The Beneplan Co-operative

2014 Annual Report

Dalton Chemical Labs
Members since 2005

Report of the Executive Officer to the Board of Directors and the Members of the Beneplan Employee Benefits Co-operative Inc.

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For the period January 1 2014 to December 31 2014

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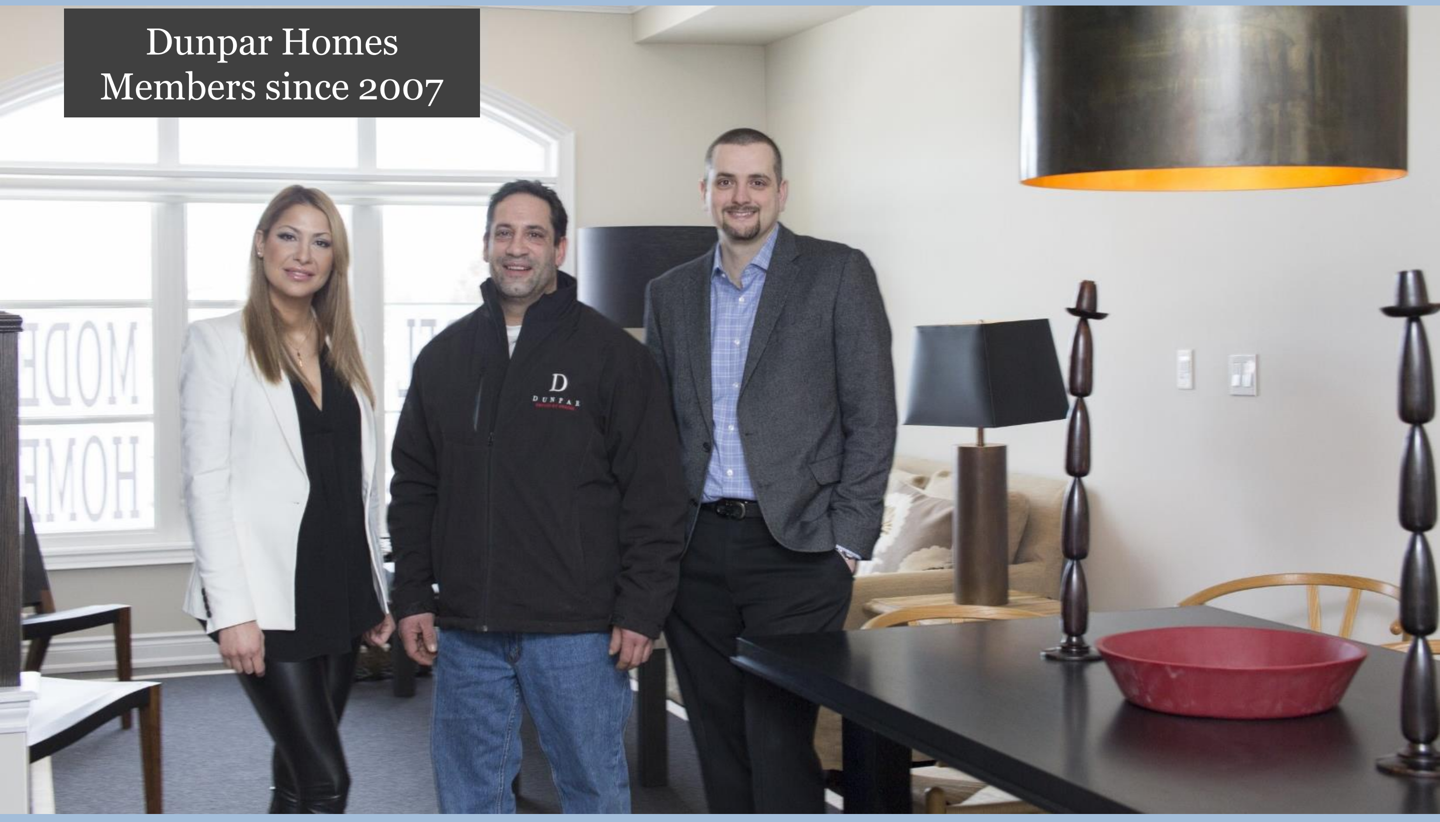
240 members in 2014

