

HEALTHCARE POOLING

PRODUCT GUIDE

For Fully Insured
and ASO Extended
Healthcare
Benefit Policies

Insurance & Investments
Simple. Fast. Easy.®



THE EMPLOYEE BENEFITS LANDSCAPE IS CHANGING. HEALTHCARE POOLING CAN HELP.

Advances in medicine have brought life saving drugs—and hope—to people suffering serious health problems. Of particular note are 'biologics' which are highly effective—and costly, too.

Ten years ago, one of the most expensive drugs in Canada was Remicade, which cost about \$20,000 a year. Today, a drug called Soliris rings in at \$400,000¹. While that's unusually high, many drugs on the market today cost tens of thousands of dollars a year. This is affecting customers' claims experience: the number of claims over \$25,000 has been going up by 20% per year since at least 2008².

At the same time, more and more people have more and more chronic conditions that require medication. New diagnostic technologies and treatment guidelines mean that doctors prescribe medication sooner than they would have in the past. These and other trends are putting pressure on employee benefit plans.

The healthcare pooling solutions outlined in this guide insulate benefit plans from the full impact of high cost claims that are not covered by provincial plans. Business owners have never needed protection more—and the value of pooling has never been greater.

This guide explains the healthcare pooling protection from Empire Life: the Extended Healthcare Policy Protection Plan (EP3) and Large Amount Pooling (LAP) for fully insured benefit policies, and the LAP for ASO policies. It's designed to give you and your customers the information you need to make informed decisions about the financial management of their group benefits policy.

¹ *The World's Most Expensive Drugs* forbes.com/2010/02/19/expensive-drugs-cost-business-healthcare-rare-diseases_2.html

² *Canadian Life and Health Insurance Association* www.actuaries.ca/meetings/annual/2012/presentations/Session_10_Frank.pdf

Glossary of Terms

Let's start with a review of terms you will see in this document:

- **ASO:** 'Administrative Services Only' is an arrangement where a customer funds its own employee benefits plan but hires another company to perform administrative services such as adjudicating and processing claims.
- **Canadian Drug Insurance Pooling Corporation (CDIPC):** the non-profit corporation formed to administer the drug pooling agreement of April 2012. The board of directors is made up of representatives from participating carriers. Empire Life was a member of the sub-committee that created the drug pooling agreement of April 2012 and is a member of the board.
- **Canadian Life and Health Insurance Association (CLHIA):** a voluntary trade association that represents the interests of its member life and health insurers. The Association's membership accounts for 99 per cent of life and health insurance in Canada and administers about two-thirds of Canada's pension plans.
- **Certificate:** an employee and his or her dependants who are covered by the policy.
- **EP3:** the first of two pools mandated by the CDIPC for insured plans. Each carrier has created its own EP3 to pool customers' high cost claims*, and each carrier will set its own pooling threshold. **For fully insured benefit plans, this is the primary pool.**
- **Industry Pool:** the second of the two pools mandated by the CDIPC. The Industry Pool is designed for carriers to pool very high cost recurrent drug claims* over a certain dollar threshold (called the 'ongoing threshold'). For 2016, this amount was set at \$32,500 and is subject to change in future years. Claims excluded from the EP3 cannot be pooled in the Industry Pool.
- **Large Amount Pooling (LAP):** a pooling arrangement similar to the EP3. LAP is designed to pool high cost claims* that are not eligible for pooling in the EP3. The dollar threshold over which claims may be pooled is the same for both the EP3 and the LAP.
- **Pooling:** a way to spread risk and limit customers' exposure to high cost claims, by sharing the cost of all participating customers' claims, over a certain dollar threshold, among all customers that are in the pool.
- **Threshold:** the dollar amount over which a claim is considered high cost and is eligible for pooling.

*Excludes Out of Province claims (pooled from first dollar), Incidental Health Expense (IHE) claims, and claims eligible under provincially legislated programs (pooled based on pooling thresholds and rules as determined by the province).

New Healthcare Pooling from Empire Life

The following information applies to EP3 and LAP arrangements for both fully insured and ASO EHB policies.

Thresholds

The table below summarizes EP3 and LAP pooling thresholds for Empire Life fully insured and ASO EHB policies.

Provision	Number of Extended Health Benefit (EHB) Lives	
	2 to 19	20+
All EHB Benefits except Emergency Travel Assistance Program	\$10,000 (Default)	\$10,000 (Default), or \$15,000, \$20,000, \$25,000
Drugs Only	\$7,500	\$7,500

Threshold applies to all employee classes, regardless of EP3 eligibility.

