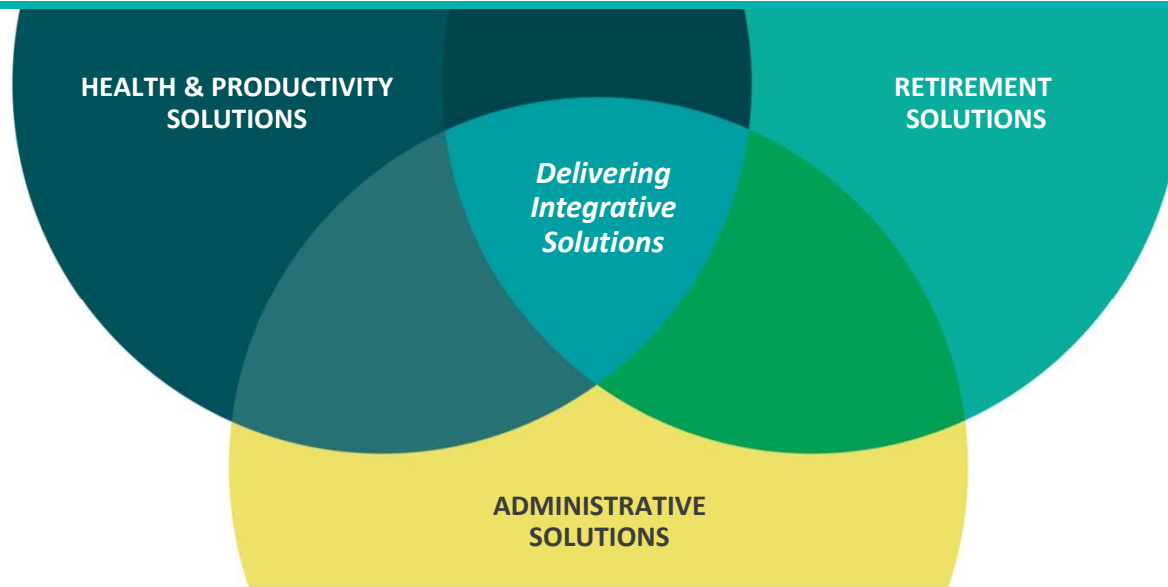




# **Banking on Productivity:** Managing Employee Health Costs

May 2013

# Morneau Shepell



## 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”

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# The Role of the CFO

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- Nearly four in ten (38%) of financial executives surveyed said they were accountable for Human Resource in the reporting structure of their organization
- Only 15% said they had no role in Human Resources
- **Overall 6 in 10 (59%) of respondents guide decisions related to strategic human resource management**

# Today's Discussion

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- **Emerging Issues**
  - 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
- **Survey Highlights**
- **Your Thoughts: Quick Polls**
- **Questions, Answers and Discussion**

# The Financial Impact of Mental Health

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## **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

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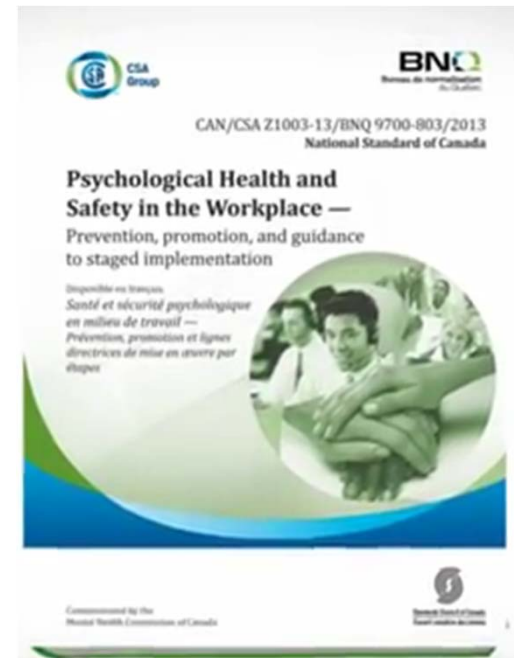
## **Workplace accountabilities for mental health are the same as for physical health:**

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





# The National Standard for Psychological Health and Safety in the Workplace

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## **A clear framework that provides:**

