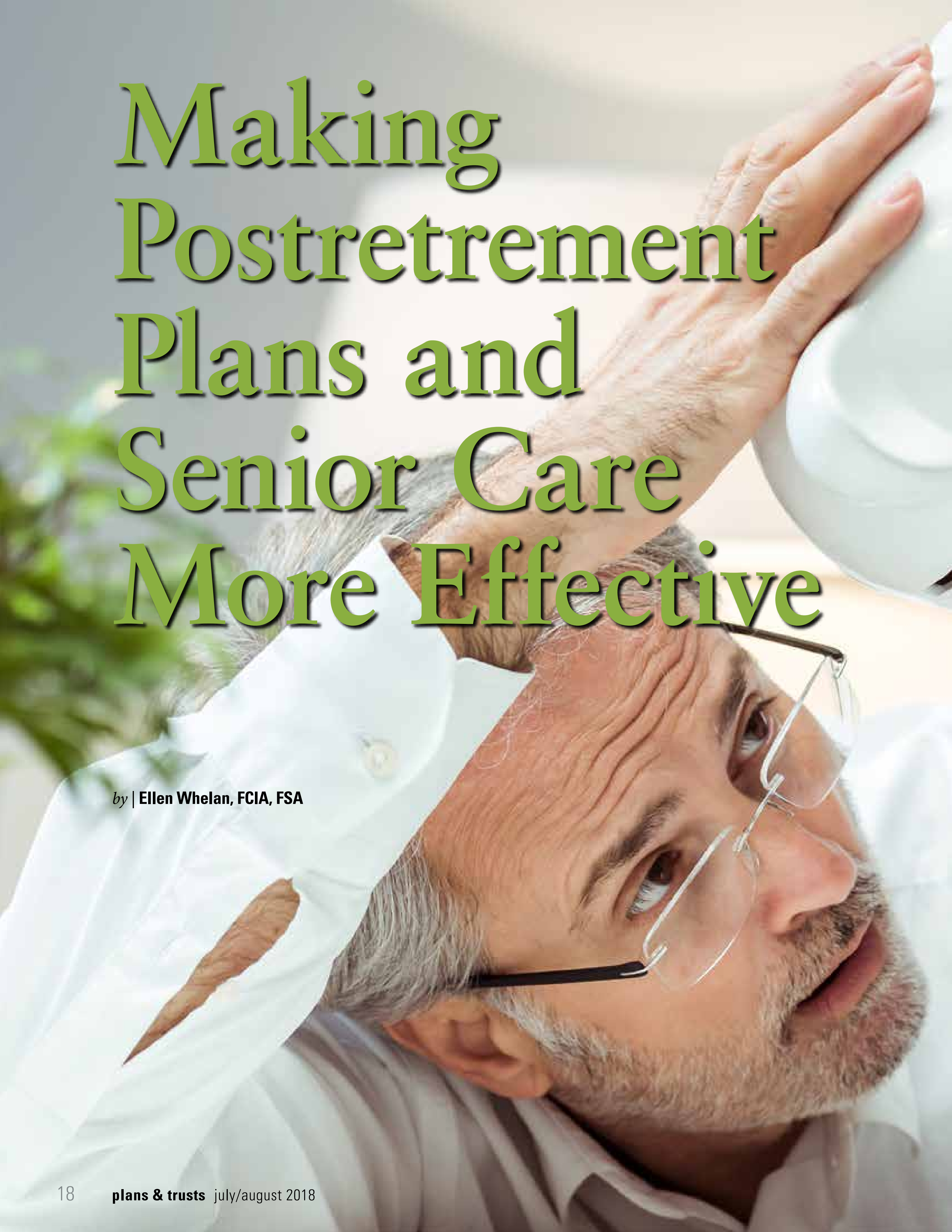

Making Postretrement Plans and Senior Care More Effective

by | **Ellen Whelan, FCIA, FSA**

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The country is faced with the realization that health care resources are stretched due to factors such as slow economic growth, escalating health care costs, an aging workforce and a growing number of retirees with increased life expectancy. But most Canadians still have an expectation that close to 100% of their health care needs will be reimbursed by governments and/or employer plans. With these trends unlikely to ease anytime soon, governments and employers across Canada are looking for ways to control their share of retiree health care costs while still helping employees prepare for their postretirement health care needs.

