "Lord of the Rings— Two Towers." My daughter, Leslie, who was one year old at the time, was running a high fever. As we prepared to take her to the hospital, as I held her tightly in my arms, she started to have convulsions. Then her head cocked back and suddenly she stopped breathing. It was the longest minute of my life. She then awoke and started to cry. Thank God this life altering experience only lasted a minute before she was out of danger.

The ambulance arrived a few minutes later and within 15 minutes she was admitted into the world renowned Sick Kids Hospital in Toronto. Not once during that entire ordeal did the emergency 911 services, the ambulance medics, the doctors nor the nurses ask me: "Mr. Merrick do you have medical insurance to pay for these medical expenses?" It is this purely Canadian reality that we all take for granted, that this question should never be asked of anyone in this country during and after a medical emergency. Whether a person has private medical insurance or not, our Canadian society demands that each person is entitled to receive the proper medical attention when it is needed. This innate principle of our culture makes me proud to call myself a Canadian.

Aside from our supremacy in hockey, what many Canadians believe creates our sense of unity/community as a nation and a people distinct from the United States, is our universal healthcare system. This has been one of the key factors sited by the United Nations when it has continuously ranked Canada as the top nation in the world to live. Our Canadian identity is directly tied to the *Canadian Health Act*, which makes the promise "to protect, promote, and restore the physical and mental well-being of every Canadian resident and to facilitate reasonable access to health services without financial or other barriers."

In 2003, more than $121 billion was spent for health care in Canada with 70 per cent of the costs paid for by the federal and provincial governments' publicly funded system. Corporate Canada paid for most of the remaining 30 per cent of non-essential medical and dental expenses, according to the Canadian Institute for Health Information - and Statistics Canada.

However, the question lingers: "will we always have free healthcare in this country for all our citizens and residents?" In the next 20 years, as boomers retire and birth rates decline, it is predicted that 25 per cent of Canada's GDP will be spent on both healthcare and pensions. Governments, corporations and individual Canadians alike are grappling with the possibility that our healthcare system may not be maintainable or sustainable under our current demographic, social and retirement state of affairs.

Is government cash infusion enough?

A negative trend began in the early 1990s towards the Americanization of our healthcare system. The federal government started cutting transfer payments to the provinces, much of this money had been earmarked to fund provincial healthcare plans. To reduce costs, the provinces started to de-list medical services that were not deemed essential by the *Canadian Health Act*, services the provinces had previously provided and paid for.

To address this coming crisis in this country's healthcare system, Finance Minister Greg Sorbara took a very proactive step in his first Ontario Liberal Government's 2004 provincial budget by stating:

"None of us can afford to believe any longer that the problems in our healthcare system, from ever longer waiting times, to the lack of family doctors, to deteriorating long-term care, can be solved without additional revenue."

So the Ontario Liberal government introduced this year for low-income earners a $300 tax per year that will go up to $900 for high-income earners.

The Ontario Government said the $1.63 billion raised in taxes in the first year, from this new tax will be dedicated to covering the $4.8 billion in additional healthcare spending planned for the next four years.

The Ontario government recognizes that the money generated from this new tax will not fully cover its healthcare funding obligations. Both federal and provincial cut backs in healthcare services have left both employers and private insurers across this country having to alter and redesign their medical and dental plans to keep up with emerging trends of higher claims and new cost realities.

Managing medical and dental corporate costs in the 21st century

The traditional corporate employee medical and dental benefit plan in Canada provided coverage for semi-private hospital rooms, prescription drugs, dental, chiropractors, physiotherapists, vision care and travel medical insurance. The vast majority of employer medical and dental plans were designed to be supplementary to the government plan and where never meant to be the employee's primary plan.

With traditional plans, insurance companies charged large sums of money in premiums and, in exchange, insurance companies assumed the risk for poor health within employee groups. On average, Canadian insurance companies aim to generate a margin each year of between 20 per cent to 40 per cent on every medical and dental plan they administer. The money collected in premiums is then used to pay the employee claims.

In the midst of these economic pressures on the current healthcare system, employees are demanding an enriched company medical and dental benefit plan. Opinions on what to add are divided by age and experience – things like teeth whitening compete with orthotics. Older employees want expanded drug coverage, while younger workers are concerned about their deductibles. The end result is employees want choice and employers want/need to contain their costs.

The emerging trend in employer-sponsored medical and dental coverage

Many employers find that to continue to offer even basic medical and dental plans for employees in the future, they will need to understand where their costs are being generated. The most innovated method to date being adopted by employers across Canada to manage their employee medical and dental plan costs are to replace their traditional plans with health spending accounts.

In essence, this is a bank account whose deposits are spent exclusively on healthcare expenses. HSA converts healthcare expenses into 100 per cent Canadian Revenue Agency-sanctioned business deductions and a non-taxable benefit for the employee enrolled in the HSA. The employee makes the decision how to spend their medical and dental benefit dollars.

By creating a group HSA, the premiums are reduced to a fraction of the cost, and the employer pay for claims from a pool of funds that an independent trustee administers with a management fee ranging from 5 per cent to 10 per cent, on the total pool of funds placed in the HSA. All monies remaining in the pool at the end of the plan year are returned to the employer. The employer assumes the health risks of their group but is protected by a pre-determined maximum payout per employee (deductible).

An additional measure/strategy that employers may put into practice to mitigate their potential risk for their healthcare costs getting out of control, are for employers to attach a stop loss medical and dental insurance policy onto the HSA. This is done by purchasing an insurance policy with a high deductible.

For example, the first $1,000 spent on eligible medical expenses per employee will be reimbursed by the health spending account. Once the annual deductible ($1,000) has been met, the eligible claims will be reimbursed by the insurance carrier, with no further expense to the plan sponsor.

The combination of a group HSA, along with a stop loss insurance policy, can reduce corporate medical and dental expenses by 30 per cent to 50 per cent per annum.

Good corporate citizenship

Individually, employers have no say over the direction of government policy towards healthcare or how the Canadian economy will behave. But what they do have is complete control over how they choose to navigate with their employees through these challenging times by providing medical and dental benefit solutions that address the needs of both their company and their people.

It is how corporations act during these periods of transition that will result in creating goodwill — and profitable results.

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