COUGHLIN
employee benefits specialists

COURIER

JULY 2012

AT A GLANCE ...

COUGHLIN
employee benefits specialists

"Waste" costs drug plans billions, report says

Private drug plans waste between $12 billion to $14 billion per year in prescription drug claims according to the Express Scripts Canada *2011 Drug Trend Report.*

Defining the term *"waste"* as *"spending more without improving health outcomes,"* the pharmacy benefit management firm says that poor drug dispensing and plan management practices account for up to $5 billion in waste each year. Another $7 billion to $9 billion is wasted by non-adherence to prescription instructions by plan members.

"Express Scripts Canada believes that in 2011 alone, private plans in Canada wasted more than $5 billion in drug spending. In addition, another $7 billion to $9 billion was wasted due to non-adherence," the organization says in its 2011 report.

The primary cause of waste at the dispensing and plan management levels occurs when drugs are not dispensed for the optimal period. For example, maintenance drugs used to treat chronic conditions such as diabetes or high cholesterol are often dispensed with an average supply limit of 46 days. The optimal supply limit for such medications is 90 days.

"The waste created by refilling a prescription more frequently than necessary can be easily addressed – and avoided – thereby saving plan sponsors and plan members significant amounts of money," the report says.

As well, excessive dispensing fees charged by some pharmacies also undermine drug plan funding, Express Scripts warns.

"Express Scripts Canada research has determined that 22 per cent of all pharmacies across Canada charge a dispensing fee of $11.99 or more and 30 per cent of all prescriptions paid by private drug plans are dispensed from these pharmacies. By encouraging patients to obtain their drugs from a pharmacy that charges a lower dispensing fee, this channel waste can be eliminated," the report notes.

(In Ontario, Coughlin & Associates Ltd. operates a preferred provider network of more than 500 pharmacies that agree to limit their dispensing fees to the Ontario Drug Benefit (ODB) plan maximum of $8.40 in most areas, saving plan members as much as $3.59 or more per prescription.)

The combination of using pharmacies offering lower dispensing fees and encouraging a 90-day supply protocol can generate substantial savings for plan members and plan sponsors, the pharmacy benefit management firm asserts.

As well, it says, using generic substitution, where pharmacists are encouraged to seek approval to substitute lower cost generic drugs over more expensive brand name medications, or a managed drug formulary, can also reduce unnecessary spending.

"With multiple patent expiries and drug-price reforms introduced by most provinces that have further lowered the prices for generic drugs, it is quite obvious that plan sponsors can benefit financially by simply mandating generic substitution," the Express Scripts 2011 report says. *"The substitution of clinically equivalent and/or therapeutically equivalent drugs for more expensive brand-name drugs will result in significant cost savings for the plan sponsor and the patient."*

continued on page 2

...continued from cover

"Waste" costs drug plans billions, report says

The organization goes on to suggest that for every one per cent increase in the generic fill rate, a decrease of approximately one per cent can be realized in a plan sponsor's overall drug spending costs.

Controlling the members' non-adherence to drug prescriptions is a bigger challenge, Express Scripts Canada concedes.

Not taking medications as prescribed can lead to worsening patient health, repeat visits to physicians, extra laboratory costs, additional drug therapy, and more emergency room visits, the organization warns.

"In most cases, poor adherence is simply the result of poor behaviour (ie. forgetfulness and procrastination to obtain refills at the retail pharmacy). Non-adherence waste can be reduced by simply helping patients to understand the importance of adherence and empowering them to stay compliant with the medication regime prescribed to them," the report says. *"Such behaviour changes can save billions of dollars per year in related health care costs."*

Ironically, when it comes to prescription adherence, both plan sponsors and plan members have the same goals: lower costs and optimal health.

"The disparity is not between the goals of plan sponsors and patients; rather, it is between what consumers want and what they do," Express Scripts Canada says.

The report goes on to suggest that traditional tools such as member education or financial incentives to encourage proper adherence to prescriptions may not work. To activate the good intentions that already exist, more advanced application of behavioural sciences and more interaction between plan members and trained professionals involved in members' drug maintenance regimes should be considered, the report notes.