The past decade has seen changes to employer-sponsored benefit plans, often with a focus on reducing or eliminating retiree coverage. This shift has serious implications for the future of retiree benefits and the welfare of our seniors. Many Canadians, long conditioned to pay little attention to the cost of their health care consumption, are ill-prepared for a world in which more health care costs may need to come out of their own retirement incomes. There are opportunities for employers—through employee life and health trusts (ELHTs) and regular, consistent communication on savings as well as current and postretirement health care costs—to play a significant role in improving postretirement preparedness and senior care.

If Canada hopes to avoid pushing its retirees into financial crisis, now is the time to explore how retiree health care coverage can be saved by making it more effective. The key questions become: What services are needed, how will they be accessed and how will they be funded?

Desired Services

Today, Canadians aged 65 and over make up 14% of the population and consume 45% of total public health care dollars. Projections indicate that the aged 65-plus demographic will account for 18.5% of the population within ten years and up to 25% by 2041. If seniors' consumption of health care services grows at the same rate, this will mean Canadians over the age of 65 will consume about 80% of total health care costs by 2041. Provincial governments will need to dedicate more time and effort toward seniors' health care needs.

Because Canadians are living longer than before and are healthier than earlier generations, it will be imperative that there is increased access to, and availability of, community-based care and services to assist the surging number of seniors to maintain their independence, live at home and enjoy healthy, productive lives.

A longitudinal view of the nation's future health care system needs to be completed so that the supply for care meets the demand. Things like increasing the supply of home care, private duty nursing, personal support workers, physiotherapy and speech therapy, adult day-care facilities, affordable housing in retirement communities, long-term care beds and transportation services can aid our aging demographic. Making sure seniors have easy access to the services of physicians, specialists, hospitals and prescription drugs will be at the core of their health care needs.

The ultimate goal is to deliver care at the most optimal time and in the most optimal setting, ideally reducing dependence on hospital stays and resident long-term care facilities until a severe illness is incurred or until the very-end-of-life stages are reached. This may require the delivery and integration of core services—physicians, specialists and prescription drugs—to be reengineered for different outcomes in the future, with a focus on the increased prevalence of seniors.

The demand that will exist in the future has simply not existed to date. Therefore, the supply does not yet exist at the levels that will be required in the future.

Accessibility to Services

When it comes to health care services, the fundamental consideration should be that seniors will have access to things they need, when and where they need them. Consistent access to care in rural and urban communities will be a must; seniors should not have to leave their communities to

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get care. If supply is limited, a fair mechanism for prioritizing access should be created. But if the wait, or the list of people needing care, is so long that people have to wait more than a couple of months to access it, then more supply must be provided.

One suggestion is that doctors and specialists could return to making more visits to homes or community centres in order to make their services more accessible. Their care could then be integrated directly with accessible pharmacists, drug specialists, and health care or drug navigational support workers.

Building a culture where family and community have a larger stake in the health and survival of our elders also could make Canada a stronger, healthier nation. To this end, the nation might need to take steps that involve implementing integrated programs or infrastructure such as building senior/youth residences, creating more senior care-based career paths, and providing financial or tax incentives for families and communities to provide senior care, centres and events where seniors can gather and give back to the community. This could make the system more robust and allow seniors to live healthier and more productive lives.

Capital and Funding the New Infrastructure

Today, on average, governments fund about 70%[1] of the total Canadian health care bill; private plans and individuals fund the other 30%. There is no denying that health care needs and costs increase as a person ages. If we look at the division of costs by age, we find that the balance tips significantly, with governments covering 80% to 90% of the costs for people over the age of 85. However, even if individuals and private plans are only covering the other 10% to 20% of health care needs during older ages, today this can still annually range from $2,000 to $3,000 per person—and these costs can be significantly higher if someone has a severe illness or chronic conditions. As mentioned earlier, with the increase in the proportion of the Canadian population that will be over the age of 65, the burden on government-funded programs as they stand today will be massive.

Governments will not be able to finance all services needed to cover and enhance seniors' health care needs in their retirement years unless, of course, people allow for significant increases to taxes and sacrifice funding for other tax-funded programs, such as support for schools and city/provincial transportation infrastructure.

