CLHIA Briefing:

Canadian life and health insurance industry agreement to protect Canadians' drug coverage

April 4, 2011
Agenda

- Rationale for this agreement
- Benefits for Canadians
- How the agreement works
  - EP3
  - Industry Pool
  - Protecting against adverse selection
  - Governance and Administration
- Impacts on Advisors,
  Current status and Timelines
Rationale for this agreement
Catastrophic drug costs are a growing problem and are undermining the sustainability of group drug plans

- *Workplace drug plans may face caps - even fold* - Ottawa Citizen, Fri Apr 15 2011

- *Dying man gets $500,000 medication; But eight blood-disorder patients still need drug* - Toronto Star - Wed Nov 24 2010

- *Drug plans face historic squeeze; Limits anticipated* - National Post - Thu Apr 14 2011

- *Life-saving drug's price tag 'astronomical'* - The Calgary Sun - Sun Apr 17 2011
Context: growth in drug costs not sustainable

- Growth in prescription drug costs has far exceeded the overall level of inflation in Canada for decades.
- A historical 9.4% annual baseline growth in drug costs is not sustainable over medium term.
- In response, most provinces and insurers are implementing initiatives geared towards mitigating these increases.
- In particular, generic drug pricing reform has dominated the agenda over the last couple of years.
- While helpful, savings from generics will only slightly mitigate the expected growth in overall drug costs and more will be required.
New challenge: Very high cost, recurring costs

- Cost growth was moderate in 2010 at 3% for private payers. Likely due to a number of blockbuster medications that came off patent protection.

- However, the concerns over sustainability are, in many ways, even more acute today due to a relatively new development – very high cost and recurring drugs.

- Historically, drug claims increased with age, but high cost drug claims are increasingly being seen for relatively young people where they may be payable for many years.

- High cost medications are being prescribed with increasing frequency to treat cancer, auto-immune conditions and other now treatable rare diseases.

- The effectiveness of these medications for individuals is quite dramatic, unfortunately so are the costs.
New challenge: Very high cost, recurring costs

- ESI 2010 Drug Trend Report shows biologic drug claims growing by 14 per cent per year (versus 4 per cent for other drugs) and are expected to account for 33 per cent of drug spending in 2014.

- CLHIA’s data shows similar numbers - the growth in the number of high costs claims (those over $25,000) has exceeded 20% per year since at least 2008

- Mercer Human Resources, estimate that costs for private prescription drug plans could grow by 2.5 to 3 fold by 2019 at the latest and possibly within the next three to four years.
Implications for Group Drug Plans

• The implications of recurrent, very high cost drug claims for the ongoing financial sustainability of supplementary drug plans, particularly for small and medium sized enterprises, are significant.

• Group health insurance is an annual contract and is subject to annual renewals taking into account previous drug claims experience.

• At the annual renewal, an insurer will typically charge premiums sufficient to cover any reoccurring drug costs that are reasonably foreseeable.

• Very few employers, particularly small or medium sized employers, can absorb significant increases in cost

• A recent CLHIA poll showed that a third of SME employers, even though currently satisfied with their coverage, would consider making changes to their drug plans if premiums were to jump in price by 25%
Current approach to mitigating impacts on employer plans

- The majority of insurers use internal pooling to help mitigate against large premium increases due to high cost, recurring claims and the vast majority of insured plans are currently sheltered by some form of pooling protection.

- However, there is no consistent approach in the market and pooling charges continue to grow.
  - Current approach to pooling was designed to manage unknown one-off claims and is poorly suited to manage known, recurrent catastrophic claims.

- As well, current pooling approach tends to lock sponsors in with their current carrier.
  - Pooling shelters employers from the full increase in premiums – their pricing becomes disconnected with the true market price of their business.
  - When the group tenders its business, other carriers will typically take into account the full cost of any high cost claims.
  - Price quoted, therefore, is often much higher than existing pricing for such employers, which limits their ability to shop their business.
Benefits for Canadians
Industry agreement will address these issues

- The industry agreement is meant to address these concerns for eligible groups by:
  
  - Insulating eligible groups from the full financial impact of rare, but recurring, high cost drug claims.
  
  - Particularly beneficial to small and medium-sized businesses, who do not typically have the financial resources to absorb a significant increase in premiums.
  
