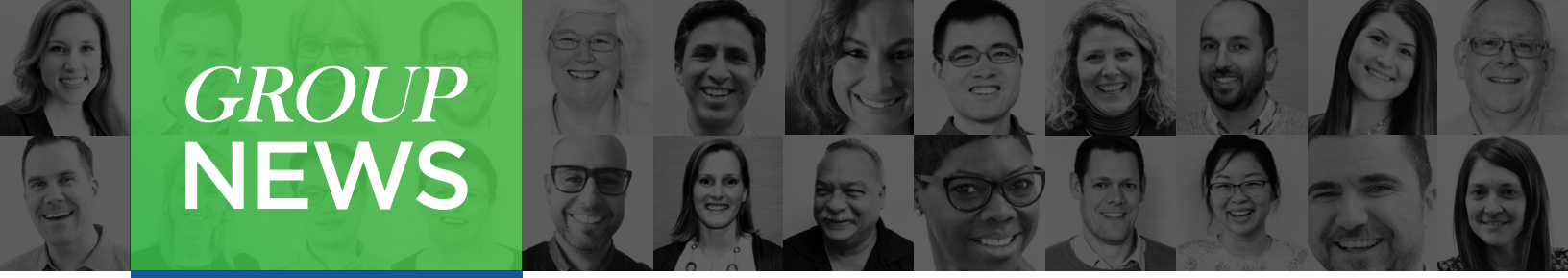


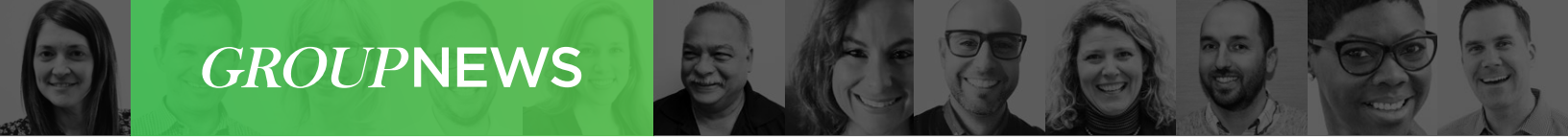
GROUP NEWS

July 2018

Eckler's *GroupNews* monthly newsletter provides commentary on news and issues affecting Canadian group benefit plans.

Here's what you'll read on the following pages:

- ***British Columbia provides details of new employer health tax effective January 1, 2019***
- ***New Ontario government announces changes to OHIP+***
- ***Underwriting implications for LTD benefits stemming from potential legislative requirements***
- ***Quebec releases new RAMQ rates effective July 1, 2018***
- ***Consultations begin on national pharmacare program***
- ***PMPRB report: high-cost specialty drugs continue to dominate Canada's new drug landscape***



Benefit plan management

British Columbia provides details of new employer health tax effective January 1, 2019

On July 4, 2018, the British Columbia government ***announced*** details of a new Employer Health Tax (EHT), which is scheduled to take effect January 1, 2019. The province had previously announced that it would cut Medical Services Plan (MSP) premiums by 50% effective January 1, 2018, eliminate all MSP premiums in the future, and introduce a tax to make up for the resulting lost revenue. For a discussion of these announcements, please refer to the February 2018 edition of ***GroupNews***.

Subject to legislative approval, as outlined in ***Notice 2018-001***, the EHT will be paid by "employers" – defined as entities that have BC payroll. This includes the total of any payments to employees reporting to work at a permanent employer establishment in the province, and any payment to employees who do not report to work at such an establishment but are paid from/through a permanent establishment in BC. Payroll is defined as employment income and taxable benefits under the *Income Tax Act*, including:

- Salary/wages (including advances),
- Payments for casual labour,
- Bonuses, commissions and other similar payments,
- Vacation payments,
- Tips/gratuities paid through an employer,
- Taxable allowances and benefits,
- Employer-paid top-up payments for maternity leave, etc. (such payments are **not** subject to tax if received from "an independent third-party trustee under the terms of a supplementary unemployment benefit plan"),
- Directors' fees paid to corporate directors,
- Stock option benefits,
- Employer-paid RRSP contributions, and
- Employer-paid group life insurance premiums.