- i. The Psychological Health and Safety Management System in a 5 stage process
- ii. Description of 13 workplace factors that impact psychological health
- iii. Sample implementation models with 4 levels
- iv. Scenarios for both small and large employers
- v. Discussion of relevant legislation
- vi. Resource and reference information

# Work Disability Trends

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## Consistent Top Cost Driver: 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

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## An Emerging Concern: 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

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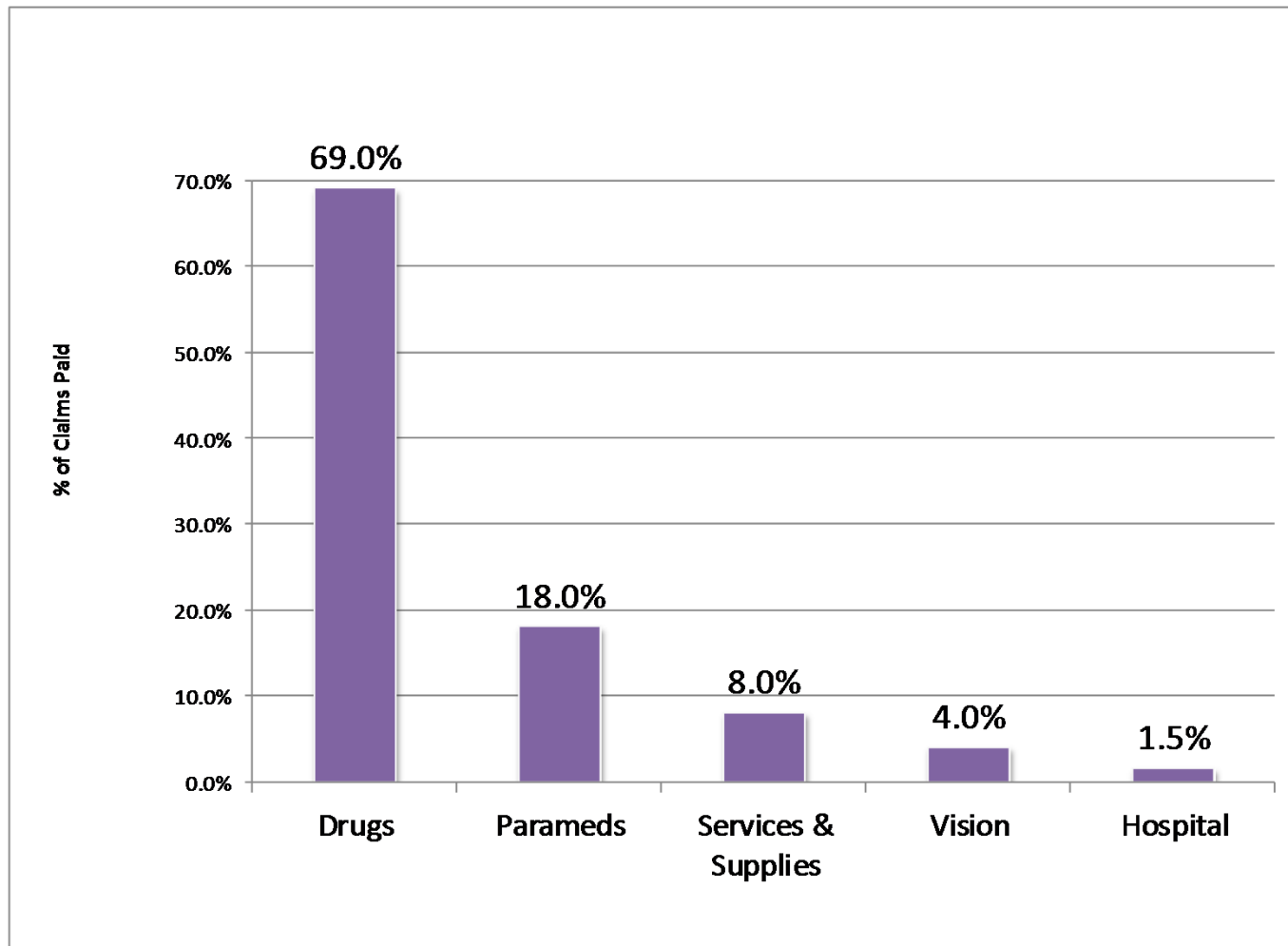
## Long-Term Disability (LTD)

