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# Canadian Health Care Trend Survey Results 2008

## INTRODUCTION

We are pleased to present the results of Buck Consultants' eighth annual **Canadian Health Care Trend Survey**. Each year, we ask the major Canadian group insurance carriers to provide the annual trend factors they are currently using to project employers' health care plan costs for the upcoming year. We then compare these factors to those provided in the previous four surveys in order to get a sense of the health care trend among private group plans over the five-year period.

The insurers provide us with factors for each type of coverage: prescription drug, medical, hospital and dental care. The factors account for increases in cost under employer plans resulting from the following:

- Cost inflation
- Utilization of services
- New technology and services
- Changes in the mix of services
- Shifting costs from the public to the private sector

The results of our 2008 Canadian Health Care Trend Survey show that overall, the rate of increase in health expenses is decreasing slightly. Trend factors for drug and medical (which represent the majority of health claims) have come down while those for dental care and hospital have increased.

The largest impact comes from the prescription drug trend. Growth in the pharmaceutical industry has slowed. Generic drugs continue to gain market share as many leading brand-name products lose market exclusivity. Several of these expensive drugs are expected to lose their patent protection in 2008 which will further boost the use of generic drugs. Increased focus on safety has lengthened the time required for drugs to enter the market and, in some cases, has resulted in products being removed from the market.

Despite the slowed rate of growth, overall health care cost trends continue to increase at just under 14%, a rate higher than any other business cost and significantly higher than the increase in the Consumer Price Index. Employers have long

recognized that they must do something to curtail costs. Many employers have addressed this concern through changes to their plan designs.

## PARTICIPATING ORGANIZATIONS

Alberta Blue Cross	Medavie Blue Cross
Desjardins Financial Securities	Pacific Blue Cross
Great-West Life	Saskatchewan Blue Cross
Green Shield	SSQ Financial
Manulife Financial	Sun Life Financial

## QUALIFICATION AND COMMENTARY

The trend factors in this survey reflect insurers' projected rates of increase in health care costs.

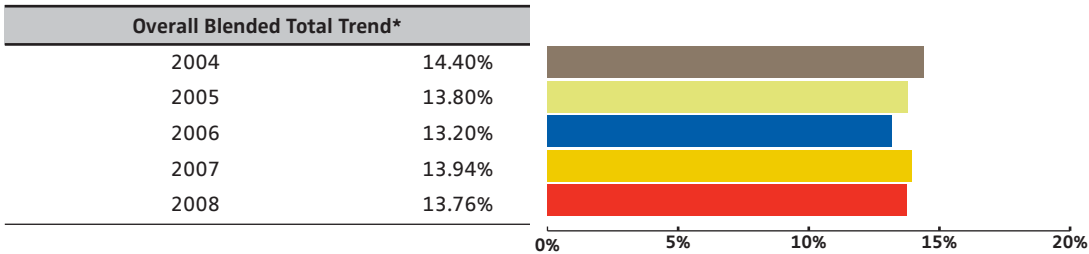
The final premium rate adjustment requested by an insurer may also reflect:

- Actual plan experience which is higher or lower than originally projected;
- Changes in the insurer's administration expenses, cost of capital and risk charges;
- Changes in any explicit margins for conservatism; and
- Recovery of any prior period losses.