  - Allowing employers more ability to shop around for a new provider at reasonable prices, even if they experience a recurring high cost drug claim.

The industry agreement ultimately helps ensure that millions of Canadians can continue to access the prescription drugs they need, regardless of whether they or their colleagues require a high cost, recurring drug.
How the agreement works
What types of plans are covered?

- The agreement covers what we have referred to as "fully insured plans"
- Fully insured plans do not include plans that are
  - Administrative Services Only (ASO),
  - Refund accounting, or
  - Stop loss plans
Principles based agreement

• The agreement is principles based rather than overly prescriptive

• Open to participation from any company in Canada that is a member, or is eligible to be member, of the CLHIA.

• The pooling agreement incorporates the following two distinct, yet interrelated components:
  • Mandatory insurer internal pooling – what we call "EP3 pooling"
  • Joint industry pool for very large and recurrent claims
Which insurers are participating?

- Twenty three insurers, who collectively account for 100% of supplemental group health business in Canada are participating as Founding Members.
Agreement addresses the following key principles

- **Availability** – All fully insured groups in Canada should be able to continue to purchase group extended healthcare coverage from an insurer designed to meet their specific needs.

- **Affordability** – All fully insured groups should be able to purchase group extended healthcare coverage at a reasonable price. A plan sponsor should not see unaffordable rate increases due to the incidence of a large recurring drug claim from one of its members or their dependents.

- **Transferability** – All fully insured groups should be able to select the participating insurer of their choice and not be tied to their current participating insurer in the presence of a large recurring drug claim.

- **Viability** – No solution should unduly undermine the ability of a participating insurer to continue. Both large and small participating insurers should be able to abide by these principles and continue to offer health insurance products.

- **Participative** – Any sustainable solution should be available to all interested eligible insurance companies.

- **Competitive** – Any solution must be pro-competitive and continue to encourage an active and vigorous competition in the market.
EP3 Standard - Mandatory Pooling:

• EP3 addresses the key principles of affordability, availability and transferability of coverage.

• Participating insurers must place all large drug claims, from all of their fully-insured group business, in a self-administered pool. **No ability to opt out for fully insured plan sponsors.**

• Participating insurers cannot experience rate based on the number or value of pooled drug claims for that particular plan sponsor.

• In addition, participating insurers cannot experience rate and price a bid for new business from another participating insurer based on that plan sponsor’s pooled drug claims.

• Individual participating insurers can, however, set premiums based on the experience of the entire EP3 pool, or based on any other non client-level experience criteria.

• Drug and non-drug health benefits can be pooled together. But,

  • EP3 rules apply to drug portion only of pooled benefits, and
  • The carrier is required to have processes that can demonstrate that they are following the rules of EP3 for the drug portion

- All other aspects of the EP3 can be customized by each participating insurer including:
  - pricing
  - the pooling threshold (although must be <= "ongoing threshold")
  - whether the pooling is done on an individual drug amount or a certificate amount
  - requiring co-payments or deductibles (subject to a cap of $1000 for deductibles)
  - formulary design

- Carriers can have multiple EP3 solutions for different market segments if they choose
Industry Pooling
Industry Pooling – eligibility rules

- Industry pool is transparent to sponsors and addresses the key principle of viability.

- Industry pooling is at a certificate (family) level and to qualify for the industry pool, the certificate must exceed $50,000 for at least two consecutive years.

- In year two and in each subsequent year where the drug certificate exceeds $25,000, the amount over $25,000 will pooled. The maximum amount that the pool will pay out to a carrier on any one certificate is $400,000 per year.

- In effect, therefore, in 2013 the largest drug claim that could be fully pooled is roughly $500,000.

