



Canadian Life  
and Health Insurance  
Association Inc.

Association canadienne  
des compagnies d'assurances  
de personnes inc.

**CLHIA Submission to the  
New Brunswick Advisory Committee on Health  
Benefits Concerning Developing a Drug Plan for  
Uninsured New Brunswickers**

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Vice President, Policy Development and Health

## **Introduction:**

On behalf of the Canadian Life and Health Insurance Association Inc. (CLHIA) I want to thank the Advisory Committee on Health Benefits for taking the time to meet with our industry on April 27th. It is clear that this committee has been very diligent in considering different possible approaches to achieving the goal of providing drug coverage to those New Brunswickers that currently do not have coverage. I believe that our discussion was very productive and we look forward to working closely with the Advisory Committee on Health Benefits, as well as the Province of New Brunswick, as you continue with the development and implementation of any such program.

Based on our discussions, it appears that the committee is particularly interested in feedback from the life and health insurance industry on the following issues:

1. Implementing a new insurance-based drug program;
2. Requiring all New Brunswickers to have drug insurance; and
3. How to design a new drug plan to fit within the existing system.

## **Who we are:**

The CLHIA, established in 1894, is a voluntary association with member companies which account for 99 per cent of Canada's life and health insurance business. The life and health insurance industry is a broad economic contributor to the residents of New Brunswick. Nationally, 95 life and health insurance companies employ 134,900 Canadians. The head offices of three life insurers are located in New Brunswick; in total, 70 insurers are licensed to conduct life and health business in the province. Over \$9.8 billion worth of investments in New Brunswick can be attributed to Canadian life and health insurers.

With respect to supplementary health plan market, the industry protects about 520,000 New Brunswick residents and makes \$397 million a year in extended health care benefit payments. Expenses on prescription drugs accounts for roughly \$260 million of this. In New Brunswick, all private payers (employers/insurers and individuals) account for 72 percent of all prescription drug expenditures in the province.<sup>1</sup> Accordingly, we believe the private payer market is a critical stakeholder in any drug reform initiative.

### **Implementing a new insurance based drug program**

The industry generally supports the concept of introducing an insurance-based model of drug coverage for New Brunswickers. This model has proven to be effective in other provinces in Canada at providing coverage for residents with a reasonable impact on provincial budgets. If the province were to move in this direction, however, there are some considerations that would need to be addressed.

We understand that there are roughly 200,000 New Brunswickers who currently do not have any drug coverage. The private insurance industry would typically seek to cover uninsured individuals privately. However, based upon our experience, there are several reasons that individuals may not currently have coverage in New Brunswick:

- Their employer does not offer a group benefits plan that provides drug coverage;
- Some portion of the 200,000 individuals without coverage are uninsurable with a traditional individual health insurance policy due to the medical underwriting requirements;
- For those with modest means, and who do not otherwise qualify for support, cost of premiums is a barrier to purchasing coverage; and
- For some, they may also have concerns over the portability of plans.

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<sup>1</sup> CIHI - Drug Expenditures in Canada 1985 - 2010.

Key considerations for the Advisory Committee will be whether there will be any medical underwriting of the new plan and what the approach to premiums will be. Depending on the approach to setting premiums, there will likely need to be some form of income testing or other government support to help individuals with drug costs that are above a reasonable income threshold. Many of the western provinces (B.C. or Manitoba) will cover costs for individuals once their drug costs exceed a pre-determined threshold, for example.

As well, we would note that currently in New Brunswick, the different government programs that do exist have different formularies, i.e NBPDP/NB Seniors Drug Program vs social assistance. If a new program were to be introduced, we believe that it would be important to harmonize the formularies across plans. In addition, our view is that it is important for any new plan to recognize the contributions employees and employers make for "supplementary" coverage and that such coverage is ultimately an employment benefit. As such we suggest that any new government plan should work collaboratively with the private payers and that it should not be structured as a payer of last resort.

The Advisory Committee has also asked for feedback on whether the new plan should have any deductibles, co-payments or maximums. Such measures certainly can help to mitigate the financial impact to the province of operating such a plan. They can also encourage responsible consumerism by individuals by providing incentives to select low cost providers and to avoid waste to the greatest extent possible. One potential benefit of co-payments is that they are naturally indexed to drug inflation over time. However, they also can become prohibitively expensive for individuals with high cost drugs so if this approach was adopted, some form of cap on co-payment amounts should be considered. Deductibles can also work well, provided that the province regularly adjusts them to keep track with general inflation. With respect to maximums, the industry understands that, given the important anti-poverty policy goal for the province, that the province will likely want to cap the out of pocket costs to individuals at

some reasonable percentage of income in order to ensure that individuals are not unduly impacted by high cost prescription drugs.