67% of members will receive a patronage dividend

$1.1 million in patronage dividends for 2014

$96,000 in life insurance refunds for 2014

$86,000 in RST refunds



Dunpar Homes
Members since 2007

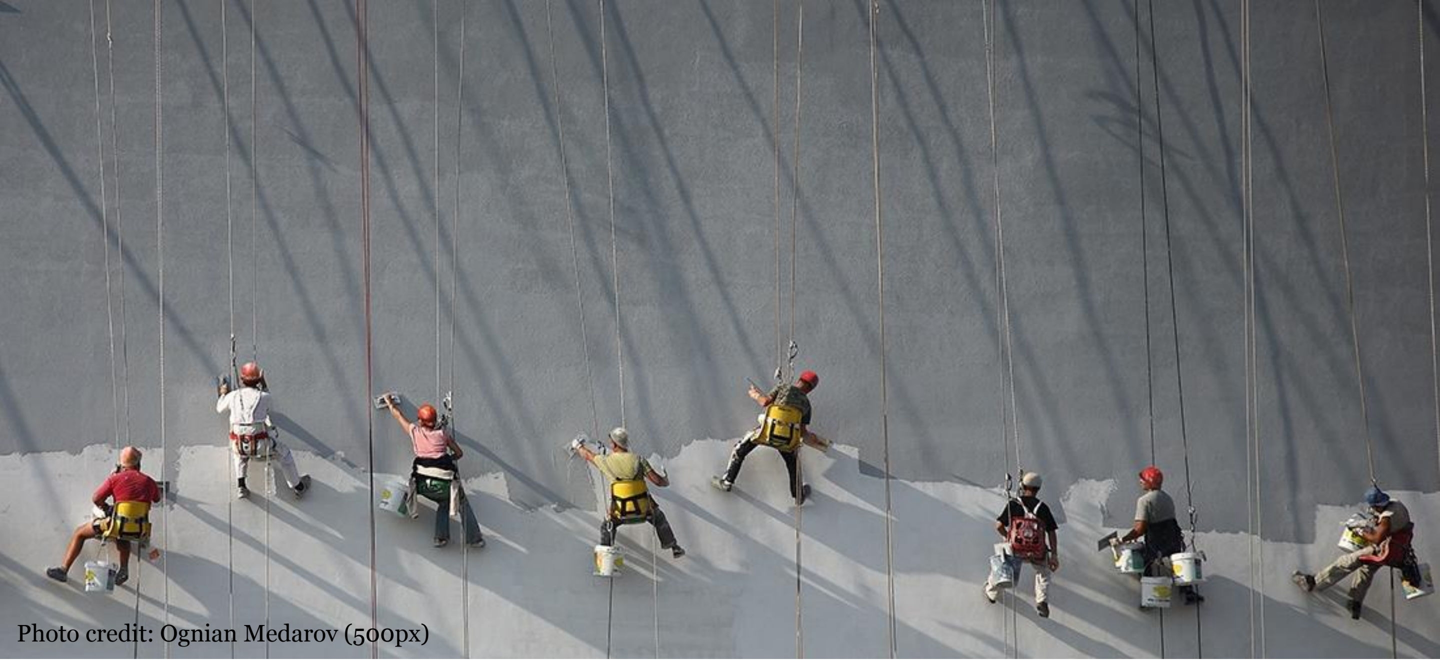


Photo credit: Ognian Medarov (500px)

The average refund was $4,349 over an average premium of $71,000, a recovery of **6%.**

This was the worst year on record for deficits due to higher claims.

Some of the offending claims include:

Viread: a drug used for HIV & Hepatitis B treatment

Leg & Back Braces: an area of increasing medical equipment fraud

Lucentis: a drug used for macular degeneration

Remicade, Enbrel, and Humira continue to push up costs, used to target rheumatoid arthritis, Chron's and Colitis.

Executive Summary

The Beneplan Co-operative continues to grow, as there were 238 employers as at December 31st 2014, a net growth of 52 net new members. There were six members that left the Co-operative and two other members were requested to resign from the Co-operative, both for anti-selection reasons. The Co-operative continues to grow in 2015, as we already have 14 new members as at April 1st 2015.

We welcomed Standard Life as a secondary carrier for the co-operative. They were approached specifically for the Credit Union sector.

This report outlines the financial results of the Co-operative in 2014. Enclosed is a report on the Co-operative's financial results as reviewed by Geraldine Espley CPA CA.

