WentWorth FINANCIAL SERVICES
Division of Cowan Insurance Group

Employee Benefits Bulletin

Special Issue: Insurance Industry Drug Pooling

February 2013

New Insurance Industry Drug Pooling Agreement for Fully Insured Group Programs

In response to the pressure high cost drugs are placing on both employer sponsored drug plans and the insurance industry, a new industry drug pooling agreement was launched on January 1, 2013.

The intent of this agreement is to address the following key issues that have arisen over the past number of years.

- Employers with one or more high drug claimants within their group often find it difficult to switch insurers as most insurers do not want to take on the known risk of ongoing high cost drug claims.
- Many insurers charge higher stop loss premiums for employers with high claims exceeding the pooling threshold and provide lower stop loss charges to groups that do not have any large claims. In some instances, excessive pooling charges are forcing employers to implement an annual drug maximum into their plan design to control costs, leading to obvious negative consequences for plan members.

In addition, the number of high drug claims is expected to increase each year and into the foreseeable future. (Source ESI – Note: biologic high cost drugs are growing by 14% per year and are expected to account for 25-35% of total drug spend by 2014) There is some speculation that a public/private solution may be needed down the road, so government intervention isn't off the table, but for now the industry pooling agreement has been implemented.

The new industry pooling agreement was developed over a two year period through collaboration between the Canadian Life and Health Insurance Association (CLHIA) and most Canadian insurers that offer insured group health plans. The Quebec Industry Pooling (QIP) is not being modified by this new agreement as QIP pooling will be applicable first, however any drug claims not part of QIP will be eligible under this new agreement.

Most Expensive Drugs in Canada

	Trade Name	Indication	Annual Cost	Incidence Rate
1	Elaprase	Mucopolysaccharidosis II,MPS II	$1,315,080	1 in 140,000-330,000
2	Cerezyme	Gaucher Disease	$737,273	1 in 50,000-100,000
3	Myozyme	Pompe's Disease	$635,274	1 in 40,000
4	Aldurazyme	MPS-1 Mucopolysaccharidosis I	$492,613	1 in 50,000
5	Vpriv	Gaucher Disease	$481,140	1 in 50,000-100,000
6	Soliris	Paroxysmal Nocturnal haemoglobinuria (PNH)	$381,077	1.3 in 1,000,000
7	Replagal	Fabry Disease	$305,640	1 in 117,000
8	Fabrazyme	Fabry Disease	$301,752	1 in 117,000
9	Neupogen	Neutropenia - Chemo Side Effect	$144,735	Not Applicable
10	Ilaris	CAPS Syndrome	$133,000	1 in 1,000,000

The agreement requires that all insurers follow consistent guidelines on the handling of large drug claims. The mechanics of the new pooling agreement are quite complex, so we won't get into specific details in this information bulletin. However, the following key points are important to know:

- A newly created not-for-profit entity called the Canadian Drug Insurance Pooling Corporation (CDIPC) has been established to govern the new pooling agreement.
- Each insurer is required to establish a new pool for large drug claims, exceeding the insurer's pooling threshold, called an Extended Healthcare Policy Protection Plan (EP3.)
- A new industry pool, administered by CDIPC, has been established and all insurers must pay into the new pool.
- When a drug claim exceeds a designated threshold level, excess amounts are covered by the industry pool, thereby protecting any one insurer from having to absorb catastrophic drug claims – which in some cases are now exceeding $500,000 per year per individual.
- Each insurer can set their own EP3 pooling thresholds and charges, but the insurer must apply the same charge to each group with the same EP3 pooling threshold, either as a percentage of premium or as a fixed amount, regardless of each group's actual claims experience.
- At each renewal, amendment or change in insurer, an EP3 statement must be produced by the insurer, confirming whether or not the plan and specific certificates are eligible to participate in the industry pool.

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How do you know if your plan is subject to the new Drug Pooling Agreement?

It is important to note that the new industry pooling and EP3 agreements only apply to certain fully insured plans at this time.

Plans are excluded from the new pooling agreement if one or more of the following conditions apply on or after June 7, 2011:

- Policies that operate on a Refund Accounting or Administrative Services Only (ASO) basis
- Fully insured policies that have:
    - An annual individual drug maximum of less than or equal to $25,000
    - an annual certificate drug maximum of less than or equal to $50,000
    - An annual drug deductible in excess of $1,100 per individual or $2,200 per family
    - A per prescription deductible in excess of $35

For groups that become eligible to participate in the new industry pool after June 7, 2011, (either new plans or existing plans that remove the above exclusion provisions from their plan) there are complex exclusion rules that apply at the certificate level to prevent anti-selection against the industry pool. EP3 statements will also note if any certificates are excluded from the industry pooling agreement.

For fully insured groups that were eligible for the new industry pooling agreement on June 7, 2011, the introduction of the new pooling agreement should be fairly transparent. The main impact could be an adjustment, either up or down, in the stop loss premium being charged by the insurer as the insurer moves to standardize the stop loss charge being applied to all policies. Unfortunately, we expect that some employers are going to see increases in their stop loss premium.

Insurers will continue to maintain their existing Large Amount Pooling (LAP) agreements for groups or certificates that are not eligible for the new industry pooling agreement as outlined above. Although these groups are not eligible for the new agreement, they may also see an adjustment to their pooling charges at the next renewal, depending on how their insurer intends to align the pricing of their EP3 and LAP pools.

The new industry drug pooling agreement is in its infancy and will continue to evolve over time. Your Cowan Benefits Consultant will be prepared to discuss any implications that the new industry pooling agreement may specifically have on your plan at your next renewal meeting.

In the meantime, if you have any questions, please contact your Cowan Benefits Consultant.

This bulletin is produced by the Benefits and Retirement Consulting Division of Cowan Insurance Group and its subsidiary, Wentworth Financial Services. We provide businesses, organizations and individuals with insurance and risk management solutions. We also specialize in advising and creating retirement, group benefits and disability management programs for employee groups and wealth management, financial planning and succession planning services to individuals.

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