



Introduction to Employee Benefits

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Agenda



- ❖ Group Insurance Theory
- ❖ Canadian Landscape
- ❖ Group Benefit Products
- ❖ Taxability of Group Benefits
- ❖ Claim Distribution and Trends

A photograph showing several hands of different skin tones holding up large, red, 3D block letters that spell out the word "BENEFITS". The hands are positioned at the bottom of the letters, and the background is plain white.

BENEFITS

Group Insurance Theory



Group Insurance Theory



- ❖ Risk is shared among members of the group
 - Bigger the group more risk is shared
- ❖ Requires a minimum participation of 75% of eligible employees
- ❖ Designed to supplement provincial programs and healthcare





Overview: Canadian Benefits

Health Care – Some History

- ❖ Three Tier Health Care system:
 - Provincial plan coverage (universal)
 - Private - Supplemental (Group-Employer sponsored) plans
 - Individual plans
- ❖ Provincial plan coverage
 - 1958: Hospital and Diagnostic Services Act
 - 1966: Medical Care Act
 - 1984: Canada Health Act replaced above

Canada Health Act



- ❖ Five principles guarantee Canadians a minimum standard of care:
 - Comprehensive
 - Universality
 - Portability
 - Accessibility
 - Public Administration



Integration of Public and Private Health Plans



- ❖ Semi-private or private top-up to ward coverage
- ❖ Dental
- ❖ Prescription drugs
- ❖ Paramedical practitioners
- ❖ Medical services and supplies
- ❖ Vision care
- ❖ Out of Canada emergency

Group Benefit Products



❖ Basic Life Insurance

- Insures the employee for death from any cause

❖ Optional Life Insurance

- Insures the employee and/or spouse
- Children occasionally added
- Includes a suicide clause during first 2 years (most common)
- Other than during the first 2 years, payable upon death from any cause

Group Benefit Products



- ❖ Dependent Group Life Insurance
 - Insures the spouse of an employee and eligible dependent children
 - Payable upon death from any cause
- ❖ Basic Accidental Death & Dismemberment (AD&D)
 - Payable as a result of an accidental death
 - Includes dismemberment and loss of use benefits as a result of a covered accident
 - May also include additional benefits

Group Benefit Products



- ❖ Voluntary AD&D
 - Available to the employee and/or their eligible dependents
 - Same plan provisions as Basic AD&D
- ❖ Other Group Life Insurance benefits
 - Business Travel Accident Insurance
 - Paid-Up Life Insurance
 - Survivor Income Benefits

Group Benefit Products



- ❖ Critical Illness
- ❖ Employee & Family Assistance Program
- ❖ Best Doctors





Group Benefit Products

- ❖ Disability Insurance
 - Provides financial protection in the event of loss of income due to an accident or illness
 - Primarily non-work related
- ❖ Disability benefits can include:
 - Salary Continuance
 - Short Term Disability (STD or WI)
 - Long Term Disability (LTD)
 - WSIB (for work reduced disabilities as applicable)

Group Benefit Products



- ❖ Group Health Insurance
 - Often referred to as Supplementary Health or Extended Health Plans
- ❖ Typically include the following:
 - Drugs
 - Vision
 - Paramedical
 - Hospital Accommodation
 - Other medical services and supplies
 - Out of Province/Country emergency



Group Benefit Products



❖ Health Spending Accounts

- Individual employee account where the employer allocates a fixed dollar amount (credits) for the employee to use to pay for health or dental expenses not covered under regular group plan
- Deductibles, reimbursement, expenses not eligible
- Expenses must be eligible under the *Income Tax Act* (i.e. gym memberships not eligible)

Group Benefit Products

- ❖ Group Dental Insurance
 - Canadian Dental Association is the governing body
 - Claim payments are based on the amount indicated in the provincial fee guide
 - General or Specialist fees
- ❖ Typically Include the following:
 - Basic Services
 - Supplementary Basic Services
 - Major Restorative Services
 - Orthodontic Services





Survivor Benefits

- ❖ Provide coverage to an employee's dependents in the event of their death
- ❖ Typically extended for 24 months, but timeframe can be adjusted (6 or 12)
- ❖ Can be set up without premium payments or with premium payment
- ❖ Low cost; high impact

Benefits Taxability



Benefit	Are premiums paid or contributions made by ER taxable income for the EE?	Are benefits rec'd by EE taxable income for the EE?	Are premiums paid or contributions made by EE tax deductible by the EE?
Basic Life	Yes	No	No
Dep. Life	Yes	No	No
AD&D	Yes	No	No
Critical Illness	Yes	No	No
STD & LTD	No	Yes, if ER contributed	No, unless EE rec'd taxable benefits during yr.
Health & Dental	Federal – No; PQ – Yes (if insured premium)	Federal – No PQ – Yes (if ASO)	No, but may be claimed as a medical expense for income tax purposes
HCSAs	Federal – No; PQ - Yes		N/A (the EE usually does not contribute)
EAPs and other fee for service	No	No	No



Claims Distribution

Typical breakdown of Health claims as follows:

