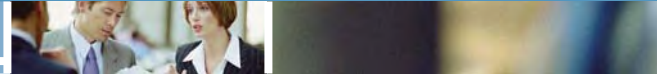


INFO Bulletin

www.inalco.com

Information Bulletin for Group Insurance Plan Administrators and Benefit Advisors


INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.


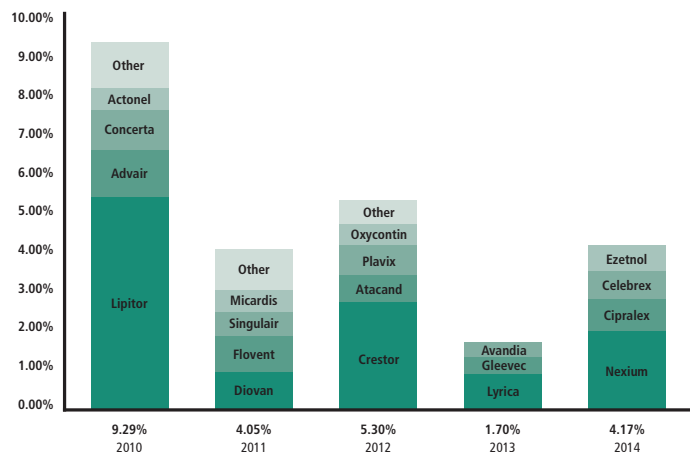
Yellow pill, red pill, green pill...

Do you have some concerns about your drug insurance plan? Prescription drugs represent approximately 70% of the cost of your health insurance coverage and 30% of the cost of your group insurance. The amount of money spent per claimant on prescription drugs in Canada more than doubled in the past decade. According to a report recently published by ESI Canada,¹ the use of prescription drugs continued to rise in 2009 to reach \$736 per claimant, compared to \$698 per claimant in 2008.

Expiring patents = relief?

With a number of drug patents scheduled to expire by 2014, rising costs could temporarily decrease. Drugs whose patents expire in 2010 accounted for 9.3% of all drug costs in 2009.

Drugs whose patent will expire by 2014



The savings will be higher for companies with a higher rate of generic drug use. According to ESI Canada, Ontario and Quebec are lagging behind the other provinces, with a rate of generic use of 42% and 47% respectively, compared to 50% in other provinces.

Legislative changes: What can we expect?

The cost of drug insurance plans will also be impacted by changes to provincial legislation in recent months. In Ontario, the government introduced legislation to reduce the cost of generic drugs to 25% of the price of their brand name equivalents for public plans. For private plans, this change will take effect gradually, with the limit being 50% in 2010, 35% in 2011 and 25% in 2012. In addition, pharmacies will no longer be allowed to receive professional allowances from generic drug companies for sales covered by the public drug plan. For private plans, these allowances will be gradually eliminated over the next few years.

Alberta and British Columbia adopted similar measures to reduce the price of generic drugs.

In Quebec, where generic drugs must be sold at a price equal to the lowest price in Canada, the price of generic drugs will be directly impacted.

These changes will lead to significant losses in income for pharmacists, who in turn could increase their dispensing fees and their markups on prescriptions to offset such losses.

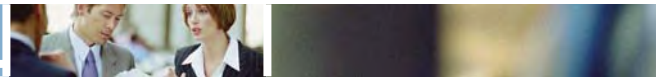
Technological breakthroughs = higher costs?

According to Statistics Canada, cancer is currently the leading cause of death in Canada. Fortunately, some progress is being made in cancer research, and a number of new antineoplastic (cancer-fighting) drugs are now available. As a result, we expect an increase in the number of claims for drugs in this therapeutic class.

Increased demand for biologic drugs

Most of these new antineoplastic drugs are biologic. These types of drugs are more expensive because they're more difficult to produce, and the conditions they treat are less common and generally affect fewer patients. This can lead to exorbitant prices, as seen with such drugs as Remicade, Humira, and Enbrel, which, while not the most frequently used drugs, still generate some of the greatest expense due to their high cost per prescription. In the coming years, we can expect an increase in the number of biologic drugs to appear on the top 10 list.