The following employer-paid contributions/premiums will **not** be subject to the proposed tax:

- Registered pension plan contributions,
- Private health services plan contributions,
- Supplementary unemployment benefit plan contributions,
- Deferred profit sharing plan contributions, and
- Retirement compensation account contributions.

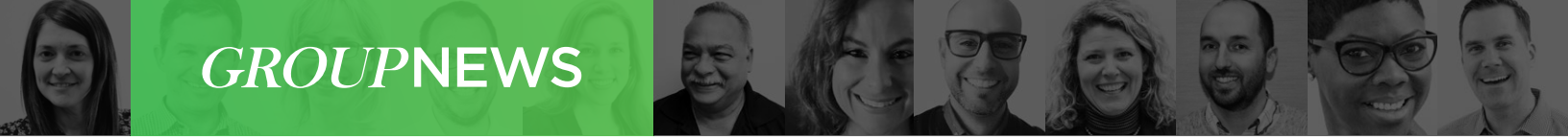
As independent contractors are not in an employment relationship with the business that hires them, amounts paid for their services will not be subject to the EHT.

The EHT will be assessed as follows:

Regular employers	
Annual BC payroll	**Tax rate**
< $500,000	0%
$500,000.01 - $1,500,000	2.95% on payroll over $500,000
> $1,500,000	1.95% of total BC payroll
Registered charities and non-profit employers*	
Annual BC payroll	**Tax rate**
< $1,500,000	0%
$1,500,000.01 - $4,500,000	2.95% on payroll over $1,500,000
> $4,500,000	1.95% of total BC payroll

* Defined as clubs, societies or associations that are organized and operated solely for social welfare, civic improvement, pleasure/recreation or any purpose other than profit, that ensure that no part of their income is distributed to its members, proprietors or shareholders.

Registration for filing and paying the proposed tax will start in January 2019. Quarterly installment payments are required for employers with BC payroll over $500,000 for regular employers, and $1,500,000 for charities and non-profits.



Impact: As MSP premiums will not be eliminated until January 1, 2020, employers with BC payroll – and who pay some or all of MSP premiums for their employees – will be paying both – the reduced – MSP premiums and the new EHT in 2019. Some multi-employer group benefit plans that are funded by defined contributions cover MSP premiums for their members. As these plans will not be subject to the EHT, the elimination of MSP premiums may result in a positive impact to their net revenue, depending on the terms of their bargaining agreement(s). More details on the new tax will be available once the legislation is introduced in the fall. We will continue to monitor this issue and provide reports in future editions of *GroupNews*.

New Ontario government announces changes to OHIP+

The new Ontario government is making changes to the pharmacare program for children in the province. As reported in the July 2017 issue of ***GroupNews***, the Children and Youth Pharmacare program (OHIP+) was introduced by the previous Liberal government to provide universal pharmacare for children and youth ages 24 and under. OHIP+ came into effect on January 1, 2018.

On June 30, 2018, Christine Elliott, the newly appointed Minister of Health and Long-Term Care, ***announced*** OHIP+ will remain as first-payer drug coverage for those aged 24 and under who do not have any existing coverage for prescription drugs. However, children and youth with private plan coverage will be required to bill those plans first, "with the government covering all remaining eligible costs of prescriptions."

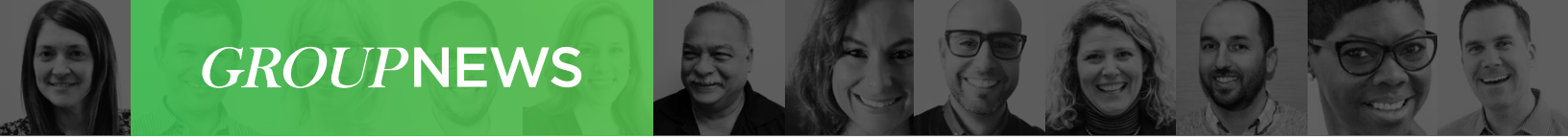
In a news release, the Canadian Life and Health Insurance Association noted that it is committed to working with the government to ensure a smooth transition for those who are eligible for coverage under an employer sponsored benefit plan.