Manitoba RST on insurance contracts

To further update the June 2012 *Coughlin Courier* notice on the implementation of a retail sales tax (RST) on insurance products by the Manitoba government, following are additional highlights, as published by the Manitoba Finance Taxation Division:

- The seven per cent RST will apply to group life, creditor and optional life and dependant life insurance contracts.
- Where insurance contracts contain both taxable and non-taxable coverages, the value of each component must be segregated in customer billing statements. If not, the RST must be applied to the entire value of the contract.
- Fees or charges that are invoiced in addition to a taxable insurance contract are subject to tax. This includes, administration fees, placement fees, risk consultation fees, etc.
- Fees charged by insurers to administer self-insured group life policies are tax-exempt.
- For insurance contracts issued on a refund basis, such as group life insurance, the RST is to be calculated on the amount refunded and included in the refund amount.
- The RST does ***not*** apply to the following coverages: reinsurance contracts; self-insurance; individual life insurance; health and disability insurance; accidental death and dismemberment coverage; workers' compensation insurance; endowment insurance; annuities; and contributions or premiums paid under the Canada Pension Plan or Employment Insurance plan.

For more information, contact the Manitoba Finance Taxation Division at, toll-free, 1-800-782-0318 or email MBTax@gov.mb.ca

Specialty drugs drive up plan costs

Specialty drugs continue to drive up drug plan expenses, and will continue to do so past 2015, according to latest data released in Express Scripts Canada's *2011 Drug Trend Report.*

According to the pharmacy benefit manager, while specialty drugs comprised less than one per cent of all drug claims, they accounted for 20 per cent of total drug spending in 2011. That percentage is expected to increase to the 25 to 30 per cent level as new medications are approved and released to the marketplace.

Express Scripts Canada defines a speciality drug as *"an injectable or non-injectable drug that is typically used to treat chronic, complex conditions."* It must also have one or more of the following characteristics:

- a requirement for frequent dosage adjustments and intensive clinical monitoring to decrease the potential for adverse effects and increase probability of improved outcomes;
- a need for intensive patient training and compliance assistance;
- limited or exclusive product availability and distribution;
- specialized product handling or administration requirements; and
- a cost of more than $500 per month per prescription.

Biologic drugs would fall in this category.

The 2011 report notes that, in 2011, 51 new drugs entered the Canadian marketplace. Of those, 17 were specialty medications. The most noteworthy in terms of potential costs to drug plans were:

Drug	Treatment	Annual ingredient cost per patient
Benlysta	Lupus	$22,750
Endurant	HIV	$5,240
Gilenya	Multiple sclerosis	$32,000
Incivek	Chronic hepatitis C	$35,000
Ozurdex	Macular edema	$2,700
Revolade	Idiopathic thrombocytopenic purpura (ITP)	$23,660-$70,980
Samsca	Hyponatremia	$96,270-$192,540
Tobi Podhaler	Cystic fibrosis	$20,000
Victrelis	Chronic hepatitis C	$27,000-$49,000
Xgeva	Bone metastases	$7,400
Zytiga	Prostate cancer	$57,000

Prices for the other six specialty medications have not been published.

These new and expensive drugs may have positive impacts on the lives of claimants and this may lead to reduced absenteeism and disability claims, higher work productivity and a happier work force.

While these new medications are designed to treat severe or relatively rare medical conditions, common illnesses, such as high blood pressure, infections and inflammatory conditions continue to dominate claims activity in terms of both number of claims and costs, Express Scripts reports. These are highlighted below:

Top 10 therapy classes by *total claims,* 2011

Therapy class	Percentage of total claims
1. High blood pressure	13.18%
2. Antibiotics/anti-infectives	8.62
3. Depression	7.72
4. High cholesterol	6.16
5. Pain, narcotic analgesics	5.70
6. Diabetes	5.41
7. NSAIDS, pain and inflammation	4.66
8. Ulcer/reflux	4.61
9. Asthma	4.43
10. Birth control	3.81

Top 10 therapy classes by *total costs,* 2011

Therapy class	Percentage of total claims costs
1. High blood pressure	8.98%
2. Inflammatory conditions	8.30
3. High cholesterol	7.80
4. Depression	6.93
5. Diabetes	6.12
6. Ulcer/reflux	5.67
7. Antibiotics/anti-infectives	5.21
8. Asthma	5.15
9. Pain, narcotic analgesics	3.28
10. Neurological disorders	2.76

2011 census data underlines debate on OAS reform

One of the highlights of the March 29, 2012 federal budget was the tabling of proposals to move the minimum qualification age for Old Age Security (OAS) benefits from the current age of 65 to age 67, beginning in 2023.

