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The Insurance Insider

High Cost Drugs: Insurers Find Common Solution

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"Drug claims of $25,000 and up per year are on the rise and we have to be proactive to be sure the plans can remain financially viable"

In Canada in 2010, more than 1,900 members of fully insured private plans had drug claims totalling more than $25,000 each, and for the second consecutive year, a single claim has been in excess of $1 million*.

It's easy to see the financial burden claims like this would place on group insurance plans, especially for small- and medium-sized companies.

To deal with this situation, 24 Canadian insurers, representing 100% of the country's private group drug insurance plans, signed a national pooling agreement for high-cost drug claims. This industry-wide solution will take effect January 1, 2013 and will apply to all fully insured drug plans in Canada.

According to Nathalie Laporte, Vice-President of Group and Business Insurance Product Development and Marketing at DFS, the timing couldn't be better for sponsors of fully insured drug plans, as they are torn between the financial health of their plan and the physical health of their employees.

"Drug claims of $25,000 and up per year are on the rise and we have to be proactive to be sure the plans can remain financially viable," she says. "This nationwide agreement will let us establish an industry-wide pooling framework and make sure our drug plans remain sustainable."

There are two parts to the pooling agreement established by the national agreement: an internal pool and an industry pool.

Each insurer will start by creating their own internal pool, also called an Extended Healthcare Policy Protection Plan (EP3). This is the first step in the pooling framework:

- The insurer pools all high-cost drug claims from all of their fully insured drug insurance plans.
- This pool must comply with minimum standards set by the industry and enable the insurer to offer clients different types of pooling, based on their plans.
- The insurer will not include any pooled high-cost drug claims when setting premiums.
- Provided they are complying with the agreement, the insurer can adapt and personalize other aspects of their pooling agreement (e.g. drug list, pooling threshold, pooling fees, etc.).
- When a fully insured plan comes up for re-

HIGH COST DRUGS CONT...

plan comes up for renewal, the insurer will provide the plan sponsor with a statement confirming that their plan is eligible for the industry-wide agreement, called an inter-company EP3 statement.

Participating insurers will also establish an industry pool that will be used to share the risks associated with recurring high-cost drug claims. A not-for-profit corporation will be established to administer the pool. In Quebec, the pooling framework will operate in conjunction with the coverage offered under the Quebec Drug Insurance Pooling Corporation (QDIPC), which will remain unchanged.

This agreement couldn't come at a better time. Plan sponsors are looking for ways to rein in health insurance costs while continuing to offer comprehensive and competitive insurance to their employees, and plan members want access to the best possible treatments, even if those treatments involve high-cost drugs.

This solution achieves both of these goals. The pooling agreement protects plans from the financial repercussions of high-cost drug claims and since it involves the entire industry, plan sponsors will continue to benefit from a dynamic and competitive market for their plans. As for plan members, they will be able to rely on coverage that is both comprehensive and affordable, for themselves and for their families.

Finally, the group insurance industry comes out ahead as well, according to Nathalie Laporte, "As insurers, we are concerned with plan costs; high-cost drugs are a major challenge. Our clients want to offer their employees affordable and competitive coverage. When we help them do this, everyone wins."

Here are five high-cost drugs, what they are used for, and how much they cost:

Drug	Use	Annual cost (estimate)
Revlimid®	Anemia, Myeloma	$100,000
Remicade®	Crohn's disease, arthritis,	$40,000
Stelara®	Psoriasis	$30,000
Enbrel®	Arthritis, psoriatic arthritis	$25,000
Humira®	Arthritis, polyarthritis, Crohn's	$25,000

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"The pooling agreement protects plans from the financial repercussions of high-cost drug claims…"

Federal Government Changes EI Maximum

The federal government recently announced an increase in the employment insurance (EI) maximum benefit that took place as of January 1st, 2013. Starting this year, maximum insurable earnings will increase to $47,400 per year. Accordingly, the new maximum EI benefit amount will be $501 per week ($47,400 at 55% over 52 weeks).

Short-term disability (STD) plans that have a maximum set at the EI maximum, rather than a specific monthly amount, will automatically increase effective January 1st.

If your plan has a specific dollar maximum that is less that $501 per week and you participate in the EI premium reduction program, you will need to amend your plan to at least $501 per week in order to remain eligible for the program.

If your STD plan has a specific dollar maximum and you participate in the EI premium reduction program, you may wish to consider amending your plan to a maximum that is automatically adjusted to the EI maximum. This will avoid the need for future amendments to your plan whenever the EI maximum changes.

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Federal government Changes Taxable Benefit Status Effective January 2013

The Federal government has recently imposed changes to the taxation of benefits as a result the 2012 budget which will be effective January 2013. Communication of these changes has been made by the insurance carriers to plan administrators. This is a reminder to policy holders and plan administrators that their payroll systems should be updated if they have not already done so.

Effective January 2013, the federal budget stipulates that employees will be taxed on employer contributions to a group insurance plan that are directed towards sickness or accidents that pay non-periodic benefits.

In simpler terms, as a result of these changes, employer paid premiums for both accidental death and dismemberment and critical illness insurance will have to be included in an employee's taxable income.

This means that accidental death and dismemberment along with critical illness benefits are to be treated as life insurance and dependent life benefits are currently treated from a taxation standpoint.

Should you wish to communicate this change to your employees, the following statement would be acceptable:

"Pursuant to the 2012 Federal Budget, employee's taxable income must include employer-paid premiums for accidental death and dismemberment and critical illness insurance effective January 2013.

Taxation of employer contributions at the federal level		
Benefit	**Pre budget**	**Post budget**
Life Insurance	Yes	Yes
Dependent Life Insurance	Yes	Yes
Accident Death & Dismem-	No	Yes
Critical Illness	No	Yes
Long Term Disability	No	No
Short Term Disability	No	No
Health Care	No	No
Dental Care	No	No

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