JOHNSTONE'S JOURNAL is published monthly, and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies, and use as a payroll stuffer.

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Protecting Your Prescription Drug Plan

Industry Changes to Ensure Long-term Sustainability of Group Drug Plans

The Challenge of High Cost Specialty Drugs

The most significant cost component of an extended health benefit plan is the prescription drug benefit line, which represents 40% to 70% of the total health benefit cost. A few observations:

- Canadian insurers paid out about $9.5 billion in prescription drug costs in 2010.
- In 2010, almost 2,000 individual claims were paid with an annual cost in excess of $25,000. One claim alone was over $1 million dollars for two years in a row.
- A specialty drug is defined as any high cost drug used to treat rare and complex diseases. For example, the cost of Soliris, which is used to treat a rare blood disorder, can exceed $500,000 a year for each claimant.

Clearly, the effectiveness of specialty drugs in treating serious diseases can be remarkable. However, the implications of recurrent, very high cost drug claims are significant for the ongoing financial sustainability of extended health plans, particularly for small and medium sized companies.

Extended Health Plans and Pooling Levels

All extended health plan contracts include a pooling provision to protect plans against high cost claims, including high cost drugs. Depending on your specific contract, the pooling level will range from $5,000 to $25,000 for each claimant every calendar year. For example, in the event of a large claim, the dollar amount of the claim over the pooling level is excluded from your plan's claims experience analysis for rating purposes.

Unfortunately if a health plan incurs a high-cost **recurring** drug claim, premiums (which include the pooling charge) will be affected. This may result in the extended health plan becoming unaffordable and may also impair your ability to find alternative coverage, as insurers now ask if a plan has incurred claims in excess of the pooling levels before providing a quote.

Pooling Framework for High-cost Drugs

In response to this predicament, the Canadian Life and Health Insurance Association (CLHIA) has worked with insurers to develop a new drug pooling framework to help protect private plans from repeating high-cost drug claims.

Named the *Extended Health Policy Protection Program (EP3),* it will collectively protect fully insured private drug plans from the adverse financial impact of high cost drugs. By spreading and sharing the costs of expensive recurring drug claims among all participating insurers, the financial burden will be mitigated, thus protecting the drug plan. Although this will take effect January 1st, 2013, high cost claims are reviewed retroactive to January 1st, 2012.

How it will work:

Whenever an employee and his or her dependents (combined) have annual drug claims of $50,000 or more for two consecutive years, the insurer will submit claims over $25,000 to the industry drug pool to distribute amongst all participating insurers.

Currently excluded from the EP3 framework:

- Administrative Services Only/ASO (self insured) contracts
- Refund/Retention Accounting contracts
- Plans with a drug limit of $25,000/individual or $50,000/family
- Plans with extended health care deductible of $1,100/single or $2,200/family.

Effective January 1, 2013, extended health care insurers will provide EP3 statements along with your 2013 renewal to confirm if your plan qualifies and if you have claims that have been pooled.

Affordability, Availability and Transferability

These are the objectives of the new pooling framework for fully insured drug plans We know this will continue to evolve and Johnstone's will continue to monitor changes and their impact on your extended health care plan.