Change in pooling thresholds (applies only to customers with more than 20 EHB lives)

Customers wishing to increase their threshold may do so at will. Customers wishing to decrease their threshold will have their request reviewed by the Empire Life Underwriting department. This is done to prevent anti-selection and to ensure our pool is managed appropriately and remains viable.

Pooling Charges

The pooling charge for each plan is based on a number of factors: the dollar threshold, the employees' province of residence, the Empire Life block of pooled claims experience, administrative expenses, and inflationary trend factors. The same method is used for the EP3 and LAP.

Insured EHB policies

The pooling charge for the EP3 and LAP is called the Healthcare pooling charge. If your plan is not covered by the EP3, the charge will reflect LAP coverage only. Per CDIPC guidelines, the two charges are developed separately to reflect each pool's claims experience and then we blend them to present a single charge to the customer. The Healthcare pooling charge excludes Out of Province pooling (at first dollar) and provincial pooling (QUDP) charges. These are included, where applicable, in the EHB rate.

ASO EHB policies

ASO EHB policies have two sets of rates. The ASO rates represent the self-insured components of the EHB and Dental benefits. The Extended Health insured rate includes the LAP charge, Out of Province pooling charge (at first dollar), provincial pooling (QUDP) charge, and the rate for any insured EHB component, where applicable.

Pooled Benefits

Empire Life will pool customers' EHB benefit claims costs in the EP3. These may include drugs, medical services and supplies, hospital, vision and paramedical practitioners according to each customer's policy.

If the Drug Only pooling option is selected, only Drug claims will be pooled in the EP3.



Pooling Arrangement Documentation

Empire Life will provide the following documents to customers in regards to their pooling arrangements.

Inter-Company EP3 Statement

This is a summary of the customer’s EP3 design and eligibility. We provide it to customers at plan implementation and at renewal. It must be provided to a new carrier in the event that a customer moves from one carrier to another.

Healthcare Pooling Administrative Guidelines

Empire Life issues a document to all customers at implementation outlining their EP3 and LAP design and eligibility provisions in greater detail than the summary contained in the Inter-Company EP3 Statement. For fully insured customers, this document is called the Healthcare Pooling Administrative Guidelines.

For ASO customers the document is called an ASO Agreement.

How does pooling work?

Here’s an example of how pooling can reduce the costs of claims we include when determining a rate for customers’ Extended Health Benefits at renewal.

Total EHB Premium	Total EHB Claims*	Pooling Threshold	Experience Rated Claims (included in renewal rate)	Pooled Claims (excluded from renewal rate)
\$50,000	\$30,000	\$10,000	\$10,000	\$20,000
Loss Ratio w/out Pooling		Loss Ratio with Pooling		
60%		20%		

*In this example, the customer has no Out of Province or IHE claims, and no claims eligible under provincial pooling.

Insured Extended Healthcare Benefits

1. Extended Health Care Policy Protection Plan (EP3)

For fully insured benefits plans, this is the primary pool.

Mandatory healthcare pooling

The Canadian Drug Insurance Pooling Corporation (CDIPC) requires fully insured drug benefit plans to include pooling protection. This requirement was announced by the Canadian Life and Health Insurance Association (CLHIA) in April 2012, and implemented in 2013. As a result, insured benefit policies now include a healthcare pooling arrangement called an Extended Healthcare Policy Protection Plan (EP3). All carriers administer this pooling arrangement according to CDIPC standards. These standards are designed to bring greater consistency, transparency, and accountability to customers' benefit plans.

Not all claims are eligible for pooling in the EP3. Empire Life is, therefore, providing customers with an alternate pooling arrangement called Large Amount Pooling (LAP). LAP has the same function as the EP3 and is also administered by Empire Life, but it is not bound by CDIPC standards.

It's important to remember that eligibility refers to the EP3 pooling arrangement and not the claim itself, as claims will always be adjudicated and paid according to the terms of each customer's contract. When we talk about eligibility, we are talking about whether claims will be pooled in the EP3 or LAP.

Policy eligibility

Fully insured Extended Health Benefit (EHB) policies are required to have an EP3 unless they have one or more of the following provisions:

1. Annual individual maximum less than or equal to Industry Pool on-going threshold (currently at \$32,500)
2. Annual certificate maximum less than or equal to Industry Pool initial threshold (\$65,000)
3. Lifetime individual maximum less than or equal to 2X Industry Pool on-going threshold
4. Lifetime certificate maximum less than or equal to 2X Industry Pool initial threshold

These plans are not eligible for EP3 pooling protection regardless of how the deductible or maximums are structured. Instead, high cost claims will be pooled in the LAP.

