

Visit **Benefits and Pensions Monitor** magazine online at: <http://www.bpmmagazine.com>

Confronting The Future

By: David Garner

Reaching 50 is often a time for reflection, personally and professionally. This year Green Shield Canada marked its 50th birthday, so it is an appropriate time to reflect on not just where we have been as a company and where we are headed, but to look at broader issues that face our entire industry. Where is our industry headed? What can we expect in the next 50 years and how should we prepare?

Increasing costs in virtually everything related to **healthcare** is a popular theme in the media and of great concern to Canadians. Elections are waged on **healthcare** issues, and we all know the impact of the aging Baby Boom generation will be felt for decades to come. We have to be ready. The changing demands and needs of an aging population are too great and complex to continue to address on an individual basis.

We must formulate strategies and tactics to deal with these changes as a cohesive industry. We need to collaborate with all stakeholders in both the public and private sectors to ensure that we remain accessible, that our products remain affordable, and that the outcomes are appropriate. We need a transparent healthcare system that adequately rewards contributors for proper behaviour while offering a cost-benefit approach to funding that has measurable results.

Follow Changes

We need to do more than just follow changes in society and customer demographics. If all we do is change with the times, then we aren't really progressing. All of us in this industry have to do more than anticipate the needs of the future; we must actually be working as though we are already in the next decade and beyond, while remaining true to our core principles.

We must steer a course for the future that remains true to a commitment of enhancing the common good, being advocates for the healthcare industry, and being vigilant in reducing costs while recognizing that we also have a social responsibility. These are principles that can help guide our combined efforts to manage change and progress into the future. If we don't, we can expect increased plan utilization without comparable improvements in either health or disability claim costs.

We are all facing like challenges and we should address them as an industry. Healthcare spending, the cost of pharmaceuticals, and extended healthcare benefits are all under siege and are major concerns not only for us as an industry, but for employers and employees alike.

Healthcare spending, according to the Conference Board of Canada, will increase from \$142 billion in 2002 to more than \$170 billion in 2020. Along with this increase, there is not necessarily a surge in positive health outcomes. There are indications of outcomes declining, increasing levels of chronic disease, and indicators of less healthy lifestyles as the population ages.

The Canadian Institute for Health Information indicates that Canadians have higher than average incidences of breast and lung cancer. It says that health is determined more by socio-economic and lifestyle factors than by the provision of healthcare. This is a clear indication that, as an industry, we need to be promoting preventive healthcare measures rather than paying even more for the solutions of unhealthy lifestyle factors.

The results of lifestyle factors means there is an associated increase in the need for prescription drugs. The 2006 IMS Canadian Market Survey shows the expenditure for these drugs is expected to increase from the 2005 level of \$16.5 billion to more than \$22 billion by just 2010. Green Shield Canada 2006 Drug Claims Research reveals that in just the past five years alone, the costs have risen more than 44 per cent. This trend can be slowed somewhat with better plan designs and cost management, but the increase will continue and we need to address it.

Chief Factors

The increase in cost and utilization of pharmaceuticals can be attributed to four chief factors (See Chart 1):

- Claim Effect – The quantity of drugs dispensed
- Drug Mix Effect – The introduction and withdrawal of specific drugs
- Price Effect – The fluctuation in the price of drugs
- Demographic Effect – The changes in our aging population 'Claim Effect' costs rose more than 16 per cent from 2000 to 2005.* We are stemming some of this by limiting the size of new prescriptions until the effectiveness and degree of patient tolerance has been judged.

The 'Drug Mix Effect' costs have increased more than 13 per cent.* New drugs are often more expensive, but do they provide significantly improved results over existing products?

Price changes on existing drugs, the 'Price Effect,' have resulted in an increase over the five years from 2000 to 2005 by more than eight per cent.* We can slow this increase by limiting payments to the lowest cost generic when possible.

The 'Demographic Effect' – a combination of age, gender, and occupation – has increased costs more than six per cent in the same five-year period. Not surprisingly, the rate of growth of claimants is highest for those over the age of 44.* The aging population means that increases in the utilization of oncology, diabetes, and life-extension drugs will continue to rise (See Chart 2).

Living Longer

While more effective treatments are being developed in pharmacology, there is, of course, a weight that is pulling down the scale on the other side for those of us in the industry. We're living longer which means that the costs of prescription drugs, extended healthcare benefits, and overall healthcare are only trending in one direction – up. And there are a number of factors that are contributing to it.

The increased prevalence of private medical care, including private clinics, has changed the definition of what is 'medically necessary.' This has created an opening for private healthcare providers to offer services that are not traditionally considered necessary. The incidence of home care and elder care is increasing, as are laboratory costs, both of which continue to run up the expense of healthcare for Canadians. These will only become a greater challenge for our industry in the years to come. But what can we do about it?

There is no single line of defence. The frontline stance should be aimed at more cost-effective healthcare, reduced hospital admissions, a healthier workforce, reduced absenteeism, and reduced short-and longterm disability. We must be dedicated to being progressive and that means exploring every alternative.

We have to ensure that expectations are managed and that prevention, not just treatment, is our objective. Benefits should be evaluated for overall effectiveness and the ultimate outcome. We must always differentiate needs from wants when it comes to procedures and we need to ensure that accessibility to healthcare remains a Canadian staple.

Drug manufacturers, governments, physicians, pharmacists, plan sponsors, and, indeed, patients themselves will require us to be more communicative, more transparent, and committed to finding joint solutions.

Shift Our Thinking

We have to shift our thinking to a new direction. Instead of trying to be everything to everybody, we need to look more closely at the individual – the right benefit, at the right time, and at the right price. There is also no definitive, clear guide for what our industry will face in the future, and even though we have a good idea of where it is headed, strategies will need to be adapted as we change and progress. With so much at stake, it is foolhardy to be isolationist and think only of our own companies. The bonds within our industry, among our competitors, and in conjunction with regulators will need to be strengthened and used to full advantage. Collaboration isn't always easy, but, in the next decade and beyond, it is essential to the health of our industry, and our customers.

And so I challenge all of the organizations in our industry to think collaboratively and to work together, not just to protect our individual company's well-being, but to also play a key role in the preservation of a quality healthcare system of which we can all be proud. ■

David Garner is president and chief executive officer of Green Shield Canada. * Green Shield Canada 2006 Drug Claims Research