The move by the federal government did more than just draw attention to the sustainability of the Old Age Security (OAS) program, it also opened the door to wider discussions on the changing nature of Canada as it faces an aging population.

The timing of the federal announcement closely preceded the May 2012 release of the latest census data, which confirmed that the Canadian population is rapidly getting older.

Among its findings:

- The number of Canadians age 65 and older increased by 14.1 per cent from the last census in 2006. Those in the 65+ age range now account for 14.8 per cent of the population, a record high according to Statistics Canada.

- The *"pre-senior"* group, those age 60 to 64, experienced the fastest population increase, growing at 29.1 per cent from the last census. With the first of the baby boom generation reaching age 65 in 2011, the strong growth of pre-seniors coincides with various forecasts predicting the rapid aging of the population once the baby boomers, those born between 1946 and 1964, near or reach retirement.

- The working age population, those age 15 to 64, account for 68 per cent of the Canadian population, virtually unchanged from previous years. However, of that population group, 42 per cent are baby boomers age 45 to 64. In other words, more than four in 10 workers are entering or are already in their pre-retirement years. To put that rate in perspective, the age 45-64 group comprised 28 per cent of the total working population in 1991.

- On the other end of the age spectrum, the number of children age four and under increased by 11 per cent from 2006, the largest rate of growth for that demographic group since the 1956-61 census.

- For the first time in Canadian history, the number of people nearing the traditional retirement age outnumbered those entering the workforce. According to the 2011 census, 4.93 million Canadians fell into the age 55 to 65 category compared to 4.36 million in the age 15 to 24 range.

- Proportionally, British Columbia, Quebec and the four Atlantic provinces have the highest percentage of people age 65 and older. Alberta, Saskatchewan, Yukon, Northwest Territories and Nunavut had proportionally younger populations. Ontario and Manitoba tracked near the national average.

Armed with the 2011 census data and earlier data forecasting the aging of the population, the federal government has taken a position that the sustainability of the Old Age Security program depends on its re-alignment to reflect the changing population patterns and other social trends, such as longer lifespans.

"Everybody understands that there are demographic realities that do threaten the viability of these programs over the longer term," Prime Minister Stephen Harper told the House of Commons during the 2012 budget debate. *"We must ensure that these programs are funded and viable for future generations who will need them."*

The prime minister's argument was backed by data released from the Office of the Chief Actuary that showed the combined annual costs of the OAS and Guaranteed Income Supplement (GIS) will rise to $108 billion by 2030 from $41 billion today.

But is the increase in OAS eligibility to age 67 by 2023 really necessary?

According to Parliamentary Budget Officer Kevin Page, Canada is not facing a fiscal crisis over public pensions.

"The Parliamentary Budget Office's updated long-term debt-to-GDP data show that the federal fiscal structure is sustainable. Even under the baseline assumption, there is some additional enrichment to elderly benefit payments," Mr. Page reports. *"This indicates that the federal government could reduce revenue, increase program spending, or some combination of both, while maintaining fiscal sustainability."*

In debates in the House of Commons, government supporters noted that the current fiscal crisis in Europe is exacerbated by its generous public pension programs that consume as much as 15 per cent of that continent's gross domestic product. Reforming the public pension plan now could prevent a similar crisis from occurring in Canada in 10-20 years when the bulk of the baby boom population begins to draw on the public pension plan, they argue.

"In order to have a system that's still in place and viable and sustainable 10, 20 or 30 years from now, we need to make changes today," says Government House Leader Peter Van Loan.