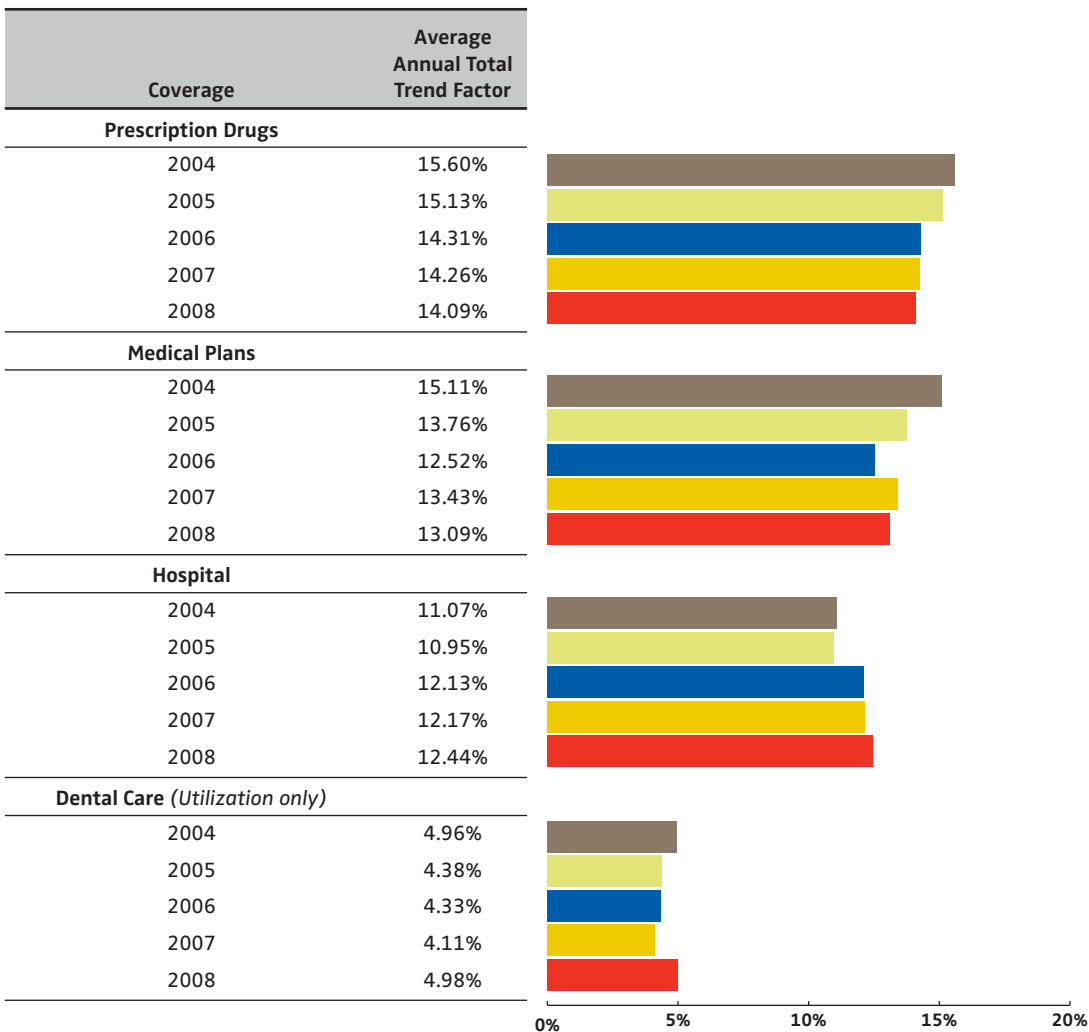
Therefore, plan sponsors may see annual premium rate adjustments that differ from the health care trend factors summarized in this report. Buck Consultants' Canadian Health Care Trend Survey is conducted and published annually, although some insurers may update their trends more frequently.

## SUMMARY OF SURVEY RESULTS BY BENEFIT

Please note that not all respondents provided a total trend factor with separate breakdowns for utilizations and inflation — some simply provided a total trend factor.

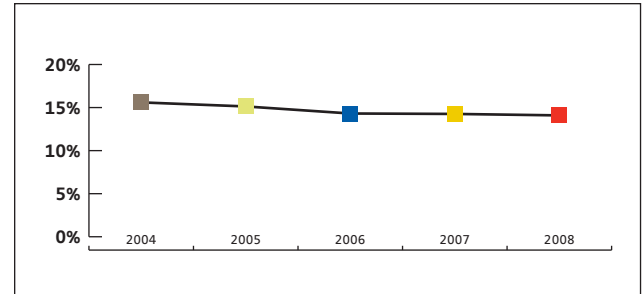


\*Assuming a typical average plan expenditure breakdown of 70% drugs, 25% medical (including vision) and 5% hospital for 2007 and 2008, and assuming a typical average plan expenditure breakdown of 65% drugs, 20% medical, 10% hospital and 5% vision for 2004, 2005 and 2006.



