Celebrating 40 years

# Shift towards DC approach to health benefits inevitable

By Joe Nunes

As we celebrate *Benefits Canada*'s 40th anniversary, it's a good time to look ahead to the next 40 years. Looking ahead, I see the inevitable trend of health benefits moving to a defined contribution approach from a defined benefit one. I expect the trend to mirror the developments in the pension area over the last 30 years.

The three big drivers of the exodus to the promised land of defined contribution pension plans have included: employer frustration with unpredictable costs; the desire by employees for more control and choice over their retirement funds; and demands for fair compensation, which often translates into contribution dollars rather than income benefits.

If we look at health benefits, what do we see? Employers have the same frustration with unpredictable costs and employees want more control and choice over the types of health benefits available to them. Health-care spending accounts have emerged as a way to meet that demand and are an option that puts employers squarely in charge of costs.

But what's fair?

## Moving beyond the 80/20 rule

Health benefits plans often follow the 80/20 rule, under which 80 per cent of the dollars go to 20 per cent of employees. When I joined Mercer in the 1980s, we had a traditional plan. Those of us just starting our careers knew our utilization of the plan was below average. But we understood that one day, we'd be older, maybe married with kids and with untold ailments and dental needs. The health plan would be there for our above-average needs at that point. It sounded fair to me.

But as we become increasingly knowledgeable about health, we're learning that waiting to be sick to then go see the doctor or pharmacist isn't the best strategy. Rather, we now know that there can be value in chiropractic care and massage therapy. We know that a gym membership or a treadmill can create a positive outcome many times the value of the investment.

So where do these investments fit in the traditional health plan and who will pay? Progressive employers have been trying for the last few decades to introduce some of the ancillary benefits of focusing on wellness. At the same time, many of those employers remain under siege with rising drug costs and claims. Employers are now under pressure to reduce paramedical support to manage costs. But is that the benefit we want to remove?

To me, having watched the transition to defined contribution plans in the pension world during my career, I suspect we'll see the same transition with health benefits. Employees want control and choice, while employers are seeking cost predictability. They'll both find what they want in a defined contribution world. Stop-loss insurance will help protect against catastrophe.

So what's taking so long?

## Tough decisions ahead

If this obvious marriage of employer cost management and employee choice has been good for pensions, why aren't we already there with health benefits? The biggest reason is the 20 per cent of employees who are using most of the dollars. They're often tenured employees with key roles at an organization. Employers, meanwhile, are often reluctant to wade into that territory, and we have yet to see a demand in full force for fairness from employees.

For the transition to work, there have to be some tough decisions about who the winners and losers will be. Unlike with pensions, where losing is less obvious given future uncertainty around working, retiring, mortality and investments, if people can't afford to get the maintenance drugs they've been using for years, they're going to notice the change immediately.

So the transition will start slowly, just like it did with pensions. A few brave employers — probably small businesses — will lead the way. Over time, more businesses will follow and, in the end, the largest companies will come on board once they can see that everyone else is doing it. Stay tuned. BC

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