We report on the meetings of the Board of Directors and the main issues that were discussed.

The year 2014 was marked by the impact of expensive biological drugs, as many of our members saw their drug claims skyrocket due to one or more individuals starting treatment with biological drugs. One employee spent $89,000 on drugs in 2014.

We repeat our concern for the continued introduction of very expensive drugs. More and more drugs are costing tens and hundreds of thousands of dollars per year, and the bigger concern; these drugs are chronic, continuing every year for life.

We discuss the exploding cost of "Pooling" or "Stop Loss". We continue to call for the need to design your plan for sustainability. This can be done by offsetting the cost of such drugs to the Ontario Trillium Drug Plan, or other applicable provincial drug plans.

The Life Insurance refund was $96,527, representing about 6% of the paid life insurance premiums of $1,580,000. The life insurance refund will be included in the patronage dividend calculations.

We report on the reserve funds for the health and dental reserve and the life insurance reserves.

We continue our general report on benefits in Canada, specifically with respect to the issue of the exploding cost of paramedical services, orthotics and medical devices.

We also report on the complimentary Beneplan Wellspiration wellness program. Our nutritionist was able to help hundreds of plan members through lunch-and-learns, and personal consultations and these continue to be extremely well received by the members.

Understanding Beneplan

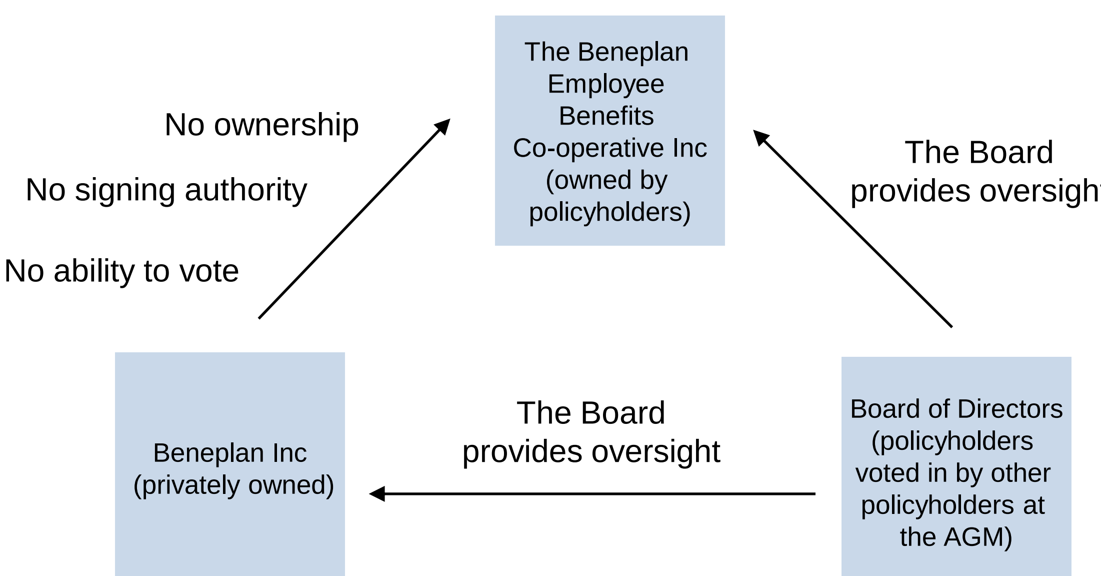
It’s understandable why one would be confused between the roles of Beneplan, The Beneplan Co-operative, and the Co-operators Life (among other carriers used for risk management).

To be clear, when this report refers to ‘Beneplan’, it refers to ‘Beneplan Inc,’ a privately-owned administrator of benefit plans.

The ‘Beneplan Employee Benefits Co-operative Inc’ (also referred to as the ‘Beneplan Co-operative’ or ‘Co-operative’) is a separate going concern, which is owned and governed by its policyholders. Member-owners are plan sponsors who fund benefit plans. Beneplan Inc has no ownership or legal claim over the assets of the Beneplan Co-operative. The Beneplan Co-operative is not-for-profit in its nature and its goals, whereas, Beneplan Inc is a for-profit entity.