## PRESCRIPTION DRUGS

At 14.09%, the total trend for prescription drugs has reached its lowest level of increase since we began conducting this survey. Increases in utilization have steadily declined over the years as most plans have already undergone the transformation from reimbursement to pay direct drug cards. Inflation has decreased this year as generic drugs continue to gain market share.



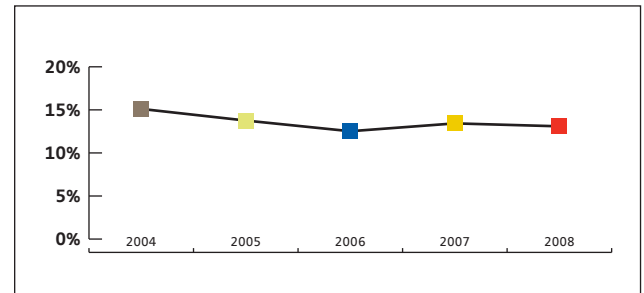
AVERAGE ANNUAL TREND FACTOR	Utilization	Inflation	Total Trend*
2004	4.20%	9.54%	15.60%
2005	5.68%	8.88%	15.13%
2006	5.53%	8.30%	14.31%
2007	4.21%	8.93%	14.26%
2008	3.95%	7.65%	14.09%

\*Utilization and inflation figures are shown as averages and the number of respondents for each factor differs. Therefore, average annual total trend does not equal average utilization plus average annual inflation.

## MEDICAL PLANS

### (excluding prescription drugs)

As a result of decreased inflation this year, total trend for medical plans (excluding prescription drugs) decreased this year. However, utilization is on the rise as paramedical practitioner treatments continue to grow in popularity.

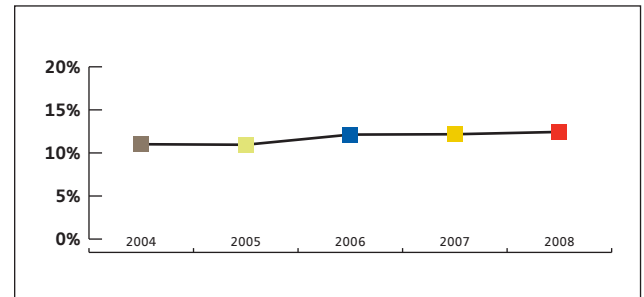


AVERAGE ANNUAL TREND FACTOR	Utilization	Inflation	Total Trend*
2004	8.19%	8.74%	15.11%
2005	6.90%	7.24%	13.76%
2006	6.22%	5.63%	12.52%
2007	6.10%	7.48%	13.43%
2008	7.20%	6.33%	13.09%

\*Utilization and inflation figures are shown as averages and the number of respondents for each factor differs. Therefore, average annual total trend does not equal average utilization plus average annual inflation.

## HOSPITAL

Total trend for hospital coverage remains above 12%.

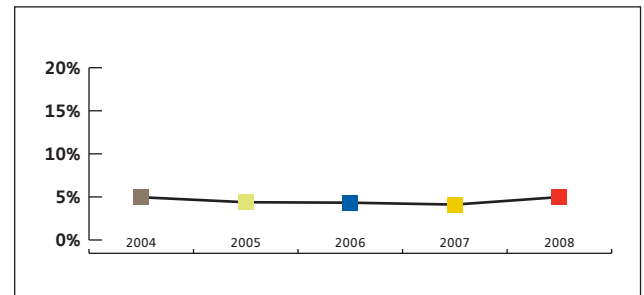


AVERAGE ANNUAL TREND FACTOR	Utilization	Inflation	Total Trend*
2004	2.63%	6.57%	11.07%
2005	4.18%	6.65%	10.95%
2006	5.29%	6.31%	12.13%
2007	3.32%	9.13%	12.17%
2008	3.74%	8.06%	12.44%

\*Utilization and inflation figures are shown as averages and the number of respondents for each factor differs. Therefore, average annual total trend does not equal average utilization plus average annual inflation.

## DENTAL CARE — UTILIZATION ONLY

Utilization for dental care has increased more than it has in the previous four years and is now just under 5%.



