

THE INSURANCE INSIDER



NEW HARMONIZED SALES TAX IN BC AND ONTARIO: HERE'S WHAT WE KNOW

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As of July 1, 2010, a federally administered Harmonized Sales Tax (HST) will take effect in Ontario, New Brunswick and Newfoundland (13%), Nova Scotia (15%), and BC (12%) that will apply to most purchases and transactions. The “Place of Supply” rules that determine how to apply for GST/HST have also changed for charges relating to services rendered. These rules will require that HST

is applied based on the address that is billed rather than where the service is performed.

We now know that the impact of the HST on your benefit plan transactions will depend solely on your funding arrangement. Assuming there are no further changes to the current legislation on the HST, the following table shows how the new tax will effect your billing statements from your current carrier.

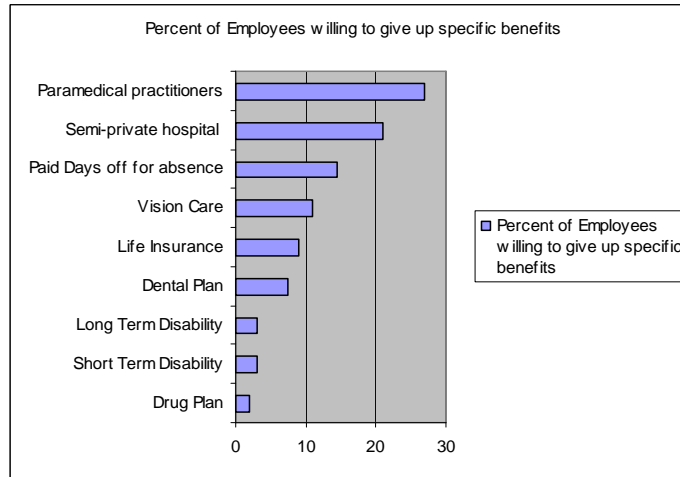
For typical insured benefit plans, (Non ASO) the HST will not be applicable to premiums. In B.C., provincial tax does not apply to benefit premiums. Neither will the HST. In Ontario, RST currently applies to benefit premiums and will continue to do so. On ASO plans without a Stop Loss component, HST will be applicable to administration fees only. Costs of claims incurred will not be taxed. ASO plans with Stop loss coverage will not have HST applied to either claims costs or fees.

	Insured Benefit Plans	Administrative Services Only (ASO) without stop loss coverage	Administrative Services Only (ASO) with stop loss coverage
Billing Changes to Tax Calculation	None	Yes	Yes
Harmonized Sales Tax	Will not apply to premiums	Will not apply to claims cost Will apply to admin fees	Will not apply to claims costs or admin fees
Retail Sales Tax— Ontario only	Will continue to apply to premiums, based on employee's province of residence	Will not apply to admin fees Will continue to apply to claims costs based on employee's province of residence	Will not apply to admin fees Will continue to apply to claims costs based on employee's province of residence
Net Impact	Neutral	Admin fee HST tax will be eligible for Input Tax Credit	Neutral

EVALUATING PLAN DESIGN

Many employers find themselves in highly competitive labour markets and are challenged to find innovative ways to attract and retain employees. Offering a comprehensive benefit plan is an effective tool that employers can use to recruit and keep these talented employees in a competitive labour market. Employers are better positioned to offer a competitive benefits plan if they understand the needs and wants of their employees, and if they know how their plans measure up to plans offered by other employers.

In a recent Sanofi-Aventis Healthcare Survey it was found that plan members are placing greater real value in their healthcare benefits. In the past, many