Finally, we would note that generally in Canada, it is poorly understood that provincial formularies do not cover all drugs that may be prescribed and that private coverage may provide broader drug coverage. We believe that any mandatory insurance program should be accompanied by an extensive educational outreach program that clearly outlines for New Brunswickers which drugs will and will not be covered by the provincial plan.

### **Requiring all New Brunswickers to have drug insurance**

The industry is supportive of the concept of requiring mandatory coverage under either private or public plans for all New Brunswickers for two important reasons. The first is that it is clear that one of the underlying public policy issues for this Advisory Committee is to fit within the broader poverty reduction strategy for New Brunswick. Ensuring that all New Brunswickers have access to drug coverage when they need it will help ensure that no New Brunswicker needs to take on undue financial hardship as a result of prescription drug costs.

The second reason that making insurance mandatory is important is that any new government plan will need to address the potential for anti-selection. In an insurance type environment, mandatory coverage is necessary to respect the basic principle of insuring only against contingencies rather than known costs. If individuals could opt out of buying insurance, those individuals with existing high cost prescription drug costs would all choose to purchase insurance coverage, whereas those without high drug costs would likely choose to opt out of buying coverage until they needed coverage. This outcome would result in an insurance pool disproportionately comprised of “bad” risks, and, therefore from a financial perspective, would not be sustainable. This concept is referred to as “anti-selection”.

One key element of mandatory coverage is how to support those New Brunswickers of modest means who do not have the financial capacity to pay for coverage. The industry understands that in such scenarios, there may need to be some form of government subsidy or other support for individuals to help them afford coverage. However, regardless of whether an individual is receiving financial support or not, we would urge the government to adopt an approach that would provide flexibility to individuals receiving financial support to purchase coverage either from the public or private plans as they see fit. Ensuring vibrant private market will ensure that competitive solutions are made available to New Brunswickers and will also allow New Brunswickers to purchase coverage for drugs not covered on the provincial plan.

#### **How to design a new drug plan to fit within the existing system**

The CLHIA is supportive of ensuring that any new government plan be a complement to existing coverage in the market. As such, the design of any new government program that targets those who are currently uninsured needs to be done carefully so as to avoid unintentionally undermining of the private coverage that currently exists.

As of 2010, in New Brunswick there are roughly 520,000 residents with extended health coverage through a private insurer. Of this number, 76 percent had coverage through an employer plan, while the remaining 24 percent were covered through individual coverage. Therefore, the majority of New Brunswickers with private coverage receive it through their employers. It is important to recognise that, while the insurance company plays an important role in helping employers manage their financial risk and administer their plans, ultimately it is the employer who makes decisions about whether or not to offer drug coverage to their employees. Employers view their supplemental benefits plans as "benefits" for employees rather than a social good. Employers use their supplemental benefit plans for a variety of purposes, including helping to maintain a healthy workforce as well as attracting and retaining talent.

We would note that currently, New Brunswick health insurance plans face a government-imposed financial disincentive in the form of a 2 percent premium tax. We estimate that the current premium tax burden adds \$5 million a year to the cost of supplementary health insurance for New Brunswickers.

In this challenging economic environment, we would point out that premium taxes act as a disincentive to employers from offering supplemental benefit plans. While there may be a requirement by the province to raise additional revenues to support a new government insurance program, we would not support any additional premium tax or any other tax that is primarily targeted at the private insurance industry. Not only would there be the direct financial impact of the increase in tax, but there is also the fact that with an extra premium tax, employers who offer employee plans would in effect be paying twice - once to offer their employees coverage and then again through the premium tax to help subsidize other employers in the province who do not offer coverage. Over the challenging period ahead, there is a definite risk that the contribution of these plans will diminish, particularly as the cost of drugs continues to escalate. Placing additional burden on employer group benefit plans could adversely affect their ability to offer these plans.

There is a risk that employers may see a government plan as an opportunity to drop their employee drug coverage. This issue exists in other jurisdictions in Canada and we would propose the following as best practices for the Advisory Committee to consider. An effective way to ensure that employers are not selectively offering benefits to their employees at the government plan's expense is to require that if an employer offers any employee benefits (dental, A&S) they must also offer drug coverage. As well, we would suggest that the Advisory Committee consider requiring that all employer plans must cover not only employees but their dependents as well. This is fairly standard in the market currently and will help ensure that the private market continue to cover as many residents as possible.

## **Conclusion**

We believe that any reform of the drug system in New Brunswick would greatly benefit from strong collaboration between the public and private sectors with an eye to harmonizing approaches to access, affordability and quality of care for New Brunswickers and maintaining a competitive private insurance industry. Once the preferred insurance model has been identified by the Advisory Committee, we would be pleased to provide more detailed comments related to how to structure the plan to fit within the current environment in New Brunswick.

We look forward to continuing to work with the Advisory Committee on Health Benefits on this important initiative and would be pleased to discuss any of the issues raised in this submission in more detail at your convenience.

Yours sincerely,

Stephen Frank

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