

# CONSTRUCTION MONITOR

The BC CONSTRUCTION MONITOR is an ICBA publication providing ahead-of-the-curve information and statistics on the BC construction industry and issues relevant to it.

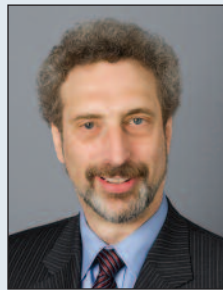
The Monitor draws on analyses and outlooks from various sources, and provides current and substantive insight. This quarterly publication is intended for industry executives, government decision makers, journalists and other opinion leaders.

We welcome your feedback and story suggestions at: [info@icba.ca](mailto:info@icba.ca)

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## Rising drug costs a challenge for employers



Philip Hochstein

The construction business knows the importance of keeping an eye on input costs – and their impact on the bottom line. Fluctuating prices for copper and steel, rising transportation costs due to high oil prices, and labour costs all have an impact.

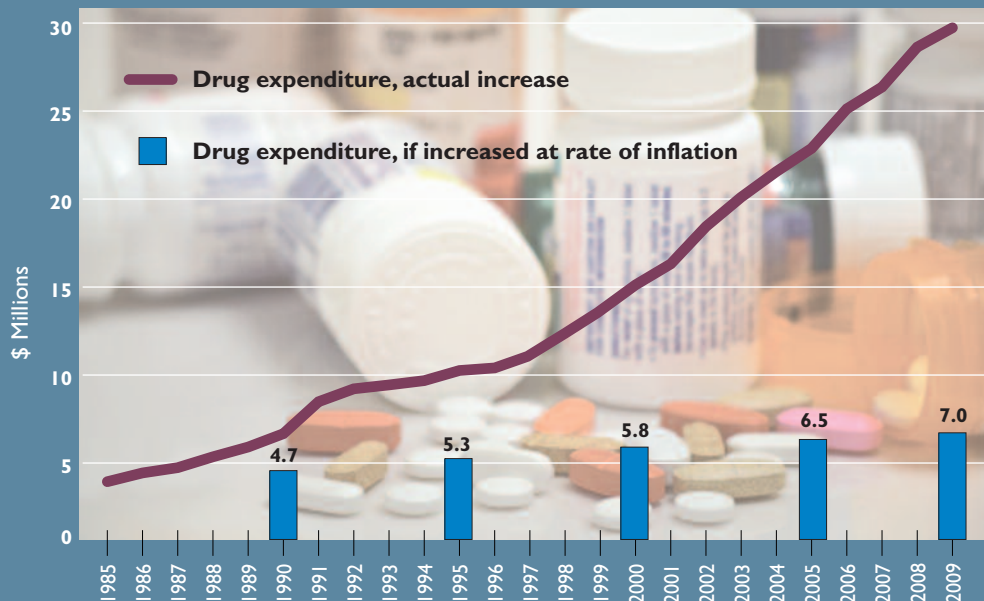
There's another input cost that construction companies need to watch – employee health benefit plans.

Because health insurance is so important to many employees, employers commonly factor coverage into their budgets. One of the biggest challenges facing the industry – and all employers – is the impact rising health care costs can have on benefit plans.

See **Rising costs** p. 2

### The Drug Cost Challenge

CANADIAN DRUG SPENDING, 1985-2009



Source: Drug Expenditure in Canada, 1985 to 2009 (Canadian Institute for Health Information); Bank of Canada Inflation Calculator

\* Forecast

**M**ore than half of all health care dollars spent by private insurers goes to drugs – one of the few types of health care spending primarily paid for privately. The challenge from an employer-cost perspective is that a variety of factors have driven up drug costs at a rate much higher than inflation.

# Rising costs

Continued from p. 1

You might be surprised to learn that a full 30 per cent of Canadian health care spending is private – dental care, prescription drugs, and other medical services. And while about half that spending is by individuals and households, a big chunk – about \$21 billion in 2008 – is paid for through private health insurance plans.

That's a bigger portion than even a decade ago. In other words, plans like the Construction Industry's Benefit Plan (and the employers who pay for these plans) are picking up an increasing share of the health tab.

