



Cost Increases for Extended Health & Dental Plans

Canadian employers continue to experience high annual increases in the costs of extended health benefit and dental plans.

In recent years, the magnitude of the increase in extended health costs remained fairly constant. However, in 2016 the annual increase in extended health costs was higher than the increases in the previous three years.

Similarly, the average annual increase in the cost of dental plans in 2016 was higher than the annual increases experienced in the previous four years.

Annual survey of cost increases

Western Compensation & Benefits Consultants conducts an annual survey of increases in extended health and dental plan costs. The 2016 survey includes the following major Canadian insurance companies:

- Co-Operators Life Insurance Company
- Desjardins Financial Security Life Assurance Company
- Great-West Life Assurance Company
- Industrial Alliance Insurance and Financial Services
- Manufacturers' Life Insurance Company
- Pacific Blue Cross
- Sun Life Assurance Company

Extended Health Benefits

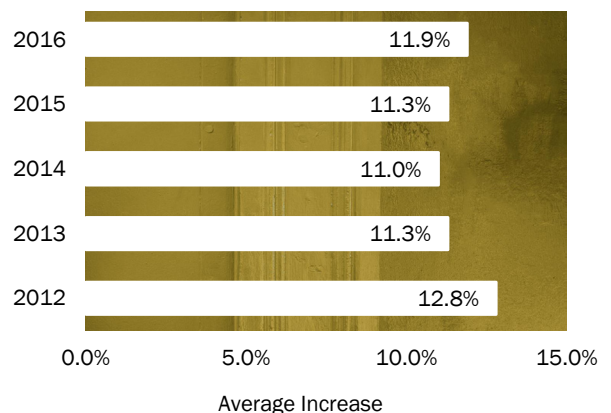
The 2016 increases for three service areas of extended health benefit plans as well as the overall increase are shown in the following table:

2016 Increases in Extended Health Benefit Costs

| Service Area | 2016 Average Annual Increase in Plan Costs |
|--------------------|--|
| Hospital | 11.6% |
| Prescription Drugs | 11.6% |
| Vision Care | 6.2% |
| Overall | 11.9% |

The overall annual increases in extended health costs for 2016 and the previous four years are displayed in the graph below. As shown, the annual increase in 2012 was higher than subsequent increases. Increases in 2013, 2014 and 2015 were approximately the same. The average annual increase was higher in 2016 than in the previous three years.

Overall Annual Increases in Extended Health Benefit Costs Over the Past Five Years



Dental

Increases in dental costs result from two factors, including increases in the fees charged by dentists coupled with increases in the utilization of the plans by covered employees and their dependents. Utilization is influenced by factors in the economy and the introduction of new dental procedures.

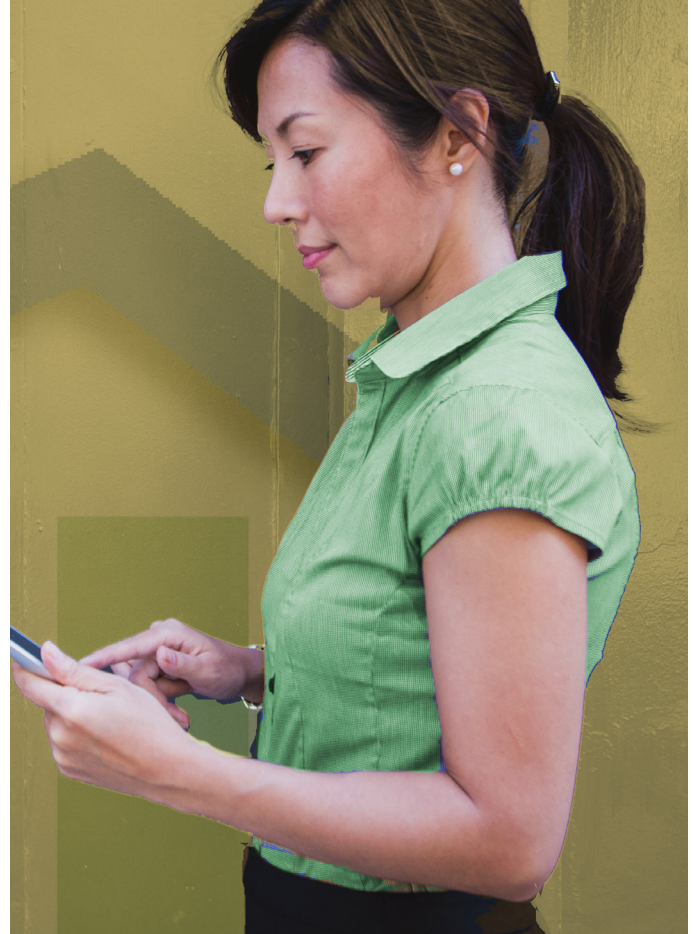
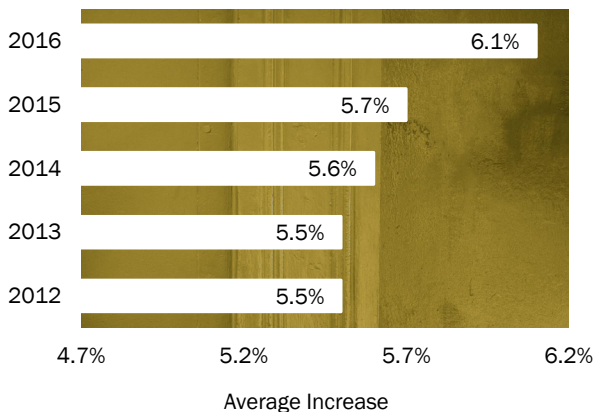
The table below shows the 2016 average increase in the provincial dental fee guides, as well as reporting that the 2016 increase in plan utilization is 6.05%. Therefore, depending on the particular province, the overall cost of dental will increase by between 8% and 10% in 2016.

Current Increases in Dental Plan Costs

| Province | 2016 Average Increase in Dental Fee Guide |
|--|---|
| British Columbia | 3.08% |
| Alberta | 3.40% |
| Saskatchewan | 2.09% |
| Manitoba | 2.74% |
| Ontario | 2.14% |
| Quebec | 2.67% |
| New Brunswick | 2.23% |
| Newfoundland | 1.78% |
| Nova Scotia | 3.11% |
| Prince Edward Island | 2.60% |
| <i>2016 Increase in Plan Utilization</i> | |
| 6.05% | |

The graph below displays the overall annual increases in dental plan utilization over the past five years. As shown, the increase in plan utilization is higher in 2016 following four years of remaining between 5.5% and 5.7%.

Overall Annual Increases in Dental Plan Utilization For the Past Five Years



Summary

Trend and utilization factors should be used to project the increases required in premium rates to ensure that extended health and dental plans are appropriately funded. However, the claims actually incurred by an organization's own employees are the biggest driver of plan costs. It is therefore important to regularly review the financial experience (i.e. claims incurred and premiums), the appropriateness of the funding (or risk sharing) arrangement with the insurance company, as well as the trend and utilization factors when negotiating appropriate renewal rates.

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