Impact: Once the above changes are implemented through legislation, plan sponsors will not see the previously anticipated savings expected on drug spending for employees or dependants aged 24 and under. In fact, since the original OHIP+ was announced prior to 2018, many plan sponsors may have budgeted for 2018 with some recognition of lower drug costs for this group of employees or dependants. Such budgets or projected drug plan expenditures will be higher for 2018 than anticipated a year ago when first announced. *GroupNews* will continue to monitor and report on developments as additional information is released.

Actuaries' corner

Underwriting implications for LTD benefits stemming from potential legislative requirements

A long-term disability (LTD) benefit is arguably the most important group benefit a plan sponsor can provide, as its intent is to insure the most valuable asset of most members: their future earnings. The nature of this benefit means that LTD claims experience can be volatile, due to both claim incidence (how many and which members become disabled) and duration (how long the disabled member remains on claim).



While the vast majority of LTD plans in Canada are insured by life insurance companies, some larger plan sponsors (in both the private and public sectors) self-insure their LTD benefits. The decision to self-insure can be based on a number of reasons, including:

- the potential to earn a higher rate of return on invested assets than granted by the insurer;
- the ability to provide certain provisions that insurers may not be willing to offer; and
- lower charges, including no premium tax.

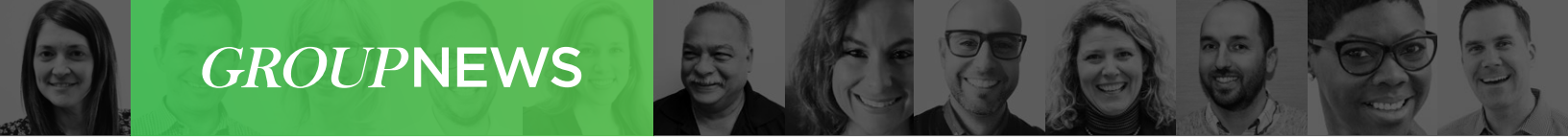
Some plan sponsors that self-insure LTD benefits look to fully fund these benefits by investing contributions in a manner similar to pension plans, so as to provide protection to disabled members should the plan wind-up in the future. Others have funded these self-insured benefits on a pay-as-you-go basis, which provides less protection to the members should the plan sponsor wind-up or declare bankruptcy. There have been some well publicized situations (such as Eaton's and Nortel) where disabled employees were left with significantly reduced LTD benefits.

The ***preliminary report*** regarding the British Columbia Ministry of Finance's review of the *Financial Institutions Act* (FIA) and *Credit Union Incorporation Act* included a recommendation that LTD plans must be insured, with exemptions for certain employers with a "low risk of insolvency." LTD plans are currently exempted from regulation under the FIA. While BC currently requires that employers disclose whether LTD benefits are uninsured, the report notes that many employees "likely continue to be uninformed or confused about who is responsible for their LTD benefits."

The Ministry plans to conduct consultations with the business community and labour unions on the proposed change, and to better understand the use of self-insurance in the private sector and in negotiated labour agreements.

With the release of the preliminary report, BC has become the latest jurisdiction to consider requiring that all employer-provided LTD plans be provided on an insured basis. Effective July 1, 2014, the *Canada Labour Code* requires that LTD plans provided by federally regulated employers be insured on a go-forward basis. While not yet in effect, Ontario also amended its insurance legislation in 2014 to require that LTD benefits payable for 52 weeks or more be provided under a contract of insurance by a licensed insurer. This requirement will not apply to benefits provided under a registered pension plan. While both the federal and Ontario legislation allow for exemptions to the insurance requirement, there have been no exemptions in either jurisdiction. Please refer to the February 2017 edition of ***GroupNews*** for more information on the Ontario legislation.

Impact: The elimination of self-insured LTD plans for plan sponsors based in BC may have financial implications, due to insurer reserve requirements and other fees applicable under insured arrangements. Ensuring appropriate underwriting and funding arrangements are in place for each benefit is a significant component of overall benefit plan management. These arrangements should be reviewed in detail on a regular basis, based on changing circumstances and the plan sponsor's risk tolerance. Please refer to the March 2017 edition of ***GroupNews*** for a review of best practice in benefit plan financing. We will continue to monitor this issue and provide reports in future editions of *GroupNews*.