There are a lot of factors driving the cost of health benefits, including the prices of health-related products and services, utilization rates by plan participants, availability of new products and services, legislative changes, and some offloading from the public sector.

The Conference Board of Canada has estimated that the percentage of payroll spent on health benefit costs jumped from three to 10 per cent between 1990 and 2008. That kind of increase crowds out other forms of business spending, like re-investment. Unless controlled, it can erase any chance of profitability.

A particularly large driver of increases for insurers is the cost of drugs, accounting for more than half of all health-insurer spending in Canada. Unlike most other types of health expenditures, prescription drugs are mainly privately funded.

The increase over the last number of years has been remarkable. Between 1985 and 2007 total annual drug spending in Canada jumped from just shy of \$4 billion dollars to nearly

\$27 billion. That's about four times the rate of inflation. Again, a mix of factors are at play, including an aging population and the availability of new and often very expensive medications – including "catastrophic" drugs and cutting-edge biologics which can cost more than \$10,000 per patient annually.

As these trends play out, the situation may get worse before it gets better. As a recent commentary from compensation experts Mercer concluded: "The future looks dim with regards to benefits plan costs. They are likely to increase dramatically in the years to come – at rates we have never before experienced."

That's a sobering prospect for benefit plan providers and employers and it means they will have to work hard to find the right balance between plan quality and affordability.

The good news is that, unlike with many other construction inputs, cost pressures can be controlled through plan design. Some of those design options include giving employees a financial incentive to shop around for the best prescription prices, introducing lower-cost alternatives within plans, and taking advantage of government co-insurance where available.

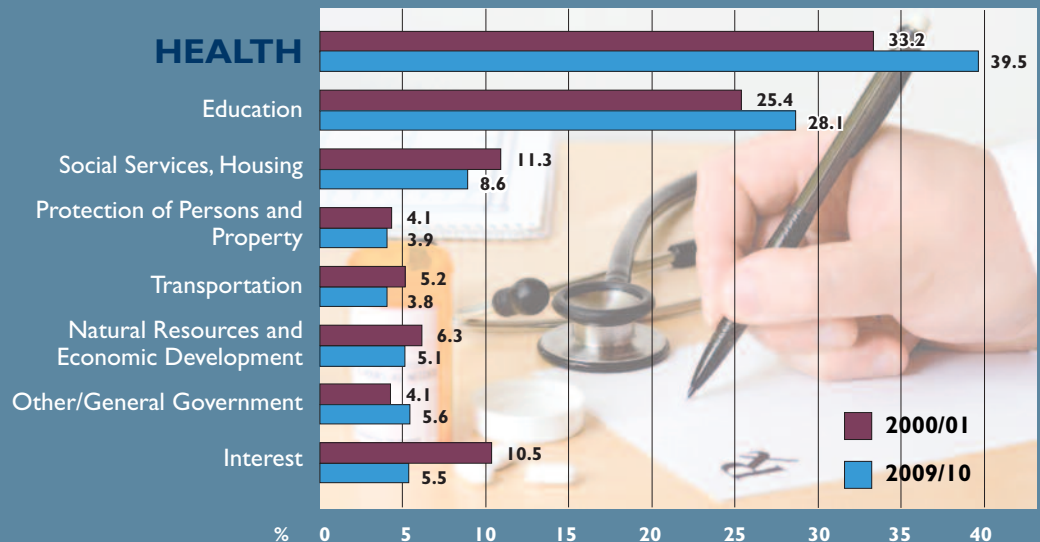
As health care costs continue to escalate, both within the public health care system and within extended health plans, governments and employers are going to be faced with increasingly difficult choices. Within private benefit plans, employers and benefit plan providers are going to be forced to be more sophisticated about managing the balance between the costs of their programs and the expectations of their employees.

***"Health benefit costs are continuing to increase at rates that will exceed the cost inflation on most other business expenses."***  
 – Canadian Health Care Trend Survey Results 2010

## The Health Care Bite out of Public Spending

Of course, it's not only the insurance and benefits side of the health spending equation where there are some serious pressures. Health spending is eating up an ever-larger portion of government budgets too – going from a third to 40% of BC government spending over the past decade and leaving less available for other priorities. Ultimately, this trend impacts businesses too, in part through the pressure it creates to raise taxes.