- 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

# The Drug Plan as a Cost Driver



*Health only, not including dental*

# Drug Plan Cost Drivers

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## 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 Cost Drivers

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## High Cost Specialty Medication

Cost Rank	Medication	Conditions	Annual cost per person
3	Remicade	Rheumatoid arthritis, psoriatic arthropathy , ankylosing spondylitis, chronic plaque psoriasis, Chron's disease, ulcerative colitis	From \$27,800 to \$35,000
5	Enbrel	Rheumatoid arthritis, psoriatic arthropathy , ankylosing spondylitis, chronic plaque psoriasis	\$20,000 plus
9	Humira	Rheumatoid arthritis, psoriatic arthropathy , ankylosing spondylitis, chronic plaque psoriasis, Chron's disease	\$19,500 plus

# Drug Plan Cost Drivers

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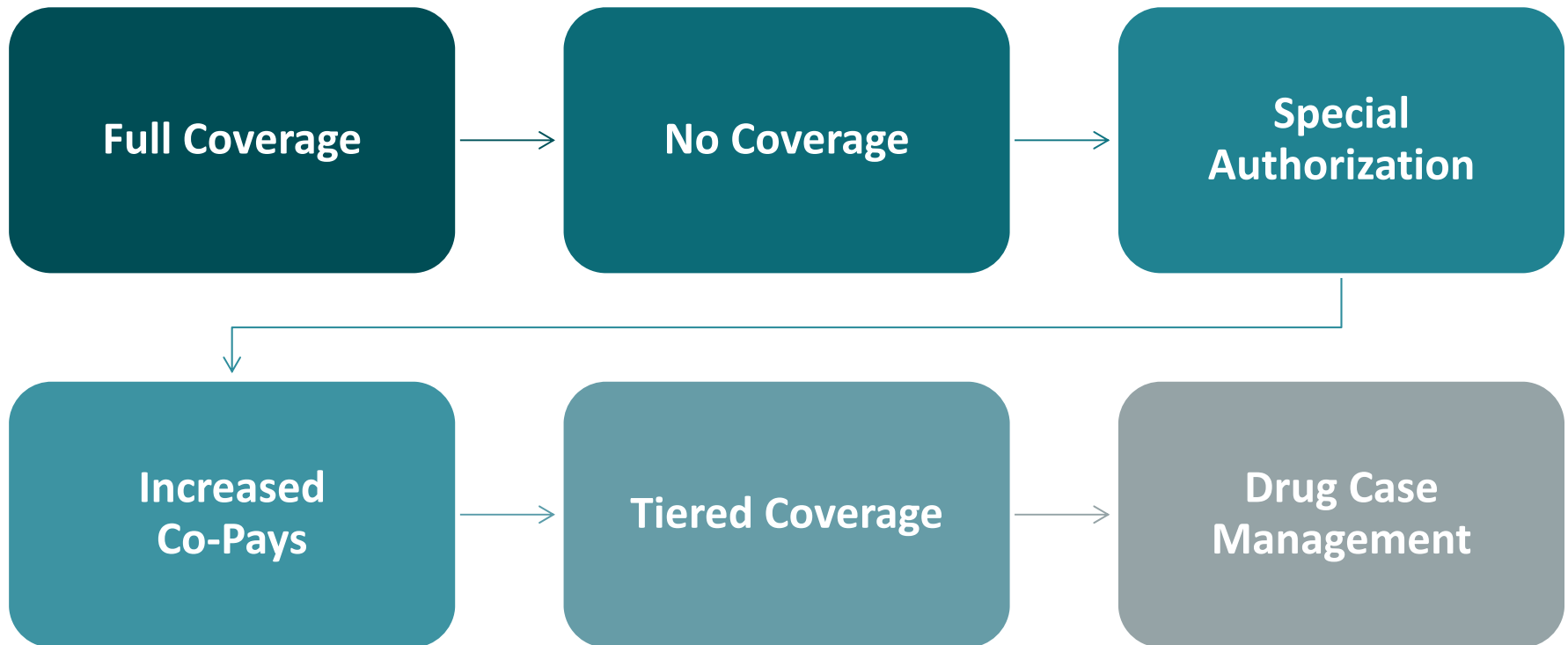
## These New Therapies are Expected to Have Significant Long Term Impact

