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THE DUPUIS LANGEN GROUP
SOLUTIONS WITH CLARITY

Benefit *brief*

THE EMPLOYEE SOLUTIONS NEWSLETTER FOR THE CLIENTS AND FRIENDS OF DUPUIS LANGEN

How to Save with Generics

Do you have some concerns about your drug 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, the use of prescription drugs continued to rise in 2009 to reach $736 per claimant, compared to $698 per claimant in 2008.

Prices of generic prescription medicines have fallen dramatically in the past three years, and Canadian employers are increasingly taking advantage of these savings. The economic rationale for using generics has never been stronger.

In 2011, about 60% of all prescriptions in Canada were filled with generics, representing 24.5% of total market cost. The usage rate is anticipated to grow over the coming years as several blockbuster drugs lose their patents.

Expenditures, on the other hand, are declining thanks to dramatic price reductions across the country. The average retail price of a generic prescription is now $24.05, compared to $73.76 for a brand-name prescription (IMS Health Canada, Canadian Compuscript).

Expiring patents

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.

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.

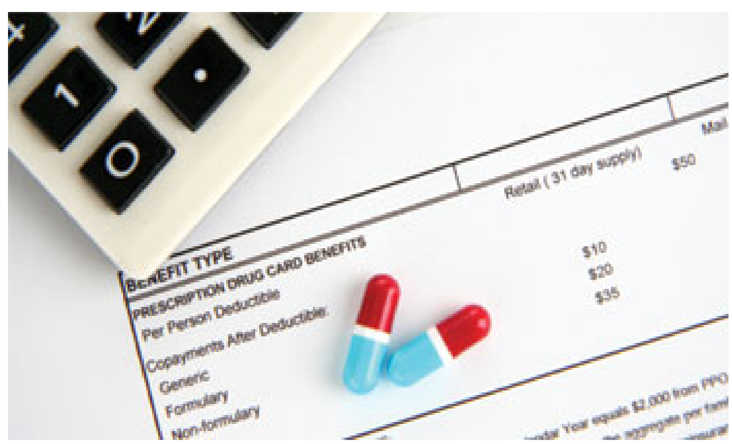
Legislative changes

The cost of drug insurance plans will also be impacted by changes to provincial legislation in recent months.

In British Columbia, effective April 1, 2012, the standard price for generics is fixed at 35% of brand equivalent (both private and public markets).

Not everyone is taking full advantage of these price reductions, however. Generic drug use in the private sector trails the public sector significantly. Increasing utilization of generics by just 1% would provide more than $260 million in savings across Canada (source: CGPA calculations based on IMS Brogan data and CIHI public private market share).

In addition, the overall use of generics is much lower in Canada than in the U.S. .



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How to take advantage of the changes

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 generic drugs are reimbursed according to Tier 1 while the brand name drugs are reimbursed at Tier 2.

Tier 1: Generic Drugs Brand name **without** a lower cost therapeutic alternative	80% Reimbursement
Tier 2: Brand—name drugs **with** a lower cost therapeutic alternative	60% Reimbursement

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 receives 100% reimbursement of a drug if they choose to have a generic versus having the brand name with only 80% reimbursement.

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

Source ESI Canada

Changes in Critical Illness and AD&D Tax Rules

The 2012 federal budget included changes to the tax treatment of AD&D and Critical Illness premiums which are employer-paid. Effective in 2013, these benefits will be considered a taxable benefit. This means that premiums paid by the employer will be considered as taxable income for the employee in the year when they were paid. The chart below provides a detailed breakdown of taxable premium contributions and benefits.

	Employer-paid Premiums Tax Deductible for the Employer	Employer-paid Premiums Taxable to the Employee	Benefit Payments Taxable to the Employee
Life	Yes	Yes	No
Dependent Life	Yes	Yes	No
Critical Illness	Yes	No—Until Dec 31st 2012 **Yes—Effective Jan 1st 2013**	No
AD&D	Yes	No—Until Dec 31st 2012 **Yes—Effective Jan 1st 2013**	No
Health Care	Yes	No	No
EAP	Yes	No	No
Health Care Spending Account	Yes	No	No
Dental Care	Yes	No	No
Weekly Indemnity	Yes	No	Yes/No*
Long Term Disability	Yes	No	Yes/No*

* Disability payments are taxable to the employee if the employer pays a portion of the premium for Weekly Indemnity and/or Long Term Disability.