INSIGHTS

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ISSUED QUARTERLY

IN THIS ISSUE...

Rising Cost of Stop Loss

Addressing the parameters of stop loss coverage will determine future pricing

More and more often I am asked about the rising costs associated with healthcare stop loss pooling. The discussions vary from what has been the impact of healthcare protection plans (EP3), to why have my pooling rates been increasing so much?

Insurers are stressing out over the rising stop loss claim amounts, and have reacted by increasing premiums, and in some instances, increasing their pooling levels. (i.e., the employer is being asked to assume more risk).

Unfortunately, this has the potential to become a significant issue for insurers and plan sponsors. Some might suggest it's already a significant issue, but it may very well be that the worst is yet to come, since more high cost medications are expected to be entering the drug pipeline during the next few years.

Understanding what insurers are facing, and ultimately what plan sponsors decide their plans should look like will help to better position where stop loss pricing is headed.

In the past, the focus of health pooling was on out-of-country costs, the risk of a claim for medical treatment outside of the province or Canada. This risk still exists of course, but it seems small when compared to the high cost of biologic drugs. As an example, I recently did a renewal where the stop loss claim for Hepatitis C was $83,000. The client had a $10,000 pooling level. The client was happy because the majority of the claim was the insurer's problem, but it brings into question whether we will see experience rating being applied to ongoing situations?

For the first time, pooled claims can be recurrent. This wasn't contemplated in the concept of pooling. Pooling was intended to protect against catastrophic, one-time events. Many of the biologic drugs are reoccurring ones. They are needed month after month. This not only changes the landscape for insurers, but also raises problems for plan sponsors as well. I'm seeing advisors recommend that clients transfer their programs to insurers that have higher stop loss pooling levels than what they currently have, and in some instances, without regard for whether the stop loss pooling benefit is the same or better than what they are giving up. Some insurers only cover drugs as part of their stop loss benefit, and some limit the pooling protection for reoccurring claims.

Advisors are reminding me that there is too little transparency and consistency surrounding stop loss pooling costs. Insurers are saying they need to increase pricing, without any demonstrable proof that they really do. Pooled claims are reported and made available at the time of the renewal, but in isolation, not as information that relates to the insurer's block of business or the trend factor they are applying to forecast where they expect them to be in one or two years time.

I understand that future drug claims for biologics will be more expensive, putting even more pressure on the cost of health plans, and on insurers as they try to determine how to remain competitive. The insurance industry could do a better job of putting the size

...continued on reverse

Employee Group Taxable Benefit Premium Summary for T4 Purposes

A summary has been sent to each group outlining the total annual billed and paid premiums for Life, Dependent Life, Accidental Death and Dismemberment (AD&D) and Critical Illness (CI) benefits (if applicable to your group plan).

The employee's individual total includes any applicable taxes.

According to the Income Tax Act, any portion of this total that is employer paid is considered a taxable benefit and should be reflected as such on each employee's T4.

GST/HST Collected in Error on Naturopathic Services

The 2014 Federal Budget added naturopaths and acupuncturists to the list of exempt health care providers effective for supplies made after February 11, 2014. However, Bill C-31 containing this provision did not receive Royal Assent on June 19, 2014. As such, many naturopaths and acupuncturists may have collected GST/HST in error until June 19, 2014 and perhaps even after this date if they were not aware of the change.

The Canadian Association of Naturpathic Doctors (CAND) released GST/HST Exemption Update 8 - GST/HST Collected in Error, which discusses two options naturopathic doctors can take if they incorrectly collected GST/HST on the exempt services.

- Refund or credit the amount to the patient
- Advise the patient that they can claim a rebate of the GST/HST paid from CRA on Form GST 189.

Additional details on both of these options can be found in Update 8.

Source: inbrief, Guide to Tax, Accounting and Financial Planning, 2015, Issue #10

1two3 Small Group Program 2016 Renewal

RWAM's 1two3 group insurance product currently insures over one thousand people, representing more than 781 businesses throughout Canada. This year we welcomed 79 new groups to the 1two3 product. Over the past year $1.3 million was paid for Health & Dental claims.

Ontario Mandatory Benefits

Life Insurance, Dependent Life, AD&D, Extended Health Care & Out-of-Canada

All Eligible Employees

Single Coverage	$ 86.65 /month
Family Coverage	$183.80 /month
Exempt Coverage	$ 17.75 /month

Ontario Optional Benefits

Dental

All Eligible Employees

Single Coverage	$ 49.35 /month
Family Coverage	$121.55 /month

Long Term Disability

Some occupations are not eligible for LTD coverage due to the nature of the risk.

All Eligible Employees $2.65/$100 of benefit

Important Changes to the Drug Plan

- The amount payable for dispensing fees will be capped at $8, and
- Drug coverage will be moving to a Mandatory Generic Substitution definition. A Mandatory Generic Substitution drug plan enables plans to maximize on savings associated with generic drugs by covering the cost of a prescription up to the lowest-priced equivalent generic drug. This shift to Mandatory Generic coverage is standard within the marketplace.

Rising Cost of Stop Loss Coverage ... continued from reverse

of the problem in context by explaining how they calculate their pooling costs. Knowledge is king, and would certainly help to erode the perception that stop loss pooling is a big money maker for insurers.

So, where do we go from here? If you agree that: experience rating what should be a pooled benefit likely won't fly with plan sponsors, those with good healthcare results have just been lucky, and measures were put in place to better manage outcomes (drug maximums, wellness programs), then it's reasonable to continue to spread the risk across a large population. Everyone pays. There will always be winners and losers, but as stop loss claims rise it's likely that today's winners will be tomorrow's losers. Insurers need to manage their risk. Perhaps that means changing their drug formularies, sitting down with the provinces and the federal government to discuss how claims can be shared, or to be more forthcoming on what the current and future landscapes look like. Understanding what insurers are facing, and ultimately what plan sponsors decide their plan design should look like will help to better position where stop loss pricing is headed, and maybe bring some stability to the marketplace.

Until next time…

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