Takeaways

- Health care resources are being stretched due to factors such as slow economic growth, escalating health care costs, an aging workforce and increased life expectancy.
- A shift in health care costs from governments and/or employers to individuals could create a financial crisis for seniors who are not prepared to cover these costs.
- Governments can play a role by increasing supply and access to services, including through initiatives such as tax incentives for families and communities to provide senior care, centres and events.
- Employers can help workers prepare for postretirement health care needs through consistent communication on health care costs, plan design and the potential use of employee life and health trusts (ELHTs) to increase employee savings for retirement health care.
- To avoid a future financial crunch for all parties involved in senior health care, now is the time to assess which services will be needed, how they will be accessed and how they will be funded.

This brings us to the need to revisit how current tax dollars are allocated to health care costs and explore changes to the system. For the same financial investment that individuals, and governments, allocate to health care, there could be options that allow people to get more bang for their buck. With advancements in medicines and technologies, there could be opportunities to discontinue certain, current services or ways of delivering care while implementing new options that could capitalize on efficiency and economy. For example, dedicating more time and resources to home care could reduce budgets for hospitals and long-term care facilities, enabling the reallocation of funds to better serve the needs of elder communities. Though it may not be the Canadian way, another option is to implement user fees, based on individual income, when accessing physician or hospital care. This could result in the system receiving a material cash infusion, thereby enabling increases in supply of services and the expansion of accessible health care coverage.

Role of Governments and Employers

Governments can play a role by helping to increase supply and access to services, even if employers or individuals start to pay for a larger share of it. The government role could include increasing college and university programs related to the skills required to deliver senior care or finding tax-effective ways to compensate families and communities for providing health care services to seniors. Providing a tax-effective vehicle for people to save for their future health care needs would be progressive as well as a step in the right direction.

Health care expenditures are currently received tax-free or on a tax-deductible basis across Canada, except in Quebec, so a vehicle similar to a tax-free savings account (TFSA) could be created. Making these vehicles available, however, does not mean people will use them. Canadians are not fully utilizing the funding vehicles available today to save enough for their own retirement income and, as mentioned earlier, many people have come to expect that health care costs will be funded by others and are not saving for these costs either.

This creates an opportunity for employers to play a significant role in this area. Even if the future sees fewer employers designing and paying for retiree benefit plans, employers still can be a significant part of the solution by providing funding either after an employee's retirement or, ideally, before retirement and eliminating any postretirement liability. By making use of an ELHT, a tax-effective funding vehicle available to employers or other group plan sponsors, an employer/plan sponsor can force early savings for retirement health care needs.

Employers can help not only through the program design they establish but also through constant and consistent communication to employees regarding current and potential future health care costs and the importance of contributing to tax-effective vehicles. These actions could increase the availability of funds after retirement to cover health care expenses and, in turn, help employees increase their financial and health care security in retirement.

Another option worthy of consideration and not currently used today is the creation of a defined contribution arrangement where plan sponsors and/or members make contributions each year into an ELHT while the employee is working or during a defined period of employment. Funds would accumulate over time, with interest. At retirement, employees could use the balance for health care expenses such as paying premiums to buy an insured plan (group or individual) or just paying claims. For the plan sponsor, an advantage is that ongoing benefit obligations end with the contribution. There is no accrued liability on the balance sheet, and the expense is predictable since it's usually a percentage of pay or fixed-dollar contribution for hours worked. Employees benefit by being better prepared for health care expenses in retirement.

If Canada hopes to avoid pushing its retirees into financial crisis, now is the time to explore how retiree health care coverage can be saved and made more effective. The key questions that need to be assessed and addressed are the services needed, how they will be accessed and how they will be funded. Through effective communication and tax-advantaged vehicles, employers and plan sponsors have an opportunity today to be part of the answer for postretirement solutions in the future.

BIO

Ellen Whelan, FCIA, FSA, is a principal at Eckler Ltd. in Toronto, Ontario. She provides advice on all aspects of group benefit plans, including appropriate underwriting models, renewals, financials, marketing, disability management and plan design. Whelan also provides actuarial advice on assumption setting, valuation, risk management and mitigation, plan design, funding, wind-up and accounting for postemployment and postretirement benefit plans. She has provided education to clients and the industry on postemployment and postretirement plan issues, through focused roundtables, education seminars, speaking engagements and published articles. Whelan is on the board of directors for the Actuarial Foundation of Canada and the Ontario Association for Suicide Prevention. She is a fellow of both the Society of Actuaries and the Canadian Institute of Actuaries.

Endnote

1. *National Health Expenditures, 1975-2017*, Canadian Institute for Health Information.