The general rule is that EHB policies that were fully insured on or before June 7, 2011 are eligible for an EP3. All certificates' claim costs will be pooled in the EP3 and not the LAP.

Policies that became eligible for pooling protection under an EP3 after June 7, 2011 may have certain certificate claims excluded from the EP3 and pooled in the LAP instead. This is to protect the EP3 from anti-selection. According to CDIPC guidelines, a policy is deemed to have become eligible after June 7, 2011 if one of the following occurred on or after this date:

- the policy was amended to remove the exclusionary plan design provisions noted above,
- the policy was Administrative Services Only (ASO) and was amended to become fully insured, or
- a new policy was established with a customer having no history of employee benefits.

Certificate eligibility and 'pre-existing claims'

If one of the above applies to an EHB policy, all certificate claim costs will be eligible for pooling in the EP3 if they did not exceed the Industry Pool ongoing threshold in the benefit year before the policy became EP3 eligible. The ongoing thresholds are:

Year	Threshold
2013	\$25,000
2014	\$27,500
2015	\$30,000
2016	\$32,500

If certificate claim costs exceeded the Industry Pool ongoing threshold in the benefit year before and after the policy became eligible, these costs will be excluded from the EP3 per CDIPC guidelines. This is mandatory. We call these types of claims 'pre-existing' and they will continue to be excluded until they are less than the Industry Pool ongoing threshold for two consecutive benefit years.

At the same time, the CDIPC gives carriers the option to exclude claims from the EP3 that exceeded the EP3 threshold in the year before the policy became eligible. These types of claims are also 'pre-existing'. Should claim costs in these circumstances be excluded, they will continue to be excluded until they are less than the EP3 threshold for two consecutive benefit years.

If you transfer a policy to Empire Life from a carrier that excluded a certificate's claims from the EP3, Empire Life must continue to keep that certificate excluded until the certificate's claims are less than the Industry Pool or EP3 threshold for two consecutive benefit years. The threshold applied will depend on whether the certificate is under a mandatory or optional exclusion.

The following table summarizes EP3 eligibility rules.

Policy Status	Is the policy EP3 eligible?	Will certificate claims be pooled in the EP3?
1. Eligible June 7, 2011 and eligible today	Yes	Yes
2. Ineligible today	No	No
3. Converted to eligible policy, or implemented new eligible EHB policy, after June 7, 2011	Yes	Maybe. See below
3a. Certificate claim costs (or for new customers, medical costs incurred by employees prior to customer having benefits) exceeded Industry Pool threshold in year before policy's EP3 eligibility	Yes	Deemed to be pre-existing claims, so mandatorily excluded from EP3 Eligibility re-instated once claims are below Industry Pool threshold for two consecutive years Eligibility status transitions to the new carrier in the event of a move
3b. Certificate claim costs are between the EP3 threshold and Industry Pool threshold in year before policy's EP3 eligibility	Yes	Deemed to be pre-existing claims, only excluded from EP3 at discretion of Empire Life If option to exclude is exercised, eligibility will be re-instated once claims are below EP3 threshold for two consecutive years Eligibility status transitions to the new carrier in the event of a move



Pool integrity

If it is deemed that a group policy was created, in whole or in part, to bring together employees and their dependants with high drug claims to take advantage of the pooling protection created by the industry pooling agreement, the EHB policy will be excluded from the EP3 and Industry Pool, and EHB claims will be pooled in the LAP. This is to protect the integrity of the pool and it's a requirement of the CDIPC.

New policies implementing an EHB benefit for the first time

Where an EHB policy is issued for the first time (no prior coverage with another carrier) and a certificate's claim costs were higher than the EP3 threshold at the end of the first policy year, the CDIPC requires us to audit the policy within six months of the first renewal to see whether any certificates had high pre-existing medical costs within the first benefit year. Where they did, we will retroactively remove the applicable claim costs and include them in the LAP.

The certificate costs will continue to be excluded from the EP3 and pooled in the LAP until they are less than the EP3 threshold for two consecutive benefit years.

New employees, mergers or acquisitions, and spinoffs

Rules about pre-existing claims do not apply to employees hired after the EHB policy became EP3 eligible.

In a merger or acquisition, rules about pre-existing claims do not apply if the purchased company had an EP3 under its own former EHB policy. If the purchased company was not eligible for EP3 pooling before the merger or acquisition, rules about the treatment of pre-existing claims will apply.

This same logic applies to groups that split up in spinoffs. If the entity being spun off was eligible for pooling protection under the EP3, it will continue to be eligible. If it was not eligible, it will continue to be ineligible per the standard eligibility criteria.