% OF BC GOVERNMENT SPENDING



Source: 2010 Financial and Economic Review

## Private Dollars in Canadian Health Care

**T**hough many Canadians have a strong attachment to publicly funded health care, private-sector spending plays a large role. It's consistently accounted for close to a third of all health-care spending since the late 1990s. And private health insurance plays an increasingly large role in making up that privately funded portion. Its share of private spending jumped by more than a third between 1988 and 2008, with tens of billions of benefit dollars supporting various important types of health care.

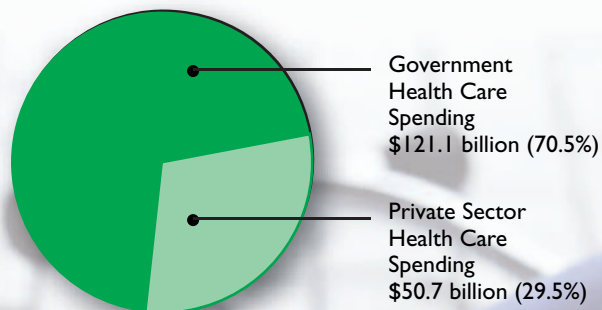


*“Drug cost inflation remains the highest of all of the health costs and future drug costs remain a top concern for employers.”*

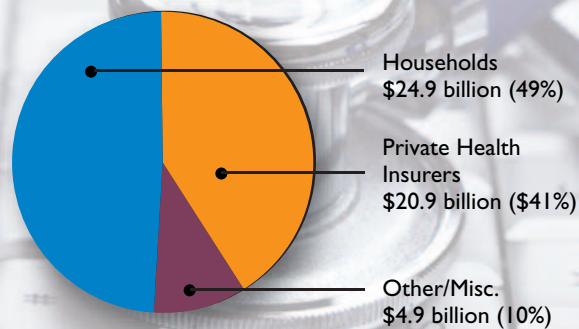
– Canadian Health Care Trend Survey Results 2010



### Public-Private Breakdown, 2008

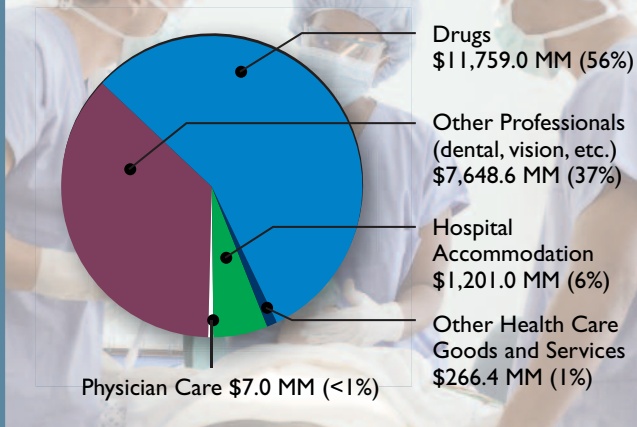


### Private Sector Breakdown, 2008



Source: National Health Expenditure Trends, 1975 to 2010 (Canadian Institute for Health Information); “household” includes out-of-pocket health-related costs incurred and directly paid for by individuals, while the “other/misc.” category includes such things as health research and capital spending on privately owned health facilities