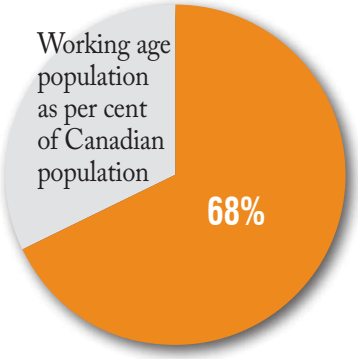
Countering that position are the projected economic growth rates during the period leading up to 2030 when OAS costs peak at the $100 billion mark. With economic growth factored in, the OAS and GIS will account for just 3.14 per cent of GDP by 2030, compared to 2.41 per cent today, the Parliamentary Budget Office says. In other words, the aging population is unlikely to generate the same level of strain on the OAS and the general economy as that experienced by the comparable pension plans of the member states of the European Union.

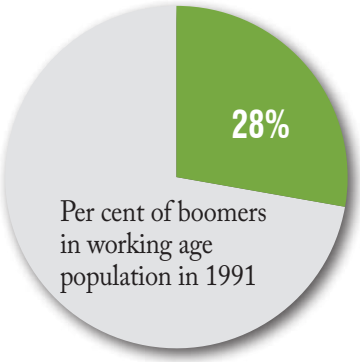
Despite that, the pressure to tighten seniors' benefits remains. With countries like the United States, Britain, Germany and others already moving their retirement qualification to age 67 or 68, some pension experts have already proposed moving the OAS limit to age 70 for the country to remain competitive in the 2030s.

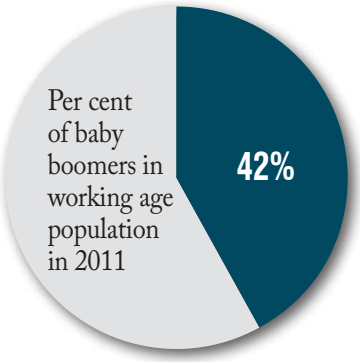
A McMaster University-sponsored study published in *Canadian Public Policy* suggests moving the minimum retirement age to 70 in order to reduce costs for future generations. Other government retirement benefits, such as the Canada Pension Plan (CPP), would also have to move their retirement qualification ages as well as increase their joint employee-employer contribution levels to 12.3 per cent from today's level of 9.95 per cent of pensionable income.

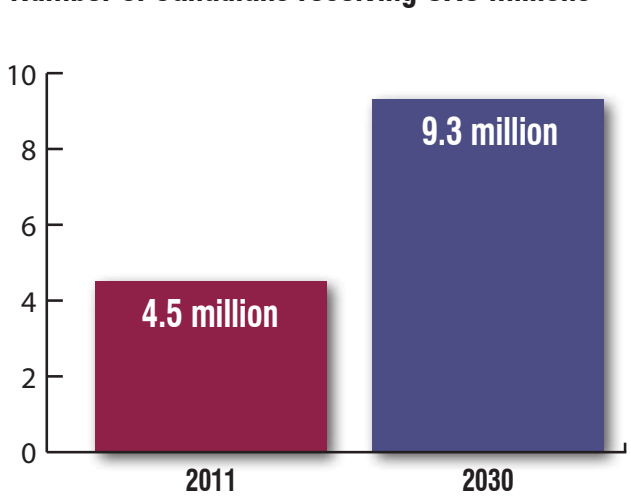
Without these adjustments, *"there could be significant inequalities across generations if younger workers have to pay substantially more than did their parents or grandparents to maintain the first two pillars (the OAS and CPP) of the public retirement income security system in Canada,"* say study co-authors Byron Spencer and Frank Denton.

Despite the debate, the hard facts remain: Today, 4.5 million Canadians receive the OAS. By 2030, the number will more than double to 9.3 million. And, despite changes to the OAS qualification age and other changes that may be introduced to it and other government programs, the cost involved in adjusting government retirement programs to reflect the country's changing demographic profile will continue to be a national priority.









Affluent seniors less prepared for retirement, report says

The older and richer you are, the less likely you are prepared for retirement, a report by the McKinsey & Co. management consulting firm suggests.

