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The Insurance Insider

The Benefits of Benefits

INSIDE THIS ISSUE:

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Benefits are a crucial factor to any company's recruitment and retention strategy.

Hays 2014 *Compensation, Benefits, Recruitment and Retention Guide* says that when a candidate decides whether or not to accept a job offer, nearly 20% of that decision is based on the benefits that are offered.

More than half of all companies offered extended health benefits, performance-related bonuses, training/certification support, pension/RRSP contribution/matching, 10-plus days of starting vacation and flexible work hours.

These benefits are becoming the new standard of offer in order to attract candidates, particularly in candidate-short markets.

"Interestingly, we have seen an upturn in the perception of the importance of additional incentive-type benefits to help make overall benefits packages more attractive," the report states. "For example, gym memberships, ability to work from home, access to event tickets, parental benefits, memberships and associations have all increased in perceived impact on recruitment and retention year after year since 2011."

The oil and gas industry is leading this trend, as some employers in this sector are offering gym memberships and access to season tickets as incentives.

This year, similar to recent years, the benefits considered by employers to have the most profound impact on recruitment and retention are career growth, individual performance-related bonuses and vacation.

Large companies (those with 1,000 employees or more) are offering more extensive benefits packages than small companies (with fewer than 100 employees).

For example, about 67% of large companies match or contribute to employees' pensions or RRSPs, compared with only 29% of small companies.

To be competitive in recruiting top talent, the report recommends that small companies may want to consider focusing on promoting cost-effective benefits solutions that are important to employees, such as workplace flexibility.

"With Canada's candidate shortage, benefits have become a significant factor in acquiring companies' most valuable resources—their people," the report notes.

-BenefitsCanada

A new approach in underwriting high Cost Drugs?

In recent years, private drug plan sponsors have been faced with a serious issue: an increase in the number of covered individuals claiming very high-cost drugs for several years. The impact on private plans is significant and is even threatening their sustainability.

The cost of a single claim can now exceed $500,000 per year, reaching several million dollars within a few years. This is a risk private plan sponsors are exposed to, through no fault of their own, because of developments in research and drug therapies.

The proven effectiveness of high-cost drugs ensures that they will not be going anywhere. In fact, there is every indication that their consumption will increase substantially over the next few years.

Pooling allows for the mitigation of the adverse effects of high-cost drug claims on group benefits plans. However, in spite of the rules established by the *Quebec Drug Insurance Pooling Corporation* in 1997 and those established by the Canadian Life and Health Insurance Association (CLHIA) in 2013, the question arises as to whether or not the current pooling framework is an effective long-term solution. In its *Report on Prescription Drug Policy* published in June 2013, the CLHIA recommended developing a high-cost drug strategy, acknowledging that the new national pooling agreement is a step in the right direction, but that the industry can do more.

The approach

The reimbursement of high-cost drugs by private plans is now similar to a life annuity. The similarity with long-term disability benefits is striking. Should the risk associated with high-cost drugs be underwritten in the same way as the risk associated with long-term disability benefits? This new approach warrants careful consideration as it may very well be an effective and lasting solution.

Currently, when a covered individual claims a high-cost drug for several years, the claim is payable by the insurer as long as the contract is in effect. When there is a change in insurers, the new insurer becomes responsible for the benefits payments. And if the plan sponsor decides to terminate the plan, the covered individual will no longer be reimbursed for the drug. The insurer's risk does not extend beyond the contract period, which is not the case for long-term disability benefits. Does the fact that high-cost drugs and long-term disability benefits are underwritten differently reveal some inconsistencies in our industry?

Insurance products provide for the payment of a benefit when an unexpected event occurs, in exchange for payment of a premium. In the case of a covered individual requiring high-cost drugs for several years, the event is the prescription written by the doctor in relation to the diagnosis. Consequently, when an unexpected event occurs, the current insurer would be required to reimburse the drug, even after the contract has ended. This is how long-term disability coverage is designed and how high-cost drug insurance could be designed.