### Private Health Insurer Spending, 2008

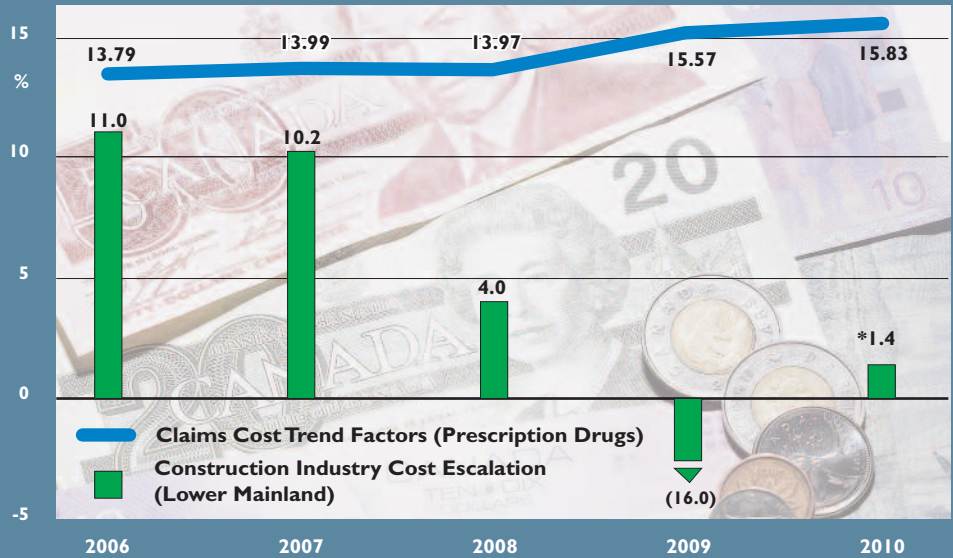


Source: National Health Expenditure Trends, 1975 to 2010 (Canadian Institute for Health Information)

## The Benefits Cost Creep

The cost of providing health benefits is rising sharply. The trend factors shown in blue at right are projected cost increases used by Canadian group insurance carriers to set their premiums for employer plans (specific to the prescription drug component). These trend factors have been significantly higher than overall construction-cost escalation – even when construction costs were on a steep upward slope – indicating just how much of a cost pressure benefit plans represent.

### DRUG AND CONSTRUCTION COST INCREASES



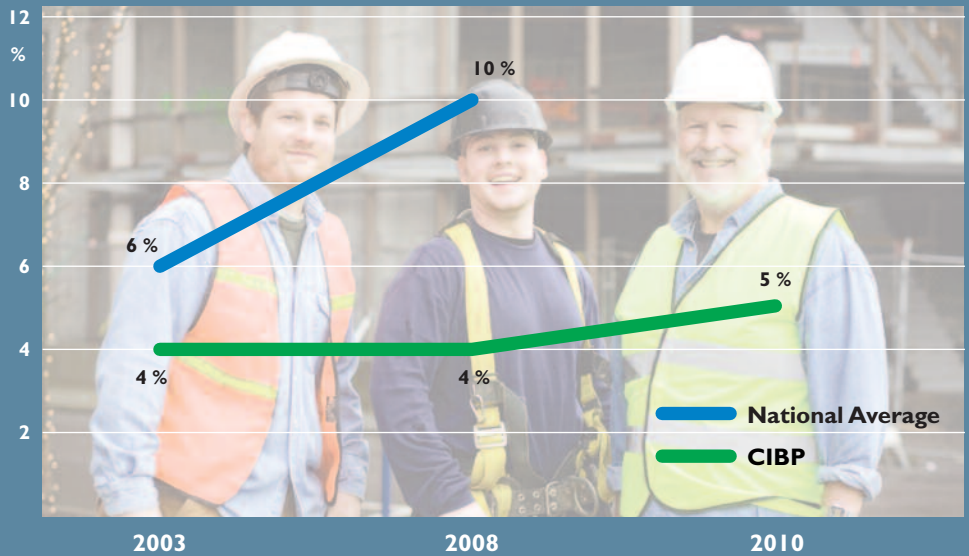
Sources: Canadian Health Care Trend Survey Results 2010 (Buck Consultants); BTY Group

\* Forecast

## The Construction Industry's Benefit Plan

There's no avoiding the increases in the cost of providing employee health benefits, but ICBA has been able to moderate them much better than the industry average. While national surveys suggest that the percentage of payroll consumed by benefit costs nearly doubled between 2003 and 2008, premiums for the Construction Industry's Benefit Plan provided by ICBA held steady in that period. Even after a recent premium increase they are at only five per cent of BC's 2010 average hourly construction wage.

### BENEFITS COSTS AS % OF PAYROLL



Source: Conference Board of Canada Estimates and CIBP hourly premiums as a percent of BC average hourly construction wage



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