Mercer Marsh Benefits

# Three steps to keep health and benefits plan costs under control

benefits that truly benefit

## We've learned how critical employee health is for business success. But mounting costs mean organizations must balance cost control with managing people risks. Here we set out three steps to make sure you're protecting your most valuable asset without breaking your budget.

There's no questioning that the cost of health and benefits plans is increasing rapidly. And while the pandemic meant a slight dip to the level of cost escalation, our research shows that, on average, medical costs outpace general inflation by close to three times.

The pandemic may mean an even sharper rise in costs as the cancellation of many elective procedures and a dip in preventive and emergency treatment lead to worsening health conditions in the immediate and long term.

Unsurprisingly, businesses are urgently seeking ways to economize and improve efficiencies in their health-related plans. Employers must take quick action to modernize, optimizing value to ensure programs are both cost-effective and encourage and improve employee health.

Achieving this means addressing three key areas:

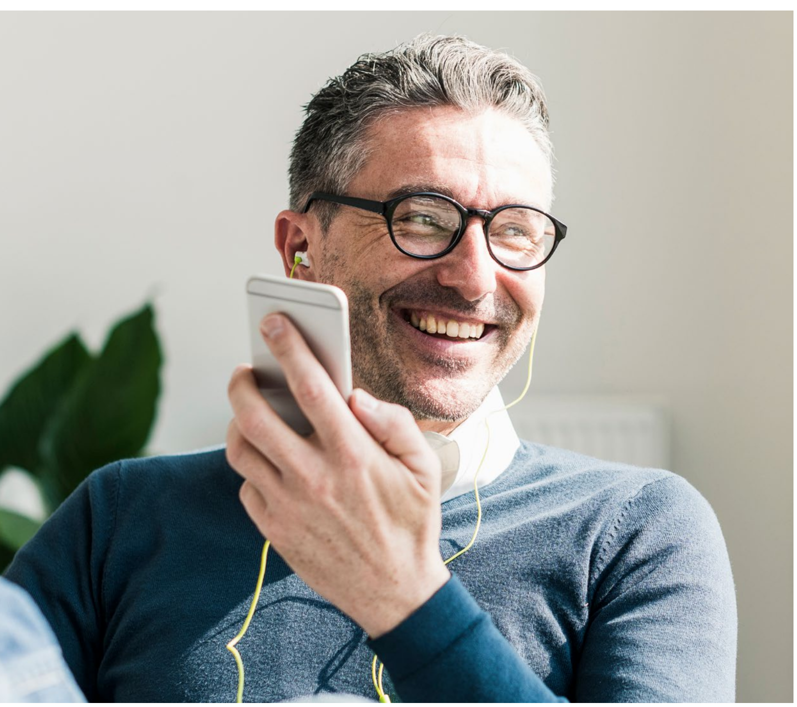
### 1. Dealing with poor plan design (design for value)

Misdiagnoses, complications, and hospital-borne infections are just some of the consequences of poor initial care that add unnecessary cost and degrade the patient experience and outcomes. Not only is the employer paying for medical wastage, disability, and absence, but employees are left worse off, with some experiencing a decrease in quality or even length of life.

Plan design is crucial for containing costs by guiding employees toward quality, cost-effective providers.

Consider:

- Giving immediate access like virtual care avoids wait time and time away from work, therefore improving productivity.
- Encouraging prevention through design (e.g. coverage for vaccines, smoking cessation products, anti-obesity drugs etc.).
- Evaluating insurers based on health and disability claims management and provider network monitoring.
- Cost-sharing techniques like deductibles, co-payments and coinsurance (ideally tiered in a way that encourage best practice, cost effective care).
- Defined contribution approaches that share costs with employees while broadening choices.
- The role of individual plans through voluntary insurance.



## 2. Creating a data-driven approach that promotes a healthy workforce (manage health risk)

Circulatory, gastrointestinal, and respiratory conditions, largely related to lifestyle choices, continue to drive the top claims by cost and frequency.[1] Meanwhile 60% of plan members reported having been diagnosed with at least one chronic condition.[2]

All good risk management plans contain strategies to eliminate intrinsic threats, and healthcare should be no different. Understanding the risk profile of your employees and their dependents — and managing these through data-driven initiatives – can have a significant long-term impact on costs.