The Beneplan Co-operative has a separate bank account, of which signing authority rests in the hands of the Finance Committee of the Board of Directors. The Directors are voted in by other member-owners at the Annual General Meeting. No employee or owner of Beneplan Inc has authority to allocate or move funds belonging to the Beneplan Co-operative. Every patronage dividend cheque sent to member-owners requires two signatures from the Finance Committee. Members of the Finance Committee are usually CAs, CPAs, Controllers, and CFOs of member organizations.

When this report refers to ‘The Co-operators Life’ or ‘CLIC’, it refers to the insurance company branded as ‘The Co-operators’ who have accepted the risk for catastrophic claims, and who also adjudicate and pay everyday health & dental claims.



The reason why it’s important to make this distinction is because transparency is at the heart of Beneplan’s core values. Beneplan passes on 100% of all refunds and rebates obtained through negotiations on to member-owners, and proper governance is required to ensure that this is executed.

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Board Meetings

The Board of Directors met three times in 2014, February, June and November. The composition of the Board changed with the resignation of Joseph Indovina, but he was not replaced as the AGM was within days, so his vacancy would be filled through a vote at the AGM.

The February 2014 meeting was almost entirely dedicated to review the draft financial statements submitted by the Auditor for 2013.

The Board directed the Auditor to fine tune a few points, mostly housekeeping items. The Board also voted to change how the life insurance refund is allocated. They decided that the life insurance refund of members with a deficit must be allocated to cover some or all their deficit before their deficit being covered by the co-operative.

The Board passed a motion that appointed Geraldine Espley C.A. as the auditor of the co-operative for the 2014 calendar year, subject to confirmation by the AGM in late March 2014.

At the June 2014 meeting, the board welcomed the newly elected board members: Angelo Karr, Errol Gilhooly and Glenn Botting. Steve Sanderson, who was elected in March, discovered that he had a conflict of interest and could not serve; he regretfully resigned.

The Board discussed how to implement the Reformulary drug plan and decided to make participation voluntary. The Board proceeded to discuss how the dividends from Reformulary will be divided and agreed on a formula which would limit the dividends to members participating in Reformulary.

Beneplan Inc reported to the Board on the application to become a member of the co-operative which owns The Co-operators Life Ins Co (CLIC). Beneplan reported that we should get an answer by the fall of 2014.

At the November 2014 meeting, Beneplan Inc reported to the Board that the CLIC declined our application to become a member of their co-operative. They provided some vague reasons, however, Beneplan expressed the following opinion: “Beneplan believes that current members-owners of the CLIC did not wish to share their profits with our co-operative.”

Beneplan reported that the largest source of excess profit for the CLIC is the long term disability (LTD) benefit. The profit that CLIC realize from the other lines of business is smaller in comparison. The Beneplan Co-operative receives a refund from the life insurance benefit, health & dental benefits are run on a very small fee for service, and AD&D and dependent group life insurance are very small benefits with small profits if any.

The LTD benefit is volatile in that some years can be very profitable and other years can result in losses to the carrier. Beneplan Inc proposed that we approach CLIC to negotiate a refund or a profit sharing agreement on the LTD benefit. The Board agreed and directed Beneplan to commence such approach with CLIC or other insurance company if CLIC declines to participate.

The Board discussed proposals by Beneplan Inc to further obtain more value from the drugs our co-operative members’ purchase. Setting up our own pharmacy was discussed vs. entering into an agreement with a preferred pharmacy that would rebate our co-operative some of its profits. The Board decided that this issue should not be pursued until the Reformulary is implemented.

Dalton Chemical Labs

Members since 2005

Photo courtesy of Dalton Chemical Labs

Financial Snapshot

We are pleased to share some of the highlights from 2014's financials. For calendar year January 1st, 2014 to December 31st, 2014, here are some facts about The Beneplan Co-operative's financials:

The total Patronage Dividend is **$1,043,764**.
The Life Insurance refund for 2014 was **$96,527**.
The retail sales tax (RST) refund was **$86,150**.
The total health & dental premiums paid, net of stop-loss, was **$17 million**.
The total health & dental claims paid below the stop-loss was **$13 million**.
The total fees paid towards administration and claims processing were **$2.4 million**.

Please see the appendix for the full audited financial report released by Geraldine Espley, CPA, CA.

Final patronage dividends at the policy-level are calculated by the Auditor in accordance with the Policies & Procedures of the Co-operative. The dividends are distributed in May.