AVERAGE ANNUAL TREND FACTOR	Trend
2004	4.96%
2005	4.38%
2006	4.33%
2007	4.11%
2008	4.98%

## DENTAL CARE — FEE GUIDES

The following shows the estimated average annual fee guide increases for dental care services performed by general practitioners. The annual fee guides incorporates the factors influencing the general market available to dentists in their province. However, every dentist sets their own fees considering the factors affecting their practice. This year, all provinces with the exception of New Brunswick, Nova Scotia, Prince Edward Island and Ontario, increased fee schedules more than last year. Ontario's fee schedule average increase is just 2% compared to 3.6% in the past two years. However, the increase in the national average dental utilization (illustrated in the previous section of almost a full percentage point) offsets this in determining combined utilization/fee guide dental trends.

Province	2004	2005	2006	2007	2008
Alberta*	4.50%	5.50%	3.90%	4.76%	5.90%
British Columbia	4.48%	3.37%	3.52%	3.19%	3.24%
Manitoba	3.20%	3.49%	3.50%	3.79%	3.86%
New Brunswick	3.00%	3.00%	2.69%	3.00%	2.00%
Newfoundland & Labrador	1.60%	2.60%	3.70%	3.00%	4.30%
Nova Scotia	3.38%	3.26%	3.24%	3.46%	2.74%
Ontario	4.00%	2.60%	3.60%	3.60%	2.00%
Prince Edward Island	1.80%	2.10%	2.00%	2.80%	2.29%
Quebec	3.90%	2.80%	4.80%	3.10%	3.20%
Saskatchewan	5.68%	4.11%	4.89%	6.23%	6.50%

*\*Since 2000, Alberta has established an annual Dental Reimbursement Guide. Figures shown are averages and will vary depending on plan design, since no suggested fee guide is published.*

*We have removed the figures for the three territories, due to the limited data available and the fact that their fees are not adjusted until the end of the first quarter.*

## LOOKING AHEAD

We expect health plan costs to increase at double-digit rates for the next five to ten years. Increased awareness of available medical therapies has created a more demanding consumer. The aging population will also contribute to cost increases as medical service and supply usage increases with age.

Employers who have not evaluated their plan designs to address cost issues should do so.

In the past, medical supplies and services were developed to treat the seriously ill patient. Today, the range of drugs, medical products and services available is rapidly broadening to include the treatment of almost any condition ranging from serious illness to mild discomfort, fatigue, anxiety or irritation. Furthermore, these products are heavily advertised. This means benefit usage today is partly a function of employee choice and not completely a matter of necessity.

It will become increasingly important for employers to develop a benefits philosophy that addresses the purchase of medical services and supplies that are not considered medically necessary.

One of the trends in cost management that addresses the element of choice in health care is consumerism. A plan that covers 100% of eligible expenses encourages overuse and does not promote wise decision making. When employees share in the cost of medical services, they appreciate the actual cost and tend to be more judicious in their health care purchases.

Traditionally, the primary form of cost sharing was payroll deductions. Today, this is a less effective way to control cost trends. When employee costs are paid before claims are incurred, it encourages utilization as many employees will try to get their "money's worth". Consumerism, which focuses on the sharing of the claims cost (i.e. covering 80% or 90% rather than 100%, or using a Health Spending Account), controls utilization because the cost is incurred by employees at the point of purchase.

Many employers, having already implemented plan design changes to curb cost trends, are beginning to shift from a reactive to a proactive approach to health cost containment.

Wellness continues to gain momentum as a way not only to control health costs, but to reduce absenteeism and increase productivity. Some of the steps taken by employers to encourage healthy employees are:

- Workplace fitness centres or fitness subsidies
- Healthy food options in the workplace
- Educational seminars and newsletters
- Smoking cessation programs
- Weight loss programs

There is no question that controlling health care costs will continue to be a priority for Canadian businesses, but employers are also fighting a relatively new battle to attract and retain talented employees. In today's competitive talent market, companies cannot continue to make the traditional benefit cuts of the past or they will be at risk of losing employees. There is an increasing need for employers to rethink their benefits philosophies and to be creative in addressing health costs within the new and very competitive market for talent.

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