Coordination with provincial plans

Provincial legislation takes precedence over carriers' EP3s. Any exclusions under the Empire Life EP3 apply only to the EP3 and not to provincial coverage. The drug pooling agreement will work in conjunction with provincial pooling arrangements, such as the Quebec Drug Insurance Pooling Corporation (QDIPC).

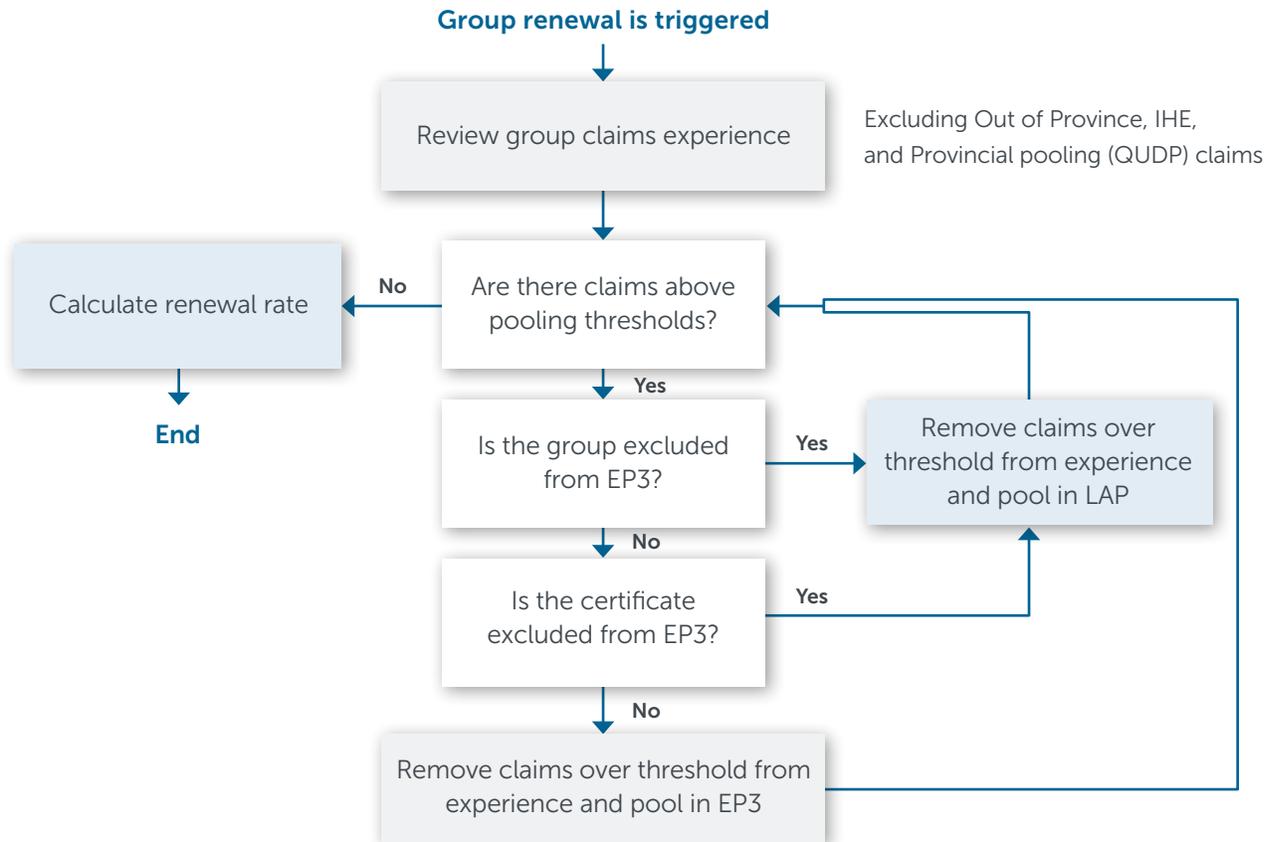
2. Large Amount Pooling (LAP)

EHB policies will have a LAP arrangement attached to their policy where they are not eligible to have an EP3, or where they have an EP3 and also have excluded certificates that need an alternate pooling mechanism.

LAP has the same function as the EP3. It is also administered by Empire Life but is not bound by CDIPC standards.

EP3 and LAP Working Together

The following table illustrates how the EP3 and LAP work together:



Administrative Services Only (ASO) Benefit Plans

Administrative Services Only (ASO) EHB policies will have a Large Amount Pooling (LAP) arrangement in order to limit the financial risk of eligible claim costs.

LAP will operate the same way for ASO EHB policies as it does for insured EHB policies.