Legal & legislative update

Quebec releases new RAMQ rates effective July 1, 2018

The Régie de l'assurance maladie du Québec (RAMQ) has announced ***updated public plan drug rates*** for July 1, 2018 to June 30, 2019. The table below summarizes the current and new rates:

	Monthly Deductible		Co-insurance		Maximum Monthly Contribution		Maximum Premium	
	Old	New	Old	New	Old	New	Old	New
Under age 18	$0	**$0**	0%	**0%**	$0	**$0**	$0	**$0**
Eligible full-time students ages 18 to 25[1]	$0	**$0**	0%	**0%**	$0	**$0**	$0	**$0**
Ages 18 to 64	$19.45	**$19.90**	34.8%	**34.9%**	$88.83	**$90.58**	$667	**$616**
Age 65 and older:								
• Not receiving GIS	$19.45	**$19.90**	34.8%	**34.9%**	$88.83	**$90.58**	$667	
• Receiving 1% to 93% of maximum GIS	$19.45	**$19.90**	34.8%	**34.9%**	$52.65	**$53.16**	$667	**$638**
• Receiving 94% to 100% of maximum GIS	$0	**$0**	0%	**$0**	$0	**$0**	$0	**$0**
• Holders of claim slips[2]	$0		0%		$0		$0	

[1] Without spouses and living with parents

[2] Issued by the Ministère de l'Emploi et de la Solidarité sociale

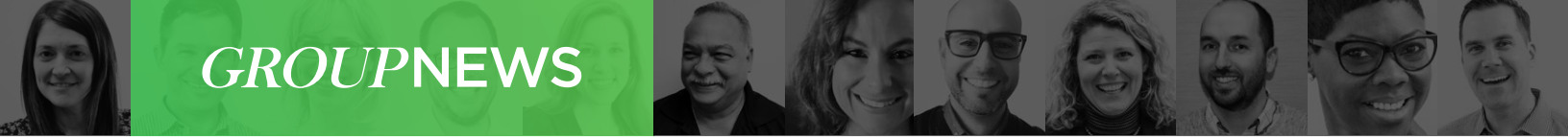
Impact: Private plans in Quebec that provide drug coverage must offer coverage that's at least equivalent to the public plan. For drugs listed on the RAMQ formulary, insurers' systems will generally adjudicate those claims in accordance with RAMQ rules.

Drug news

Consultations begin on national pharmacare program

In the 2018 Budget, the federal government announced the creation of the Advisory Council on the Implementation of National Pharmacare (Council) and consultation on the implementation of a national pharmacare program. On June 20, 2018, the federal government released ***Towards Implementation of National Pharmacare*** (Consultation). The Consultation is designed to "provide a starting point for the Council's dialogue with Canadians about the implementation of national pharmacare in Canada."

Unlike other countries with universal health coverage, Canada does not cover prescription drugs used outside hospitals as a part of basic health insurance, and prescription drug coverage is provided through a patchwork of more than 100 public and 100,000 private insurance plans.



The Consultation notes that this coverage gap has been noted in every major study of Canada's health care system in the last 50 years, and most recently by the report tabled by the Standing Committee on Health (Committee). The Committee's ***report***, released in April 2018, contained 18 recommendations, including that the federal government collaborate with the provincial and territorial governments, and other stakeholders, to develop a common voluntary national drug formulary. The report also recommended that the federal government amend the *Canada Health Act* (CHA) to include the dispensing of such drugs as an "insured health service".

The Consultation asks for feedback on the following key elements of any proposed national pharmacare plan:

- *Who will be covered and under what circumstances?* Coverage can be universal, subject to an income-test, or based on another approach. Delivery can be through public insurance, a combination of public and private insurance, or by way of another approach.
- *What drugs should be covered?* The plan's coverage can be basic (covering essential or most frequently prescribed medicines), comprehensive (providing more generous coverage), or other options suggested by stakeholders. The formulary could either be uniform or allow for variation by jurisdiction.
- *Who should pay for the program?* Financing options include having patients pay co-payments or deductibles, and having employers contribute to either a public or a private plan.