- We refer to the $50,000 threshold as the "Initial Threshold" and the $25,000 threshold as the "Ongoing Threshold".
Industry Pooling – changing thresholds

• All thresholds will be adjusted annually to reflect general drug inflation

• The Board of the drug pooling corporation, will adjust the thresholds while balancing the following two goals:
  • Ensure that the pool stays a relatively constant size
  • Does not jeopardise the principle of transferability in the market
Industry Pooling – three different pools

Three industry pools are proposed based on differences in provincial drug programs:

- **Pool 1** – Residents of Alberta, Ontario, Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, Yukon, North West Territories and Nunavut

- **Pool 2** – Residents of Quebec

- **Pool 3** – Residents of British Columbia, Manitoba and Saskatchewan

The total pooled drug claims will be shared by all participating insurers based on their market share of total paid drug claims for all insured business in applicable provinces.
Different pools – different types of pooled claims

- The types of claims that are ultimately going to be eligible to be pooled will vary depending on the pool

(ON, AB, Maritimes, Territories)
- Eligible certificates will come from individuals not covered under seniors care, or other programs

(Quebec)
- Enhances the current pooling protections in Quebec
- Pooled Eligible certificates will be for amounts between the Industry Pool Threshold by Quebec Pool Threshold
- Eligible certificates will come from individuals with claims for a drug not on the provincial formulary

(BC, Manitoba, Saskatchewan)
- Eligible certificates will come from individuals with claims for a drug not on the provincial formulary
Protecting against adverse selection
Protecting the pools from anti-selection

- Pre-existing exclusions apply to existing claims of "new" eligible groups (e.g., an ASO group becomes a fully insured group, or a sponsor initiating a drug coverage for the first time).

- Claim greater than Ongoing Threshold in prior year
  - Mandatory exclusion from both EP3 and Industry Pool
  - Exclusion must be removed if certificate subsequently falls below Ongoing Threshold for two consecutive years

- Claim less than Ongoing Threshold but greater than EP3 Threshold in prior year
  - Optional exclusion from EP3 pool
  - Pre-ex can be removed at any time - if removed, cannot be reapplied in the future
  - If excluded from EP3 pool, must be excluded from Industry pool

- New plan – no historical information available
  - Insurer can offer EP3 coverage
  - At end of year one, all high cost claims MUST be audited by carrier to establish if pre-existing
  - Must exclude all pre-existing claims as per rules outlined above

NB: Pre-existing exclusions do not apply to existing drug claims of groups with Founding Members that were fully insured group plans as of June 7, 2011
Governance and Administration
Governance and Administration:

• A not-for-profit corporation will be established.

• By-laws and powers of the corporation comply with Industry Canada standards and have been reviewed and customized by the Working Group.

• The aspects of the agreement will be overseen and managed by a Board of Directors:
  • Eligibility
  • Termination
  • Member rights
  • Board of Directors
  • Administration

• The initial Board is made of up 12 members plus 1 Ex Officio (CLHIA)

• There will be one permanent Executive Director to manage the corporations day to day affairs
Schematic of the Agreement:

- **Not – for – Profit Corporation**
  - Transparent to Sponsors
  - Administers industry pool and ensures participating insurers comply with EP3 and Industry Pool standards

- **Industry Pool**
  - Transparent to Sponsors
  - Helps participating insurers sustain the costs of providing EP3 protection by pooling large recurring drug claims

- **Insurer A** ↔ **Insurer B** ↔ **Insurer C** ↔ **Insurer D**
  - Impacts for Employers
  - Mandates internal pooling for all fully-insured plans
  - Cannot experience rate clients based on pooled drug claims
  - If bidding on new business, cannot experience rate prospective new clients (already covered by an EP3) based on pooled drug claims
  - All other aspects of design of EP3 are customizable and a source of competition (price, pooling threshold, formulary design etc.)

- **Governance & Admin**
  - EP3
Impact on Advisors, Next steps and Timelines
Impacts on Advisors:

- Beyond the requirement for advisors to understand the new agreement, there are a couple of other implications to be aware of.
  - Insurers will be asking for more information than in the past on prospective new business
    - Copies of sponsor's existing EP3 certificate
    - Copies of experience reports – including what is included or excluded from the experience
  - Should open up opportunities for more movement within the market – even your clients with recurring, high cost claims can more easily shop their business
Next Steps and Timelines:

- Industry has incorporated a new Canadian Drug Insurance Pooling Corporation
  - Board is established
  - Searching for Executive Director

- All insurers are currently developing their EP3 offer and communicating with sponsors

- All eligible group policies must be covered by an EP3 as of their first renewal date on or after January 1st, 2013.

- All eligible drug claim payments will be pooled in the Industry Pool as of January 1st, 2013.

- NB: for a certificate to be eligible for the Industry Pool in 2013, the certificate must have exceeded $50,000 in both 2012 and 2013.