¹ESI Canada's 2009 Drug Trend Report, published in 2010. ESI Canada works together with Industrial Alliance to provide pharmacy management services. The Drug Trend Report is based on 68 million pharmacy claims from seven million Canadians.



2009 Top 10 Drugs - Industrial Alliance

Rank	Brand Name	Percentage of Total Number of Claims	Percentage of Total Eligible Amount	Average Cost Per Claim
1	Lipitor	3.05%	5.38%	\$96.51
2	Crestor	1.92%	2.75%	\$78.42
3	Remicade	0.05%	2.72%	\$3,068.12
4	Nexium	1.04%	1.96%	\$103.41
5	Enbrel	0.06%	1.55%	\$1,445.41
6	Norvasc	1.06%	1.49%	\$76.73
7	Humira	0.05%	1.40%	\$1,497.95
8	Advair	0.45%	1.12%	\$135.45
9	Concerta	0.56%	1.05%	\$103.25
10	Diovan	0.89%	0.99%	\$61.08

Subsequent Entry Biologics (SEB)

Like regular drugs, biologic drugs are protected by a patent for a specified period of time. The difference, however, is that even after their patent expires, generic versions cannot be created. Since their source is biologic, they consist of complex molecules that cannot be produced by chemical synthesis. As a result, it's difficult to recreate these drugs perfectly, and the way they're created may have an impact on their efficacy. That's why we talk about subsequent entry biologics rather than generic drugs. This leads to a number of challenges. Firstly, the laws regarding generic drugs don't apply to these drugs. Secondly, it's still very costly to produce these drugs, so even copies of the original drugs are very expensive. Lastly, since they're not exactly the same, it's more difficult for a plan member to change from one to another because the effects on the body may differ slightly. As a result, physicians will prescribe SEBs to new patients, but will be less inclined to change the prescription for existing patients.

A number of strategies can be used to help you save money in the coming years

Employee communication

Media coverage of legislative changes and the impact on various parties involved has certainly raised people's interest. As a result, it's a good opportunity for employers to explain the impact on their own plans, as well as any changes they're considering.

Positive enrolment of dependents

With positive enrolment of dependents, the plan administrator ensures that only eligible persons are covered under the plan.

Generic substitution

A generic substitution plan, like a normal plan, reimburses the value of original drugs. However, when a generic product comes to market,

the plan reimburses the lesser value between the generic product and the original. This steers members towards the least expensive products, and enables employers to offer the same coverage as a normal plan, but at a lower cost. According to ESI Canada's 2009 Drug Trend Report, this can lead to overall savings of 1%-2%.

Managed formularies

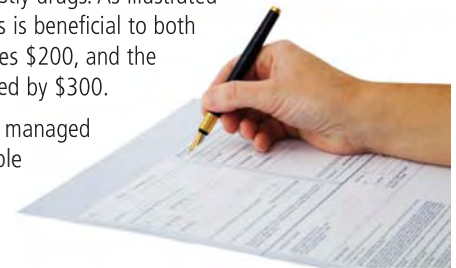
This strategy involves creating more than one drug formulary with different reimbursement rates in order to create a financial incentive to encourage the use of less costly drugs. This encourages people not only to use generic products, but also to pay less for brand name drugs that serve the same purpose. In the following example, the less expensive drugs are reimbursed according to the 2nd formulary while the most expensive are reimbursed at 80%.

For example,

Plan A	Plan B
80% reimbursement	1st reimbursement formulary: 80%
	2nd reimbursement formulary: 100%
Drug A: \$1,000	Drug B (in the 2nd list): \$500
Employer: 80% X \$1,000 = \$800	Employer: 100% X \$500 = \$500
Employee: 20% X \$1,000 = \$200	Employee: 0% X \$1,000 = \$0
\$800 - \$500 = \$300	

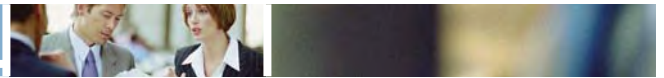
Since there's a financial incentive, plan members are more inclined to ask their doctor about less costly drugs. As illustrated in the above example, this is beneficial to both parties. The employee saves \$200, and the employer's share is reduced by \$300.