- 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



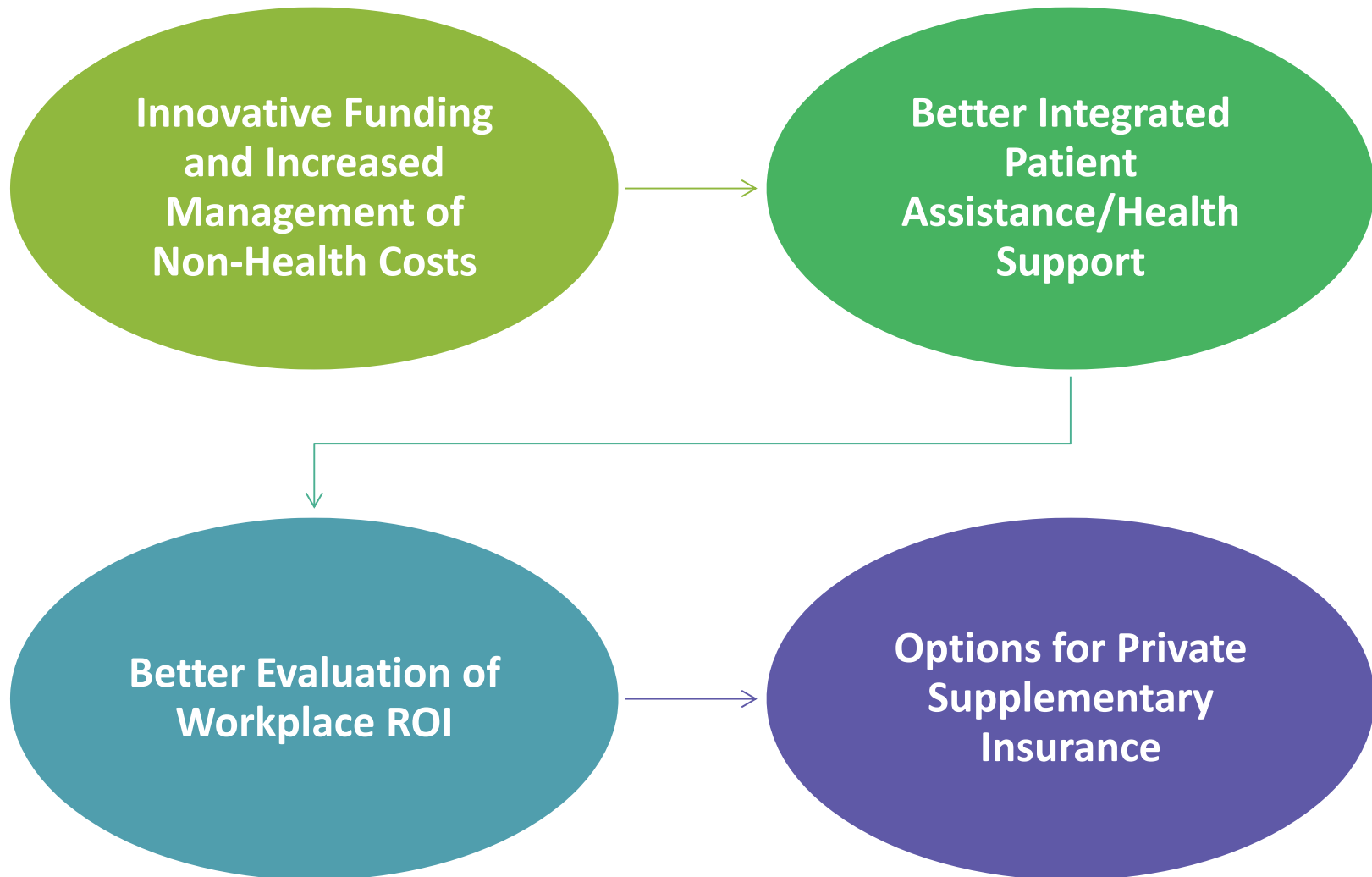
# Drug Plan: Current Common Approaches

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# Drug Plan: Increasing Considerations

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# Pension Issues

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## 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**

