Trends

NO LIMITS

Insuring catastrophic claims could challenge your drug plan's sustainability

BY CLAUDE DI STASIO

Over the last few years, an increasing number of new medications have been introduced to treat a range of complex diseases. While many of these treatments have proven effective, they also come at high costs—costs that private supplementary health insurance plans are struggling to cover.

A recent example is the newly marketed drug Soliris, which treats a blood disease called paroxysmal nocturnal hemoglobinuria (PNH, or Marchiafava-Micheli syndrome). Medical evidence suggests that patients taking Soliris can lead near-normal lives and have significantly increased life expectancy. But with an annual treatment cost of approximately $500,000 per patient, a plan facing such a claim could pay $5 million in costs over 10 years.

While such claims are extreme, they are not unprecedented. Employers must seriously consider the effects of such drug therapies on the sustainability of their benefits plans. Can a supplementary health insurance plan survive a $500,000 claim? What if that claim is recurrent? Based on actuarial calculations, insurers estimate that for groups of fewer than 3,000 plan members, a catastrophic claim of $500,000 would threaten a plan's survival if it were absorbed entirely by the plan sponsor.

Sharing Risk

One thing is certain: the existence of these new medications forces insurers to consider ways to share risks across the largest possible number of stakeholders. Holders of public catastrophic health insurance plans share the cost burden through taxation. Up to now, private insurance plans or uninsured employee benefits plans have been able to share risks by buying stop-loss protection: insurance coverage that refunds the plan for claim amounts in excess of a set maximum. However, in the context of a price explosion, will this kind of protection remain affordable?

Risk pooling has taken another route in Quebec. Under the *Prescription Drug Insurance Act,* coverage for the cost of medications has been mandatory in that province since 1997. The act requires insurers and administrators of employee benefits plans to pool risks arising from the plan (or plans) they assume.

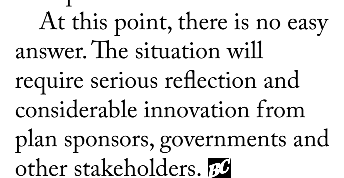
In response to this requirement, Quebec's life insurance industry has created a risk-pooling mechanism to provide catastrophic coverage to plans with up to 1,499 members (insurance plans and uninsured employee benefits plans of the administrative services only type). However, even with this arrangement—which requires all plans with fewer than 1,500 members to contribute to a single pooling mechanism—risks come under heavy pressure from the exorbitant cost of certain new drugs.

Innovation Needed

With a recurring claim of $500,000, a group of 250 members benefiting from Quebec's current pooling mechanism would see a jump in rates of about 20% to 30%, even without considering trend factors such as drug price increases that could lead to an even higher rate spike. There's no denying that even this pooling system must eventually adjust to the new reality, since a repeated increase of this magnitude would become unsustainable for plan sponsors. The only consolation is that without pooling, the same group of 250 members would experience a dizzying increase of 167% to 250%.

The other solution for plan sponsors—removing certain costly medications from coverage under the plan—may be attractive as a cost-control measure. However, withdrawing expensive but effective medications is not likely to be a popular move with plan members.

At this point, there is no easy answer. The situation will require serious reflection and considerable innovation from plan sponsors, governments and other stakeholders. BC



Fact File

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