- Drugs 55% to 70%
- Paramedical 18% to 25%
- Hospital 1.5-2%
- Vision Care 8%
- Medical Services & Supplies 5.-10%
- Out of Country 0.2% -1.5%
- Other 0.5% - 1%

Claims Distribution



Typical breakdown of Dental claims as follows:

- Basic 50%
- Endo/Periodontics 30%
- Crown/Bridge/Denture 10%
- Orthodontics 5%

Trends



❖ Group Disability Benefits

- Benefits paid out in Canada have significantly increased in past decade
- New wave illness – chronic fatigue, fibromyalgia, carpal tunnel and anxiety disorders
- In the last couple of years, termination rates of claims have declined

❖ Increased focus on Health and Wellness

- Addition of EFAP
- Health Risk Assessments
- Wellness



Trends

Drug Formulary –

At its most basic level, a **formulary** is a list of medicines. The main function of formularies today is to specify which medicines are approved to be prescribed under a particular insurance contract.

There are many formularies in use today and each insurer may have different names to describe. To name a few:

- ❖ Prescription (Legally requiring)
- ❖ Over the counter (otc's) (Prescribed)
- ❖ Provincial, National, Therapeutic
- ❖ Generic (Voluntary & Mandatory)

Trends



Types of Drugs:

Synthetic Drugs

- Small simple organic molecules that are synthesized (Aspirin, Viagra, Lipitor, etc)

Generic Drugs

- Contain the same medical ingredients as a brand name drug but cost less
- Made after the brand-name patent expires

Biologic Drugs

- Drugs manufactured from, or through the use of animals or microorganisms

Trends



New Biologics and approximate cost per claimant per year

- Stelara – Psoriasis - \$15,000 - \$18,000
- Victoza – Diabetes - \$1,200 - \$1,500
- Tysabri – MS - \$25,000 - \$28,000
- Revlimid – Anemia - \$50,000 - \$55,000
- Soliris – PNH - \$425,000 - \$450,000
- Orencia – RA, PA - \$12,000 - \$20,000

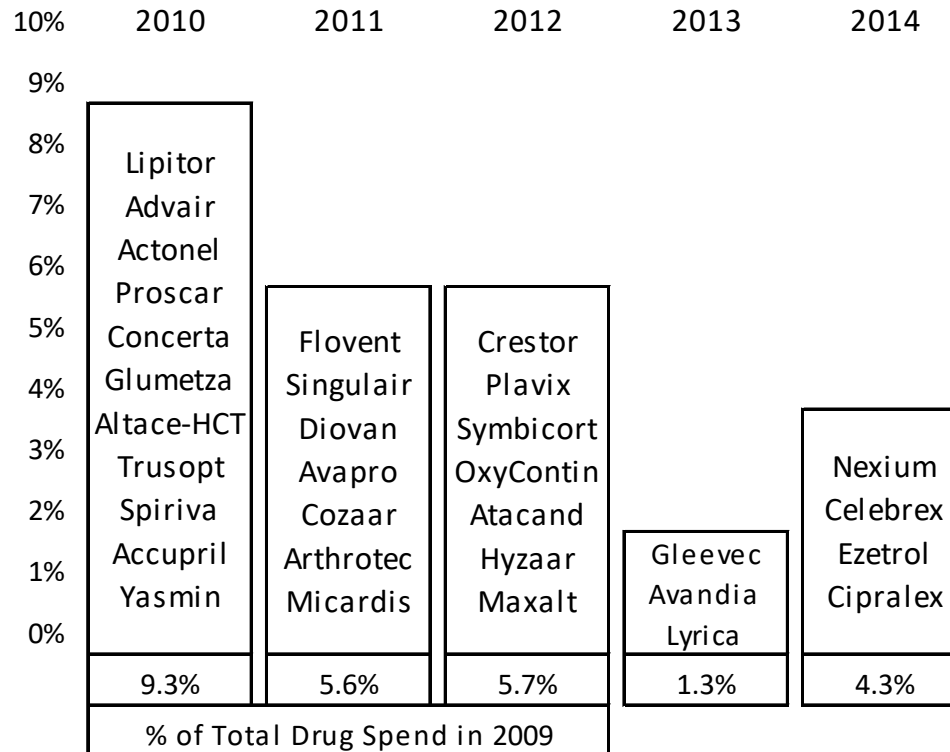
Drug Reforms



Bill 102 in Ontario lowered generic drug pricing for private plans:

<u>Period</u>	<u>Cost of Generics</u>
Before Bill 102	70% of brand
July 1, 2010	50% of brand
April 1, 2011	35% of brand
April 1, 2012	25% of brand
April 1, 2013	six widely used generic drugs priced at 18% Atorvastatin – high cholesterol, Ramipril – blood pressure and other cardiovascular Venlafaxine – depression and other mental health Amlodipine – high blood pressure and angina, Omeprazole – gastrointestinal conditions, Rabeprazole – gastrointestinal conditions

Drugs – The Patent Cliff



*These drugs represented 25% of drug spend in 2009 and half of them are used for treating the five most common conditions:
high cholesterol; high blood pressure; diabetes; depression; ulcer/reflux*