The industry pooling agreement, and by extension an EP3, do not apply to ASO policies.

Customers may wish to assess the merit of amending their policy to become fully insured, in order to be eligible for an EP3. This should include but not be limited to assessing:

- risk tolerance,
- the impact of employees' very high cost claims on the sustainability of the benefits plan,
- EP3 and Industry Pooling eligibility,
- the different charges associated with ASO versus fully insured benefit plans.

Pooling at a Glance

Provision	Number of Extended Health Benefit (EHB) Lives	
	2 to 19	20+
Thresholds, per insured, per benefit year	All EHB Benefits except Emergency Travel Assistance Program \$10,000 (Default)	All EHB Benefits excluding Emergency Travel Assistance \$10,000 (Default), \$15,000, \$20,000, or \$25,000
Applies to all classes	DRUG only \$7,500	DRUG only \$7,500
Threshold increase	No	Yes
Threshold decrease	No	Yes, according to Empire Life underwriting approval
Pooled benefits	Those covered under the EHB benefit. This may include drugs, hospital, paramedical, medical services and supplies, vision. If the Drug only option is selected, only Drug claims will be pooled.	
Pooling premium funding arrangement	EP3 and LAP are fully pooled at the Empire Life block level in separate and distinct pools. For EP3, this is mandated by CDIPC guidelines; for LAP, this is our general approach and is discretionary.	
Pooling charge	<p>Pooling charge is based on dollar threshold, employees' province of residence, the Empire Life block of pooled claims experience, administrative expenses, and inflationary trend factors.</p> <p>For insured EHB policies, the Healthcare Pooling Charge includes EP3 and LAP charges where applicable. Charges are developed separately and blended to present customers with a single charge. Pooling premium for Out of Province and provincial pooling (QU DP) is excluded from the Healthcare pooling charge and is included in the EHB rate.</p> <p>ASO EHB policies have two sets of rates. The ASO rates represent the self-insured components of the EHB and Dental benefits. The Extended Health insured rate includes the LAP charge, Out of Province pooling charge (at first dollar), provincial pooling charges (QU DP), and the rate for any insured EHB component, where applicable.</p>	
Plan eligibility	<p>For fully insured plans, the EP3 is the primary arrangement (mandatory) and the LAP is the secondary arrangement (for excluded certificates).</p> <p>For insured plans not eligible to pool claims in the EP3 because of provisions around deductibles and maximums, LAP is the only pooling arrangement.</p> <p>For ASO plans, the LAP is the only pooling arrangement.</p>	



Certificate eligibility

Applies to EP3 arrangements only

EHB plans that became eligible for EP3 after June 7, 2011 may have certain certificates excluded from EP3 and pooled in LAP. A policy is deemed to have become eligible after June 7, 2011 if one of the following occurred on or after this date:

- policy was amended to remove exclusionary plan design provisions,
- policy was ASO and was amended to become fully insured, or
- new policy was established with customer having no history of employee benefits.

If one of the above applies, all certificate claim costs will be eligible for pooling in the EP3 if they did not exceed the Industry Pool ongoing threshold in the benefit year before the EHB policy became EP3 eligible. If claim costs are excluded in these circumstances, they will continue to be excluded until they are less than the industry pool or EP3 threshold for two consecutive benefit years.

Cost Management Strategies

Healthcare pooling... just one part of a healthy benefits plan

Generally speaking, prescription drugs make up the biggest cost to group health insurance. In Canada, approximately 70 per cent of the value of all claims relate to prescription drugs. Pooling charges, on the other hand, account for a very small proportion of total costs. While pooling is important, the greater challenge continues to be to build a healthy workforce, understand your customers' unique healthcare cost drivers, and to better manage claim costs.

Speak to your Empire Life account team for details on how we can help create a better experience.

The Empire Life Insurance Company (Empire Life) is a proud Canadian company that has been in business since 1923. We offer individual and group life and health insurance, investment and retirement products, including mutual funds through our wholly-owned subsidiary Empire Life Investments Inc.

Empire Life is among the top 10 life insurance companies in Canada¹ and is rated A (Excellent) by A.M. Best Company². Our mission is to make it simple, fast and easy for Canadians to get the investment, insurance and group benefits coverage they need to build wealth, generate income, and achieve financial security.

Follow Empire Life on Twitter @EmpireLife or visit our website, www.empire.ca for more information.

¹ Based on general fund and segregated fund assets in Canada as at December 31, 2016 as reported in regulatory filings

² As at June 1, 2017. For the latest rating, access www.ambest.com.

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G-0080-EN-01/18