In its study of the potential of Canadians to maintain their current lifestyles after retirement, the firm found that 25 per cent of respondents had not saved enough. The majority of those people were middle aged and earning middle class incomes. Joining them were the bulk of the highest income earners, those earning $140,000 or more.

"They will have to significantly adjust their standard of living or delay their retirement if they continue on the same savings path," says report co-author Fabrice Morin.

However, the picture is far more optimistic for low income earners, those earning $20,000 or less, the McKinsey & Co. report says.

According to the survey, government benefits such as Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and the Canada/Quebec Pension Plan (C/QPP) provide adequate benefits to meet their income replacement needs following their retirement.

The McKinsey report notes that low income earners need 80 per cent of their pre-retirement income to maintain their lifestyle after retirement while all other income groups need just 65 per cent. The OAS benefit currently pays just over $540 per month, or $6,481 per year. Depending on their circumstances and work history, other government benefits such as the C/QPP and GIS, could push their income replacement ratios close to the 80 per cent level. For those with higher incomes, the gap between the income provided by government plans and the 65 per cent income replacement mark would have to be supplemented by personal savings, pensions and other income sources.

Ironically, the working poor may be better able to adapt financially to retirement than middle or upper income earners.

The report suggests that, to boost retirement savings, voluntary participation in defined contribution plans be replaced by automatic enrolment. It also encourages the adoption of measures to encourage Canadians to work longer as well as the enhancement of current government pension benefits.

Debt worries drive plans to work past 65

Half of all Canadian workers plan to continue working after they reach retirement, Sun Life Financial's annual *Unretirement Index* poll suggests.

According to the survey of 3,701 Canadians between the ages of 30 and 65, a total of 48 per cent of respondents say they plan to work either part-time or on a freelance basis at age 66. Only 30 per cent said they plan to be fully retired by that age.

While the Sun Life data might suggest that Canadians have a fondness for work, the trend toward working past the traditional retirement age may be driven by hard financial realities. According to the *Unretirement* poll, of those who reported that they expect to continue to work past age 65, more than six in 10 said they would do it from financial necessity. In contrast, only 39 per cent said they would continue to work because they want to remain employed.

Debt worries are the primary motivator of those planning to work after retirement. Almost half, 44 per cent, said that debt repayment was their number one priority.

GM converts $26 billion pension to an annuity

In a move that may foreshadow the end of traditional defined benefit pension plans, General Motors (GM) announced that it will buy a group annuity covering 118,000 of its retired salaried workers and their survivors rather than continue its defined benefit pension plan.

Beginning in 2013, the Prudential Insurance Company will administer the annuity and make the necessary income payments to GM retirees. The amounts retirees will receive will not change.

The company has not revealed if similar plans are in place for its 400,000-strong blue collar retirees and survivors.

For GM, the annuity conversion will save the auto maker more than $26 billion in pension liabilities. It also absolves the company from being responsible for any future obligations that may arise within the pension plan.

The move is part of a sweeping re-organization of the GM pension plan. Earlier this year, the company offered 42,000 retirees a lump sum cash settlement in return for their withdrawal from their pension plan.

The pension plan for the company's 400,000 hourly workers has approximately $71 billion in assets. However, the plan has a deficit of more than $10 billion.

The Ford Motor Company has also offered lump sum buy-outs to 90,000 of its pensioners.

Diabetes in US teens rockets to 25 per cent

One-quarter of Americans age 12 to19 have diabetes or pre-diabetes, the medical journal *Pediatrics* reports.

According to the May 21, 2012 issue of the journal, 23 per cent of adolescents now have the disease. That compares to nine per cent a decade ago.

The findings are "very concerning" according to Center for Disease Control epidemiologist and lead author Ashleigh May.

While the *Pediatrics* findings centre on US population data, similarities in lifestyles and health trends suggest that these tendencies could also be developing within Canada's population. The Canadian Diabetes Association projects that incidence rates of the disease will jump by 50 per cent within the next 15 years.

If the *Pediatrics* reports are true, plan sponsors could be faced with increased and long-term cost pressures resulting from diabetes and the other medical complications resulting from the disease. Diabetes has been associated with kidney disease, circulatory illnesses, blindness, infections and other serious medical conditions.