Patronage Dividend Tax

The Canada Revenue Agency requires co-operative corporations registered in Ontario to withhold a 15% tax on patronage dividends over $100. This should not be seen as a loss to joining the Beneplan Co-operative, since it should be noted companies with benefit plans which are self-insured (ASO) must treat any surplus money they recoup as income, upon which they must pay their appropriate tax for their bracket.

Therefore, the dividend you receive will have a withholding of 15% above the first $100, and Beneplan will issue a T4A to report and remit this tax on behalf of the plan sponsor.

The plan sponsor should report this tax already withheld on their next T2 corporate return, in lines 800 and 801.

Example

If the dividend is $1,000, and the tax withheld is $135 ((1000 – 100)*.15), the total net dividend is $865.

Report $135 on Line 800 of the T2: Tax withheld at Source.
Report $1,000 on Line 801 of the T2: Total payments on which tax has been withheld.

Source: http://www.cra-arc.gc.ca/E/pub/tg/t4012/t4012-10-e.html

Reserves

As at December 31, 2014

The Co-operative has two reserves: the health & dental incurred but not reported reserve (IBNR) and the Life Insurance claims stabilization reserve (CSR).

The IBNR is the amount of money that is required to pay the claims that would have to be paid if the Co-operative is wound up. This reserve is set up by the Co-operative in accordance with the Policies & Procedures of the Co-operative. The CSR is a reserve set up by the life insurance underwriter to pay claims in an unusually high claims year.

The Health & Dental Reserve (IBNR)

The bylaws of the Co-operative requires that every member must pay an amount of 5% of their weighted average claims in the last three years into the IBNR reserve fund. Payments into the IBNR reserve can only come from any patronage dividends that members are entitled to and a payment into the IBNR in any year may not exceed 10% of the patronage dividend in that year. No more IBNR payments are required once the 5% threshold is reached, unless the level of claims rises, thus requiring further payments from future refunds.

Beneplan conducts “runoff” tests from time to time to gauge the amount of incurred but not paid claims at a certain time. The latest test performed in the summer of 2013 indicated that these claims were 4.76% of total claims. The IBNR currently stands at $465,000, which is 3.5% of the claims paid in 2014. The reserve is projected to increase by a net of about $10,000 from the 2014 fiscal year.

The Claims Stabilization Reserve (CSR)

Effective January 1st 2007, Beneplan entered into a Life Insurance Retention Agreement with The Co-operators Life Insurance Company (CLIC) on behalf of the Beneplan Co-operative. The agreement requires that CLIC, after charging the agreed upon fees, charges, and after setting aside agreed upon annual amounts for the claims stabilization reserve (CSR), waiver of premium reserve (WPR) and other reserves, will refund any excess back to the Beneplan Co-operative for distribution to the members.

The CSR is set at 60% of life insurance premiums. The Global Stop Loss (GSL) of the life insurance arrangement is triggered at 125% of the life insurance premiums; claims above the GSL are re-insured. The insurance company withholds amounts required from any refunds our co-operative is entitled to fund the CSR reserve. The CSR stood at $799,798 as at December 31st 2013, and an additional $135,118 will be added to the CSR from 2014, pushing the CSR to a fully funded $934,916.

There are also about $712,000 of additional reserves with the CLIC, which are largely to cover waiver of premium claims, and other claims that were not yet reported. These claims may yet revert to us if they were not used. In both cases, the reserves will continue to increase as the Beneplan Co-operative continues to grow.

Report on the Reformulary Project

Effective April 1st 2015, The Co-operators Life (CLIC) system will begin adjudicating pharmacy claims using the Reformulary Group's drug formulary, which is a list of drugs showing what is covered. Groups must opt-in to this plan design, as it is optional – as opposed to other carriers, who are beginning to require mandatory generic substitution plans. We have been discussing the proposed Reformulary for the past 18 months. We detailed the rationale for this project in our 2013 Annual Report, and below is an excerpt:

Your employee benefit plan is being squeezed by many players. Provincial health plans are running deficits and are trying to find any way to offset any cost to the private sector. Pharmaceutical manufacturers have one very clear objective: maximize profits at any cost. Doctors are too busy and do not have any stake in the process, and they are influenced by drug manufacturers. Employees do not have a stake or they perceive they do not have a say - they rarely question their doctors. Pharmacists are businesses that aim to make as much profit as they can.