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UNDERWRITING HIGH COST DRUGS CONTINUED...

More specifically, high-cost drugs would be covered under a separate type of insurance that would have its own contractual provisions and pricing. This coverage would no longer be included in the healthcare plan, as is currently the case. A dynamic list of high-cost drugs would need to be established. When an event entitling the covered individual to a benefit occurs (the prescription), the current insurer would pay the claims for as long as necessary. If the contract is terminated, the insurer would continue to be responsible for paying and managing the claim.

Important benefits for plan sponsors

There's already reason to believe that no credibility—credibility determines whether or not the group's experience (past claims) will influence the premium rate—would be assigned to experience for small groups. The number and value of high-cost drugs would therefore no longer impact the premium. The premium would be established based on the insurer's entire portfolio, thereby ensuring more stable premium rates for all types of healthcare coverage.

As is the case for long-term disability, when a group reaches a certain size, its experience could influence the premium rate, based on the determined credibility level. Because high-cost drug claims are infrequent and may exceed the cost of long-term disability benefits, a large number of covered individuals would no doubt be needed for the group's experience to be considered fully credible, especially since reserves could reach massive amounts. There is reason to believe that the number of covered individuals years required for the experience to be fully credible would be higher than that for long-term disability insurance.

Premiums could be adjusted annually according to different factors: experience of the insurer's entire portfolio, demographic changes in the group itself, the arrival of new drugs, etc. Actuaries will need to come up with a model for determining pricing and subsequent adjustments required.

Sponsors that have covered individuals claiming high-cost drugs on a recurring basis may currently have difficulty finding an insurer that offers good financial conditions because these claims are still connected to their group. If the impact of this type of claim is substantial, insurers may even refuse to underwrite the group. In theory, the pooling framework developed by the Quebec Drug Insurance Pooling Corporation and the CLHIA's new agreement will reduce this type of occurrence; however, their effectiveness, in all circumstances, remains to be demonstrated.

By extending the insurer's responsibility beyond the contract period, the insurer would continue to be responsible for benefits payments even if the contract has been terminated. Insurers asked to submit bids would no longer take over these benefits payments, and sponsors would no longer be adversely affected on account of these claims.

This new approach would certainly have other benefits for private plan sponsors, including more active high-cost drug claim management and continued healthy relations with employees.

The proposed change is significant as it targets the way in which high-cost drug plans are underwritten. A number of technical, administrative and legal challenges are associated with this change. However, this is a unique opportunity for insurers to develop a new product that meets a real need of private plan sponsors and their covered individuals.

A return to the fundamentals of insurance

More and more, group insurance is presented as a form of compensation encompassing several different types of healthcare that do not present any real financial risk (glasses, dental check-ups, massage therapy, etc.). The advantages are undeniable:

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UNDERWRITING HIGH COST DRUGS CONTINUED...

economies of scale, tax benefits, prevention, productivity, engagement, etc. It's important not to lose sight of the fact that the primary goal is to protect individuals in case of an event that has catastrophic financial consequences, such as the need to take high-cost drugs. However, the financial impact of these drugs on private plans is threatening the sustainability of these plans.

Experts must examine this issue now. The proposed approach merits reflection and discussion. Whether or not it's ultimately adopted by our industry, discussions will most definitely generate constructive ideas.

-Jonathan Bohn

IT'S FLU TIME!

Every year, about 1.5 million workdays are lost in Canada due to the flu, leading to $1 billion in healthcare and lost productivity costs, according to the Canadian Healthcare Influenza Immunization Network. Health experts agree that the best way to protect employees is to offer access to vaccines.