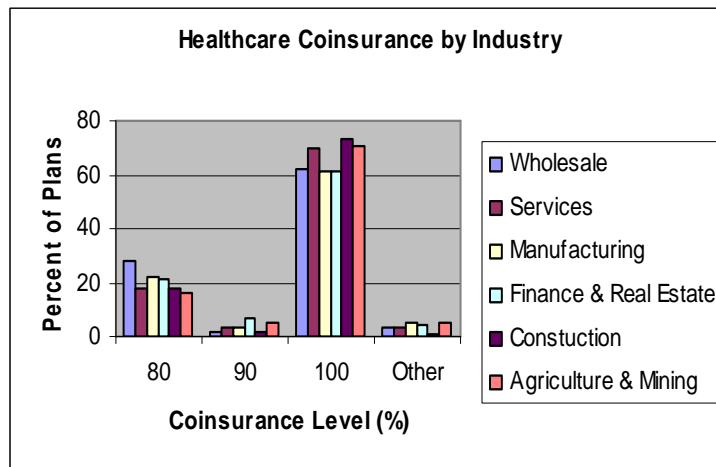
employees were willing to exchange their benefits for a significant lump sum payout. In 2008, over 63% of respondents indicated they would turn down a \$15,000 cash payment and keep their benefits plan. The

survey credits this to plan sponsors creating a better perception of value for the benefits plan, and not necessarily improvements in plan coverage.

EMPLOYER SPONSORED BENEFITS PLANS: HOW DOES YOUR ORGANIZATION STACK UP?

A number of plan options are available to plan sponsors. In addition to meeting plan member needs, plan sponsors will want to choose a benefits plan that is competitive when compared to plans offered by other employers while remaining within budgetary constraints. Plan sponsors can select different levels of coverage, and can include a variety of cost-containment measures such as coinsurance levels, deductibles and annual benefit maximums.

The following graph organized by group size and industry, show various coinsurance levels selected by plan sponsors.



While the majority of plan sponsors offer plans with 100 per coinsurance, smaller groups, such as those with fewer than 35 lives, tend to offer plans with a lower level of coinsurance than larger ones. While the

trend is for larger organizations to have higher levels of healthcare coinsurance, there are few variations seen between the coinsurance offered in different industries.

“Employers are better positioned to offer a competitive benefits plan if they understand the needs and wants of their employees”

EMPLOYEES ON DISABILITY – WHAT HAPPENS TO OTHER BENEFITS?

If one of your employees goes on disability, how are other benefits and compensation impacted while the employee is off work? It is important to have a standard, non-discriminatory policy in place before a Weekly Indemnity or Long Term Disability claim is ever submitted. This makes it clear to employees what will happen and when, and can help to minimize the impact of disability claims on your group benefits plan.

Here is a suggested checklist to follow when planning out your corporate disability policy:

1. When do disability benefits payments begin for approved claims (after what waiting period)?

2. What happens to other benefits while an employee is on disability? Is there a waiver of premium for Life, AD&D and/or Critical Illness insurance? Does the waiver extend to coverage for the spouse and dependent children?

Do health and dental care benefits continue? For how long?

3. Is vacation time accrued during this time period?

4. How will regular salary reviews be managed?

5. Does the employee contribute to the benefits plan premiums? How will this be handled during the disability leave?



These questions are a good start in developing or refining your own policy. It is also recommended that you engage the service of a professional (i.e., a lawyer or human resources expert) to ensure you are following the appropriate provincial/federal employment legislation or legislation in your type of business.

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THE INCREASED USE OF SPECIALTY DRUGS

In 2008 the increase in drug spending slowed down in all categories except for specialty drugs. In large part, the spending increase slowdown is the result of a shift towards generic drugs, which reported a record high fill rate of 45% in Canada.

Among the factors contributing to the continued increase in drug spending, specialty drugs are at the forefront. These drugs are used to fight rare illnesses, or illnesses that require special treatment such as rheumatoid arthritis, cancer, MS, HIV/AIDS and hepatitis. The design of these

drugs and the level of expertise required for their management generally makes them very expensive. Specialty drugs had a clear impact on drug spending in 2008, representing less than 1% of claims but making up 14.7% of total spending. It is also of note that the use of these drugs is increasing by 17% per year compared to 3% for other drugs.

According to ESI Canada the patents for many highly utilized brand name drugs will be expiring within the next three years. Encouraging the use of much cheaper yet still effective generic drugs could there help cut drug costs for group

insurance plans over the next several years. In addition specialty drugs can be subjected to restrictions, including clearly defined eligibility criteria and incentives for appropriate use (pre-approvals).