Pensions

# Pension Issues

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- **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

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## Historical Trends

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



# The Pension Landscape is Rapidly Changing

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## 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

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- **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 Concern

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- **Drug benefit costs** were identified as the leading cost risk
  - 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

# Confidence

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- **Pensions risk 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

# Risk

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- 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



# Questions, Answers and Discussion



# A Reference Guide for Your Review



**What is Canada's National Standard for Psychological Health and Safety in the Workplace — and What Does it Mean to Your Business?**

*Frequently Asked Questions*

#### Should I be concerned that the Standard will be onerous and disruptive to my business?

- You should not be concerned. Actions that are guided by the Standard are intended to integrate with and enhance an organization's culture and implement a framework based on their available resources, priorities, and budget. It is not intended to interfere with business operations in any way.
- High demand, cost-conscious workplaces will benefit significantly, given that the Standard supports the sustainability of both of those business requirements.
- The Standard is voluntary and aligned with the occupational health and safety standards and best practice workplace health strategy, and as such are familiar to organizations.

#### I am not a large employer. Isn't the Standard mostly for large, no.

- The Standard is intended for organizations of all sizes. Annex D of the Standard where an organization leverages the core aspects of the Standard in a manner that is proportionate to its size.
- An organization need not implement all aspects of the Standard at present, but should consider its most basic application.
- Morneau Shepell is available to support organizations in understanding the Standard regardless of their size or current situation.

#### Since the Standard is voluntary, should I pay attention to it right

- Yes, the Standard offers value in managing some of the most significant occupational health and safety risks in the workplace.
- The Standard offers the same benefits for workplace mental health that occupational health and safety standards offer: reduced cost and liability, and ultimate safety, and profitability.
- The Standard also supports organizational performance by promoting a safe and productive workplace.

#### I heard that Morneau Shepell and some other organizations are that mean?

- Early Adopters of the Standard are organizations that have publicly declared their commitment to the Standard.
- The public declaration illustrates commitment, leadership, and the organization's commitment to the Standard.
- Morneau Shepell has always invested in best-in-class workplace mental health and safety services.
- Given that Morneau Shepell actively participated in the development of the Standard, we are committed to making sure the right things are done to meet the needs of our clients.

#### What Other Resources are Available?

In addition to the support available through Morneau Shepell and Shepell Igi, several publicly available resources are available to help you understand the Standard:

RESOURCES	WHAT IS IT AND HOW IT CAN HELP?	WHERE TO GET IT?
Psychological Health and Safety in the Workplace	Familiarize yourself with the Standards by accessing the full report.	<a href="http://mentalhealthcommission.ca/English/Pages/Workforce.aspx">mentalhealthcommission.ca/English/Pages/Workforce.aspx</a>
Psychological Health and Safety: An Action Guide for Employers	The MHCC has created this guide to help organizations understand and comply with the Standard.	<a href="http://mentalhealthcommission.ca/SiteCollectionDocuments/Workforce/Workforce_Employers_Guide_ENG.pdf">mentalhealthcommission.ca/SiteCollectionDocuments/Workforce/Workforce_Employers_Guide_ENG.pdf</a>
The Road to Psychological Safety	A whitepaper that discusses the legal, scientific, and social reasons why a standard is necessary in the workplace.	<a href="http://mentalhealthcommission.ca/SiteCollectionDocuments/Workforce/2011/The_Road_to_Psychological_Safety.pdf">mentalhealthcommission.ca/SiteCollectionDocuments/Workforce/2011/The_Road_to_Psychological_Safety.pdf</a>
Building Mentally Healthy Workplaces: Perspectives of Canadian Workers and Front-Line Managers	A report based on a national survey that highlights the workplace challenges faced by employees with mental health issues, and provides insight into how employers can best support these employees.	<a href="http://conferenceboard.ca/-/Library/abstract.aspx?id=4287">conferenceboard.ca/-/Library/abstract.aspx?id=4287</a>
Guarding Minds at Work (GMaW)	Assessment, action, and evaluation resources designed to help employers successfully implement GMaW in their workplaces.	<a href="http://guardingmindsatwork.ca/info/gmaw_resources">guardingmindsatwork.ca/info/gmaw_resources</a>



Adobe Acrobat Document





**Thank You**

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