

HEALTHCARE POOLING

ADMINISTRATIVE GUIDELINES

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This is a summary of the Healthcare Pooling that is applied to insured Extended Health Benefits (EHB) policies. By pooling claim costs, benefit plans are sheltered from the full impact of high claims.

Please file this document together with your benefits contract and booklet for future reference.

GLOSSARY OF TERMS

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

- **Canadian Drug Insurance Pooling Corporation (CDIPC):** a non-profit corporation formed to administer the industry pooling agreement of April 2012. The Board of Directors is made up of representatives from participating carriers, and Empire Life is a member.
- **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 the life and health insurance in Canada and administers about two-thirds of Canada's pension plans.
- **Pooling:** a way of spreading risk and limiting 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.
- **EP3:** the first of the two pools mandated by the CDIPC. 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.
- **Threshold:** the dollar amount over which a claim is considered high cost and is therefore eligible for pooling.
- **Industry Pool:** the second of the two pools mandated by the CDIPC. The Industry Pool is designed for all carriers to pool very high cost recurrent drug claims over a certain dollar threshold. This is called the 'ongoing threshold.' For 2016, this amount was set at \$32,500 and is subject to change in future years. Claims that are excluded from the EP3 cannot be pooled in the Industry Pool.
- **Large Amount Pooling (LAP):** a pooling arrangement similar to the EP3. The 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.
- **Certificate:** an insured employee and his or her dependants who are covered by the policy.

EXPLANATION OF HEALTHCARE POOLING ARRANGEMENTS

Extended Healthcare Policy Protection Plan (EP3)

Mandatory Healthcare Pooling

The Canadian Drug Insurance Pooling Corporation (CDIPC) requires fully insured drug benefit plans to include pooling protection. This new requirement was announced by the Canadian Life and Health Insurance Association (CLHIA) in April 2012 and was implemented in 2013. As a result, your benefits policy participates in 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. You can read more about the drug pooling agreement and these standards at www.empire.ca.

Eligibility

Fully insured Extended Health Benefit (EHB) policies are required to participate in EP3 unless they have the following provisions:

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

If these apply to your plan, regardless of how your plan has structured the deductible (drug only, EHB and dental, for example) your EHB policy is not eligible for EP3 pooling and your high cost claims will be pooled in the LAP (described below).

For policies that became EP3 eligible after June 7, 2011, some claims may be excluded from the EP3 and pooled in the LAP instead. According to the CDIPC, your policy will be deemed to have become eligible after June 7, 2011 if one of the following is true:

- your policy was amended after June 7, 2011 to remove exclusionary provisions noted above,
- your policy was Administrative Services Only (ASO) and was amended to become fully insured after June 7, 2011, or
- your policy is new, your company has no history of employee benefits, and your implementation date was after June 7, 2011.

If one of the above applies to your policy, certificate claims will be pooled in the LAP if they were higher than the Industry Pool on-going threshold in the year prior. We call these types of claims, 'pre-existing' and per CDIPC guidelines it is mandatory that we exclude them from the EP3. Any certificate with a pre-existing claim will be excluded from the EP3 until the certificate's claims are less than the Industry Pool ongoing threshold for two consecutive years.

At the same time, if one of the above applies to your policy, the CDIPC gives carriers the option to exclude claims from the EP3. This applies to claims that were higher than the EP3 threshold but lower than the Industry Pool threshold in the year before your policy became eligible. If you transfer your policy to Empire Life from a carrier that had excluded a certificate's claims from the EP3 under the terms of this optional exclusion, Empire Life is required to keep that certificate excluded. This will apply until such time as the certificate's claims are less than the EP3 threshold for two consecutive years.

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 policy's first anniversary to see whether there are 'pre-existing' claims to be excluded from the EP3. Where there are, we will retroactively remove the applicable claim costs and include them in the LAP.

Per CDIPC standards, if it is deemed that a policy was created, wholly or in part, to bring together employees and their dependants with high recurrent 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. This standard will be evaluated by the CDIPC and its Board of Directors.

Inter-Company EP3 Statement

If your policy is eligible for the EP3, you will receive an Inter-company EP3 Statement confirming your eligibility and outlining your EP3 pooling details. You will receive this statement upon implementation of the policy and at each renewal.

Large Amount Pooling (LAP)

Not all claims are eligible for pooling in the EP3. Empire Life is therefore providing you with an alternate type of pooling called Large Amount Pooling (LAP).

A LAP arrangement will be included in all EHB policies to pool claim costs that are not eligible for pooling in the EP3 either because it is not eligible for the EP3, or it is eligible but has excluded certificates.

LAP has the same function as the EP3 and will be applied to insured EHB policies issued by Empire Life. It is administered by Empire Life and is not bound by CDIPC standards.

CHANGE IN POOLING THRESHOLDS

Customers wishing to alter the pooling threshold that applies to their plan must consult with their Group Advisor. Empire Life has established underwriting guidelines to govern the increase or decrease in a pooling threshold. Empire Life may change their pooling threshold periodically to ensure the pool is managed appropriately and remains viable.

POOLING DETAILS

All eligible EHB claims* that meet the EP3/LAP pooling threshold will be fully pooled. Please refer to the Application for Group Benefits or your annual renewal letter for your pooling threshold.

The Healthcare Pooling charge reflects both the EP3 and LAP pools. If your plan is not eligible to participate in the EP3, the charge will reflect LAP charges only. The two charges are developed separately and then blended to present you with a single charge. Per CDIPC guidelines, EP3 charges are based on all Empire Life's participating customers' pooled claims experience.

The EHB charge reflects the charge for the benefit itself plus the Out of Country pooling (at first dollar) and Quebec Drug Pooling (QUDP) charges, if applicable.

The Healthcare Pooling charge for your plan is based on the dollar threshold, your employees' province of residence and Empire Life's customers' pooled claims experience.

*If you have selected Drug Only Pooling, only eligible Drug claims that meet the EP3/LAP pooling threshold will be fully pooled.

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