Impact: The Consultation, which is open for feedback until September 28, 2018, is the first step in a long process towards the possible adoption of a national pharmacare program. In addition to the Consultation, the Council will be meeting with provincial, territorial and Indigenous leaders to gather their input. Those discussions, as well as the feedback received regarding the Consultation, will form the basis of the Council's report to the federal Ministers of Health and Finance, which is expected in 2019. The impact of a national pharmacare program on employers and other benefit plan sponsors will depend on the key elements outlined above. *GroupNews* will continue to monitor and report on developments as additional information is released.

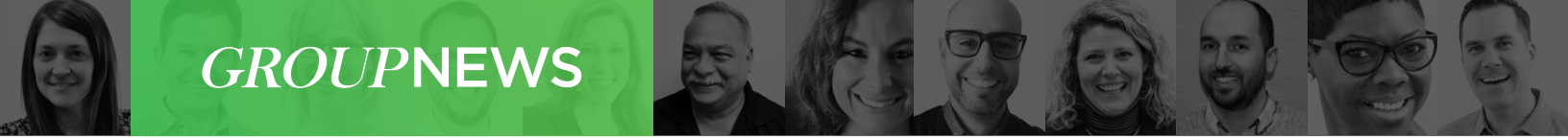
Research

PMPRB report: high-cost specialty drugs continue to dominate Canada's new drug landscape

Published in June 2018, a new report by the Patented Medicine Prices Review Board (PMPRB) found that high-cost specialty drugs continue to dominate the new drugs landscape in Canada. The latest edition of ***Meds Entry Watch*** provides an update on new drugs released in Canadian and international markets in 2015 and 2016; analyzes their availability, pricing and sales; and compares these drug releases to trends in new drugs launched between 2009 and 2014.

Highlights of the report include:

- Important new drugs have been launched since 2009, representing nearly 25% of all brand-name drug sales in Canada by 2016.
- Between 2009 and 2015, Canada launched more new drugs than most Organisation for Economic Co-operation and Development (OECD) countries, although fewer than all PMPRB comparator countries, including many with lower average patented drug prices.



- In 2015, fewer drugs were approved for market in Canada than in the U.S. and Europe, although Canada ranked well in terms of sales. These drugs accounted for 80% of total drug sales for the OECD, suggesting that the higher-selling drugs were released in Canada.
- Orphan drugs (developed specifically to treat a rare medical condition) represented a staggering 54% of new drugs entering the market in 2015, and a slightly lower but still significant 42% in 2016. This is a notable increase from the 33% average between 2009 and 2014.
- Oncology and antiviral HIV drugs accounted for approximately 65% of new drug sales in Canada and PMPBR7 countries in the final quarter of 2016, with 35% of these sales attributed to new cancer drugs and 32% attributed to antivirals.
- A higher-than-average number of new drugs was approved in 2015, including a significant number of high-cost specialty drugs. Of the 41 new drugs launched that year, 35% were oncology drugs with costs exceeding $5,000 for a 28-day treatment, and another 30% were non-oncology drugs with costs exceeding $10,000 per year.

While 2016 was a less active year for new drug releases, with only 31 receiving approval from the Food and Drug Administration, the European Medicines Agency and/or Health Canada, 13 (nearly 50%) were designated as high-cost orphan drugs and five were oncology drugs.

Impact: Privately-sponsored benefit plans continue to face substantial pressures from rising drug costs, particularly due to the increased prevalence of high-cost specialty drugs. Developments in this field can be very beneficial for plan members. Plan sponsors should regularly review their plan design and plan management approaches to ensure they can continue to offer valuable prescription drug benefits in a sustainable manner.

This publication has been prepared by the *GroupNews* editorial board for general information and does not constitute professional advice. Current editorial board members are: *Karen DeBortoli*, *Andrew Tsoi-A-Sue*, *Ellen Whelan*, *Charlene Milton*, *Karen Gleeson*, *Alyssa Hodder*, *Philippe Laplante*, and *Nick Gubbay*. All *GroupNews* issues are available on *eckler.ca*.

Eckler
CONSULTANTS + ACTUARIES

Connect with us:

Halifax
902-492-2822

Montreal
514-395-1188

Quebec City
418-780-1366

Toronto
416-429-3330

Winnipeg
204-988-1586

Vancouver
604-682-1381

Barbados
246-228-0865

Jamaica
876-908-1203

eckler.ca