On the other hand, our benefit plans, which pay the bill, are being squeezed. The objective of all drug plans is to provide a plan that protects our employees and their families at the lowest cost possible. This can be achieved with the help of The Reformulary Group.

The Reformulary Group is a pharmacy drug management organization that provides a multi-tier formulary coupled with agreements with drug manufacturers to provide volume discounts for purchasers of large blocks of prescription drugs. They have many years of experience managing drug formularies and negotiating volume discounts for drug purchasers.

The proposed formulary will have three tiers as follows:

1.The first tier would lists drugs for every possible health condition, and would have the lowest patient co-pay. The drugs on this tier would be the most cost effective drugs available and where there are more than one drug that can do the job, only drugs from Preferred Manufacturers would be in tier one. Preferred Manufacturers are ones who provide our co-operative a volume discount. It also includes drugs which are more expensive, but are more effective than all other alternatives.

2.The second and third tiers would reimburse medications at a lower percentage than tier one because they are either identical to drugs on tier one (with respect to medical ingredients or patient results), but at a larger cost; or, are medications which are both less effective and more expensive than drugs on tier one.

Employees of the employers who opt to join this arrangement will be educated over a few months on how to utilize the Reformulary so as to ensure no employee will suffer adverse financial impact.

Most employees will not be affected. Our block's statistics indicate that 87% of employees are already on the first tier, and thus they need do nothing. It is the other 13% that may well be on drugs that are six to twenty times the cost of the most cost effective drug. Affected employees need not be adversely affected – rather, they should discuss with their doctors alternative drugs from the first tier that work for them. If they do not wish to switch their medications, they would either pay a higher co-pay, or, make an appeal based on medical evidence to request their drug at the tier one coverage level.

Reformulary has a website with a tool called **Drug Finder** located at **http://Reformulary.com/DrugFinder**. The tool provides a list of alternative drugs on the first tier that can be a suitable alternative to the drug they are utilizing that may be on one of the other two tiers. There are also easy letters which can be printed and shown to a patient's doctor explaining the plan.

Depending upon the case, Reformulary is expected to cut the drug usage by between 5% and 15%. Reformulary will also receive a "volume discount" in the form of a refund from drug manufacturers of another 1% - 2%. These rebates will be passed on to co-operative members who choose to participate in Reformulary.

The escalating costs of pooling

Photo: Fernando Correia da Silva (500px)

Red Flag

Pooling Charges

As many of you know, the health and dental benefits are experience-rated benefits. That means their rates are merely a projection of your group's utilization plus fees and taxes to administer the benefits.

If your group's average dental usage goes up, your rates go up. If you dental usage goes down, your rates go down.

The same goes for health, except for health, there are years when the group could suffer sharp spikes in usage due to a catastrophic occurrence. Insurers remove amounts over the pooling point from the catastrophic claim and only include the amount below the pooling point in the experience rating. Amounts above the pooling point are paid from the insurer's pool.

Health rates are made up of two components:

•The "experience component" which is derived from the group's experience, and

•The "pooling rate" or "stop loss", is the rate needed to fund the insurer's pool.

The cost of pooling is escalating at alarming levels all through the industry. Five years ago, the cost of the typical $10,000 pooling point stop-loss averaged 7% of health premiums. In 2014, the average cost of stop loss is 17%. This is a 20% compounded increase.

The Beneplan Co-operative had to set two tiers of stop loss rates: the low-risk tier for members with a drug cap which limits the risk exposure of our pool and pushes the cost of large drug claims to the Ontario Drug Benefit (Trillium Program / Exceptional Access Program), and the high-risk tier for members who do not have a drug cap.

We have always prided ourselves on keeping our pool at a low cost, as the cost of our low-risk stop loss continues to be an average of 2.5% of health premiums. The cost of our high-risk stop loss was at 3.7% of average health premiums in 2014 but unfortunately, The Co-operators Life (CLIC) had to increase it by 55% for 2015.

Our high-risk stop loss is still far below most insurance companies, but there is no doubt both our stop loss and the insurance industry's will continue to escalate in the foreseeable future.

Red Flag

Biologic Drugs

Biological drugs are very expensive drugs which address rare illnesses. They are expensive because their usage is not expected to be wide compared to other chemical drugs. There are no genetic alternatives because they are genetically modified proteins extracted from animals or humans.

