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Benefits

The Rising Cost of Drugs

The claims experience of employer sponsored group health plans continues to be impacted by rising drug costs and utilization rates. Evidence of this is provided in recent reports produced by ESI Canada and BCE Emergis and Health Solutions Group (Assure), two of Canada's largest pharmacy benefit managers.

- ESI Canada – 2001 Drug Trends Report*
 - Average annual prescription cost per member has risen 22.1% from 1998 – 2001
 - Average script increased from \$40.25 in 2000 to \$44.06 in 2001
 - Average number of scripts per covered member increased from 5.24 in 1998 to 5.69 in 2001

- BCE Emergis, eHealth Solutions Group – Drug Analysis and Trend Study*
 - Average eligible cost of prescription drugs increased by 19% over the 5 year period from 1996 to 2000

* Based on drug plans managed on behalf of insurers.

It is expected that drug costs and utilization rates will continue to rise and that group health plans will see double digit increases in drug costs in the foreseeable future. As a result, the cost of providing drug plans by employers will be increasing. Insurers will be responding by adjusting their trend and utilization factors to

reflect actual and anticipated increases in actual costs, since approximately 75% of extended health care premiums are attributable to drug claims.

According to an article by William M. Mercer that was published in the fall of 2001 ("Drug Plan Management: A Growing Challenge"), the direct costs of prescription drugs currently ranges between 1% and 1.5% of a member's pay and with expected inflation of 15% and 20% annually, these costs will more than double over the next five years.

Causes of Rising Drug Costs

Some of the major factors influencing the drug costs of employer sponsored plans:

- **Aging workforce**
 - As members get older, they tend to develop more chronic and severe conditions and are more likely to suffer from multiple ailments. The result is a shift toward higher drug usage and the usage of more costly drugs.
- **New and more expensive drugs. This category of drugs includes:**
 - Remicade (for treatment of Rheumatoid Arthritis and moderate to severe Crohn's or Fistulizing Crohn's) – estimated cost during 1st year of treatment with rheumatoid arthritis is \$20,700 and thereafter an average estimated annual cost of \$13,800 to \$16,100
 - Gleevec (for treatment of patients with Chronic Myeloid Leukemia) – a 3 month treatment is estimated to cost between \$8,700 and \$13,000
 - Serostim (for treatment of AIDS) – estimated cost is \$25,000 for 12 weeks

- **New uses for existing drugs resulting in increased utilization. This category of drugs includes:**
 - Prozac, an anti-depressant, was subsequently approved as a premenstrual dysphoric disorder drug ("Sarafem")
 - Wellbutin, an anti-depressant, was subsequently approved as a smoking cessation drug ("Zyban").
- **Merging of pharmaceutical manufacturers**
 - Mergers or acquisitions in recent years by such companies as Aventis, Pharmacia Corporation and Glaxo Smithkline have resulted in less competition and contributed to an increase in drug costs.
- **Non-compliance**
 - A 1995 report entitled "Costs of Non-Compliance and Inappropriate Use of Prescription Medicine in Canada" indicated that the direct and indirect costs to the Canadian healthcare system for non-compliance was \$7 billion to \$9 billion annually.

What Can You Do?

As an employer, you can mitigate the rising costs associated with your drug plan by implementing one or more of the following measures:

- Managed drug formularies
- Multi-tiered co-pay drug plans (i.e., plans that include varying reimbursement levels for different categories of drugs)
- Health spending accounts
- Mandatory generic substitutions or higher reimbursement levels on generic drugs
- Increasing coinsurance and/or deductible levels

However, it should be noted that some of these measures may be limited by provincial health legislation.

Coordination of Benefits

What is it?

The coordination of benefits is a claims practice followed by insurers for handling health and dental claims for members and their dependents when they are covered by more than one group insurance policy.

Insurers apply the coordination of benefits to ensure that:

(i) The claims of an individual are directed to the appropriate group insurance policy, thereby preventing claims from being submitted to one group insurance policy when they should be directed to another. This is a common occurrence where the member's group insurance policy provides a pay direct drug card and the spouse's policy does not. Due to the convenience of the pay direct drug card, the spouse takes advantage of having his/her claims adjudicated and paid at the pharmacy instead of submitting them to his/her own group insurance policy for

payment. The result is that the claims experience of the member's group insurance policy is adversely impacted.

- (ii) No individual is reimbursed for more than 100% of the eligible cost of the services rendered or benefits received. If the coordination of benefits was not followed by the individual's insurers, it is conceivable that the individual could submit the same claim to the insurers and be reimbursed more than was actually paid for the service or benefit.
- (iii) Individuals are able to take full advantage of the coverages provided by the group insurance policies that they are covered by. The individuals will be able to co-ordinate their claims submissions between the different group insurance policies to maximize the coverage of the services or benefits that they are claiming for.

How Does it Work?

1. If the member and the spouse are covered under separate group insurance policies and have not waived their coverages, the member and the spouse will first submit their health and dental claims under their own policies.

If the member and spouse have each chosen family coverage for their health and dental benefits, they can then submit any unpaid balance of their claims to the other group insurance policy for reimbursement.

2. For children, if both the member and spouse have family coverage, the claims will first be directed to the group insurance policy of the parent whose birthday occurs first in the calendar year. Any remaining balance can then be submitted to the other parent's policy for reimbursement.

3. If the member and spouse have not chosen family coverage under their group insurance policy, there will be no co-ordination of benefits between the two policies.

Important

1. To ensure that the coordination of benefits is handled correctly by the insurers, you need to make sure that your members' enrollment forms are fully completed with respect to their spouses' information.
2. You should inform a member that when submitting a claim:
 - (i) The member should retain photocopies of the claim and any receipts. The member will need to provide the photocopies when submitting the claim under the spouse's group insurance policy.
 - (ii) The member should fully complete the questions on the claim form which deal with whether or not the individual for whom the claim is being made for has coverage elsewhere.

Your Input

We are always interested in hearing from our plan administrators. If you have any comments or questions regarding any of the articles included in this bulletin, or if you would like a particular topic to be covered in a future issue, please contact your Group Sales Representative.

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