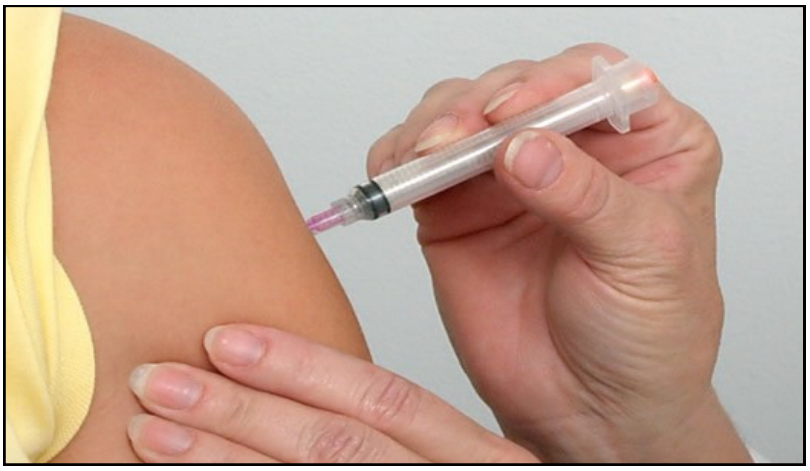
"Once one person gets it, then it can spread—so if you provide vaccination for your staff, 70% to 90% of flu cases can be averted," says Omar Alasaly, a Shoppers Drug Mart pharmacy owner in Victoria. Employers can offer the vaccine through either an in-house clinic or a pharmacy.

The pharmacy route allows employees to book shots on their own time, which requires little to no administrative work for the employer. Setting up an on-site flu clinic comes at a cost, experts explain—many providers require a time slot of at least four hours and charge travel, administrative and setup costs.

However, in-house clinics do have advantages, says Cathy Weaver, vice-president of HR with Great-West Life, such as convenience and increased staff participation rates. "We believe the value gained for the company and the community outweighs the cost of administration, vaccines and supplies, and the cost of hiring a third-party health service to run the clinic," she adds.

Apart from offering the flu shot, Alasaly says employers should encourage good hygiene (through frequent handwashing), being active, drinking plenty of water—and having employees stay at home if they get sick.

-Yaldaz Sadakova



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"if you provide vaccination for your staff, 70% to 90% of flu cases can be averted..."

HEALTHCARE COSTS PLATEAUED IN 2012. SET TO RISE AGAIN?

A study finds that workplace wellness programs can lower healthcare costs in workers with chronic diseases, but components of the programs that encourage workers to adopt healthier lifestyles may not reduce costs or lead to savings.

The RAND Corp. study shows that efforts to help employees manage chronic illnesses at an American company saved US$3.78 in healthcare costs for every dollar invested in the effort. The findings are based on its examination of an employee wellness program offered by PepsiCo over a seven-year period.

"The PepsiCo program provides a substantial return for the investment made in helping employees manage chronic illnesses such as diabetes and heart disease," says Dr. Soeren Mattke, the study's senior author and a senior natural scientist at RAND.

The disease management participants who also joined the lifestyle management program experienced significantly higher savings, which suggests that proper targeting can improve the financial performance of lifestyle management programs.

Researchers found that the disease management program reduced costs among participants by US$136 per member per month, or US$1,632 annually, driven by a 29% drop in hospital admissions.

Among people who participated in both the disease management and lifestyle management programs, the savings were US$160 per month with a 66% drop in hospital admissions.

However, people who participated in the lifestyle management program reported a small reduction in absenteeism, and there was no significant effect on healthcare costs.

"While workplace wellness programs have the potential to reduce health risks and cut healthcare spending, employers and policymakers should not take for granted that the lifestyle management components of the programs can reduce costs or lead to savings overall," Mattke adds.

About half of U.S. employers with at least 50 workers and more than 90% of those with more than 50,000 workers offered a wellness program during 2012.

PepsiCo's Healthy Living wellness program includes numerous components, including health risk assessments, on-site wellness events, lifestyle management, disease management, complex care management and a nurse advice phone line.

The study evaluated the experiences of more than 67,000 workers who were eligible for the disease management or lifestyle management programs.

Results of the study are published in the January edition of the journal *Health Affairs.*

-Benefits Canada

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