With up to one-quarter of dependant children now at risk of diabetes, plan sponsors could face increased drug and medical expenses associated with diabetes treatments. To complicate matters, those same teenagers will be joining the workforce within the next 10 years, bringing their increased risk potential and medical costs to their employers' group medical plans. This would reverse traditional insurance assumptions whereby the smaller and less frequent claims of younger, healthier populations offset the costs of the more frequent and larger claims incurred by less healthy or older individuals.

With a sizeable minority of both younger and older populations at risk of chronic illnesses, claims risk – and its associated premiums – will likely increase in the near future.

One in four adolescents are diabetic or pre-diabetic.

Fast facts

- Effective July 1, 2012, Nova Scotia will reduce its generic drug costs to 35 per cent of the equivalent brand name price.
- Alberta has reinstated provincial health care coverage for chiropractic services for seniors age 65 and older, beginning July 1, 2012. Under the new arrangement, the province will pay up to $25 per chiropractic treatment to an annual maximum of $200 per person. Chiropractic services were de-listed from the government health care plan in 2008.
- Effective June 15, 2012, the province of Alberta reinstated provincial health care coverage for gender re-assignment surgery. The procedure was de-listed in 2009.
- A total of 72 per cent of Canadians are in debt, according to a CIBC poll conducted by Harris/Decima. However, almost half of the population, 49 per cent, reported that they have made at least one extra payment in the past 12 months to reduce their debt balances. The majority of those extra payments went toward credit card debts.
- The Ontario Lung Association says that up to 25 per cent of adults with asthma have work-related asthma. That is, they developed their illness through prolonged exposure to fumes, dust, mould or other toxins in the workplace.
- Women are more likely than men to enjoy retirement, according research conducted for the BMO Retirement Institute. The reasons? Men tend to self-identify with their careers and often have no replacement for work once they leave their jobs. As well, women are more likely to seek financial and retirement planning advice, making them less likely to make the mistakes that can undermine retirement incomes.
- In a nation-wide referendum, voters in Switzerland have decided to keep that country's statutory vacation leave at four weeks. Unions in that country had campaigned to increase the annual level of paid leave to six weeks. In contrast, Canadians qualify to receive a minimum of 10 paid holidays per year.
- Percentage of American workers that feel it is not likely they or a family member will be diagnosed with cancer, according to the *2012 Aflac WorkForces Report:* 62. The chances of being diagnosed with cancer, according to the American Cancer Society: for men, one in two; for women, one in three.
- Percentage of American workers that feel it is not likely they or a family member will be diagnosed with a chronic disease such as heart disease, according to the *2012 Aflac WorkForces Report:* 55. The number of deaths caused by coronary heart disease, according to the American Heart Association: one in six.
- Underestimating the lifespans of the aging population could cost the British government an extra £750 billion ($1.2 trillion, Canadian) by 2050, the International Monetary Fund (IMF) warns. The Fund says that if everybody in the United Kingdom lives three years more than projected by that country's pension system, public pension costs could surge by as much as 50 per cent. Should that occur, it would be "not unreasonable" to expect public debt to rise from 76 per cent of gross domestic product to 135 per cent, the IMF says.
- The Citizens Medical Center of Victoria, Texas says it will no longer hire anyone with a body mass index of 35 or higher (the equivalent of an individual five feet, six inches tall weighing 209 pounds.) Many US employers now impose strict health and lifestyle guidelines on their employees in order to control their group medical costs. The hospital maintains that employees' physiques should *"fit with a representational image or specific mental projection of a healthcare professional."* Critics have countered, arguing that appearance does not necessarily relate to health.

Follow us on Facebook & Twitter

www.facebook.com/coughlincanada

twitter.com/coughlincanada

The Coughlin Courier is published by Coughlin & Associates Ltd.
Board of directors: Brian Bockstael, Kirby Watson, Mark Hogan, Brent Moore, Ken Kaitola, Michel Quenneville & Brett Becker
Editor: David Whitbread | **Graphic designer:** Victor Lima