According to ESI Canada, managed formularies make it possible to manage drugs more effectively and save approximately 4%-5% on amounts claimed.



Reasonable and customary fees and cap on dispensing fees and profit margins

All pharmacists have different dispensing fees and profit margins. Capping dispensing fees and profit margins or establishing reimbursement based on reasonable and customary fees encourages plan members to choose less expensive pharmacists. Limiting the amount reimbursed for fees makes plan members more aware, since they will have to pay the difference if they deal with a pharmacy that charges high fees. As a result, they'll end up going to pharmacies that charge reasonable fees. This will benefit plan members, in addition to reducing the cost of the drug insurance plan by approximately 5%-6%, according to ESI Canada.

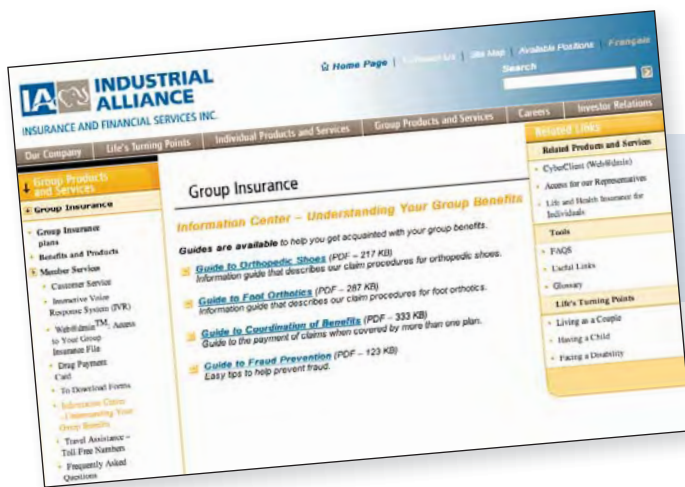


It should be noted that cost reductions assessed by ESI Canada are estimates and may vary from one group to another because of the specificity of each plan. These strategies rely on behavioural changes of plan members hence the importance of communicating with them. The actual impact is observed a few years after the implementation of these measures.

For more information or advice about customized drug solutions, please contact your Industrial Alliance group account executive.

WHAT'S NEW!

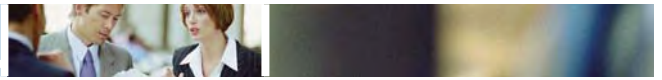
Industrial Alliance offers a number of resources at www.inalco.com to help protect your benefits investment and to prevent fraud.



To access the practical guide for plan members, go to *Group Products and Services/Group Insurance/Member Services/Information Centre - Understanding Your Group Benefits*.

To learn more about Industrial Alliance fraud prevention initiatives, go to *Group Products and Services/Group Insurance/Fraud Prevention and Audit Services/Prevention of Insurance Fraud*.





Industrial Alliance Service Standards



At Industrial Alliance, we constantly strive to offer outstanding service to our clients. Our goal is to always be courteous, accurate and prompt. In the following table, you'll see our current service standards and our performance for the past 12 months. We're proud of these results and will continue to work hard to satisfy your expectations.

Service standard score card (Period: July 1, 2009 to June 30, 2010)

	TARGET	PERFORMANCE
Customer Service Centre		
% of calls answered in 30 seconds	80%	79%
Claims		
% of Health & Dental claims processed in 5 days*	85%	94%
% of Short-Term Disability claims handled in 5 days*	85%	88%
% of Long-Term Disability claims handled in 10 days*	85%	91%
Administration – Policy Implementation		
% of new policies issued in 20 days*	80%	96%

*Measured in business days

About Industrial Alliance

Industrial Alliance is a life and health insurance company that offers a wide range of insurance and financial products. The fourth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large financial group with operations across the country, as well as in the United States. Industrial Alliance contributes to the financial wellbeing of over three million Canadians and manages and administers over \$60 billion in assets.

The INFO Bulletin is published by Industrial Alliance.