Consider (confidential, voluntary, and personalized where appropriate):

- Health promotion – health culture, education, vaccinations, illness, and injury prevention initiatives.
- Supports for people at risk of illness - due to lifestyle, family history, and/or working environment.
- Supports for people with medical conditions - to halt or stem the progression of disease.
- Managing high-cost claimants - optimizing care and, where possible, getting them back into productive work.

Done right, these can deliver empathy and economic benefits simultaneously. Putting your current health profile and management measures under the microscope can help you determine the gaps and inefficiencies in your program.

## 3. Eliminating inefficiencies through smart financing and placement (drive efficiencies)

You need to ensure that you are eliminating redundant or duplicate benefits by consolidating and harmonizing plans.

At the same time, managing wastage is a critical component of cost containment, as plans can involve significant frictional costs such as administration, profit and risk charges. Your broker will use various techniques to manage this and should have insight into financial factors influencing rates.

You may wish to consider loyalty-based approaches that provide price concessions in return for longer contract terms or obtaining competitive pricing through volume discount.

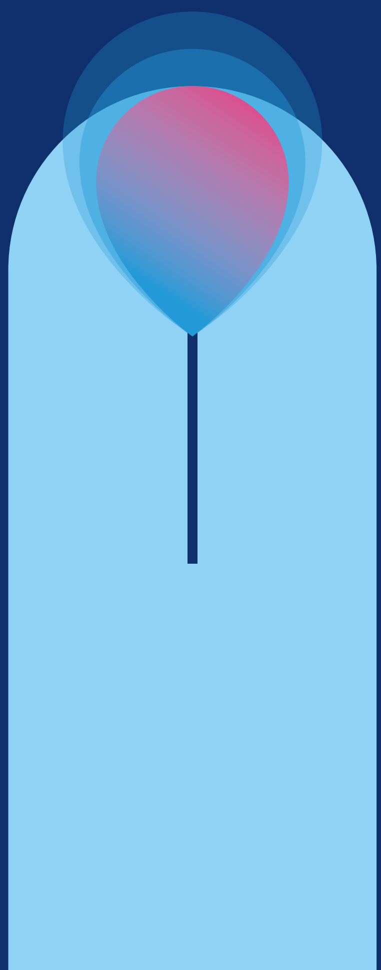
Other solutions include:

- Alternative risk transfer approaches, such as self-insurance, use of stop-loss limits and large amount/durational polling.
- Adjudication and case-management protocols to minimize fraud, ensure expenses are medically necessary and claims paid are reasonable.
- Service level agreements and audits, which can often identify sources of fraud or abuse and opportunities for tighter claims controls (e.g. opioids, diabetic supplies etc.).

# Conclusion

**The COVID-19 pandemic is pushing cost management up the corporate agenda, but achieving this means going beyond the status quo of simply challenging prices at renewal, which will only control costs in the short term.**

**Employers that are serious about managing expenditures need a multipronged approach over several years that targets the three core levers for cost containment: Designing for value, managing health risks and driving efficiencies. Only then, can you create cost-effective benefits plans that truly benefit employees.**



[1]. Mercer Marsh Benefits. MMB Health Trends: 2020 Insurer Perspective, 2020

[2]. Benefits Canada Healthcare Survey, 2021

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**About Mercer**

At Mercer, we believe in building brighter futures.

Together, we're redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. We do this by meeting the needs of today and tomorrow. By understanding the data and applying it with a human touch. And by turning ideas into action to spark positive change.

For 75 years, we've been providing trusted advice and solutions to build healthier and more sustainable futures for our clients, colleagues and communities.

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Welcome to brighter.

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Continuously rethinking purpose and priorities drives HR transformation. Shaping the future of work requires improved strategies around investment and retirement, health and wellness benefits, talent and communications. We believe in the value of investing in the future to build resilience for your business and your employees.

As part of our forward-thinking approach, we provide strategies to foster healthy lifestyles with innovative health and wellness benefits. Mercer Marsh Benefits consultants help you provide personalized benefits options that suit a range of employees' needs. We understand that today's workforce is multi-generational and diverse, and we're prepared to create solutions with you that support employees, wherever they work.

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