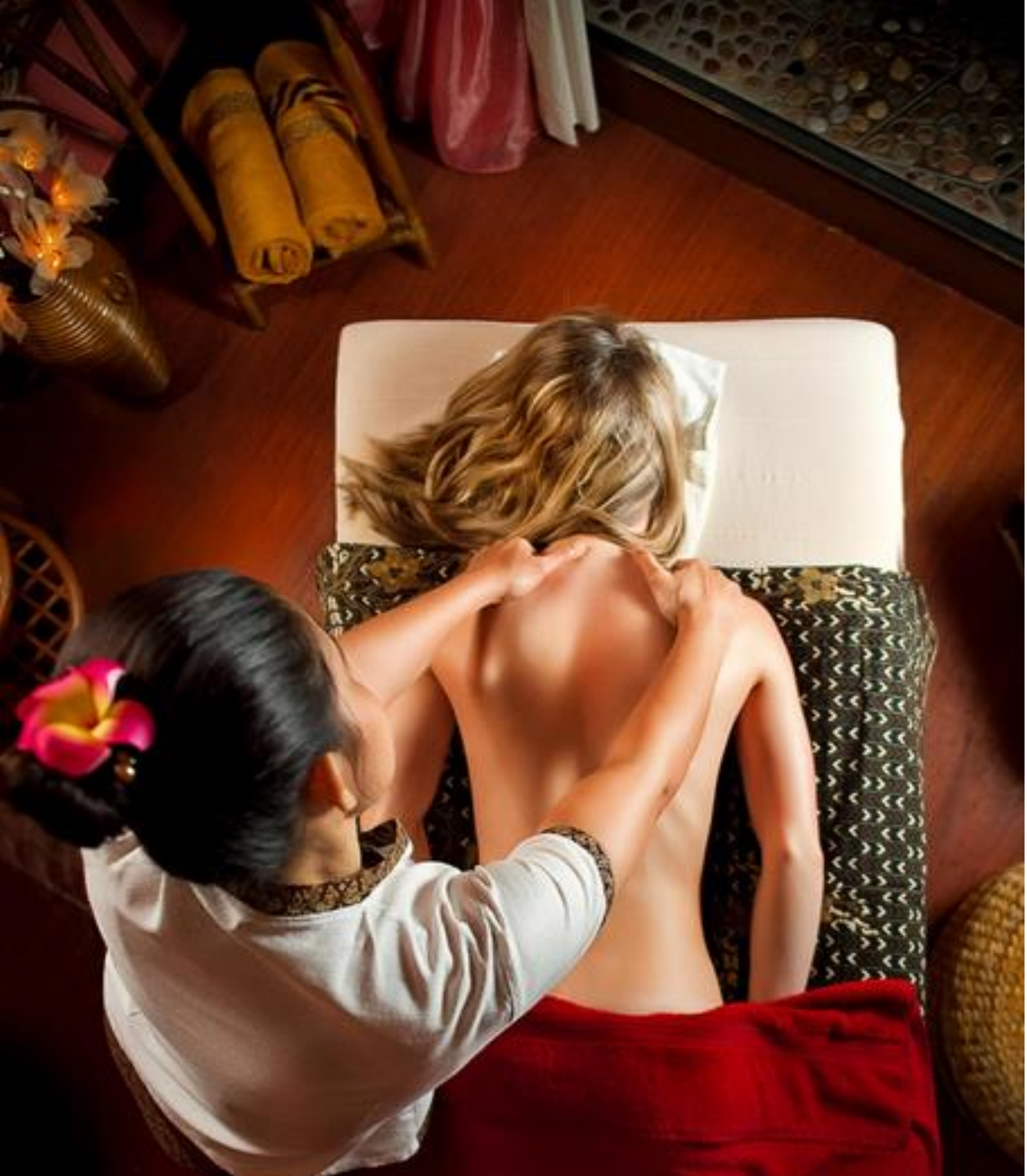
We discussed these drugs repeatedly over the last few years. Our warnings are now coming into full force, as these drugs are being utilized at an increasing rate. They are chronic in nature, meaning that they are ongoing claims, and more of them are continuously entering coming the market. It is an alarming trend that threatens the sustainability of some benefit plans.

While the Provinces of Canada and healthcare think-tanks revisit the Canadian government's drug plan philosophy on Pharmacare, we encourage employers to also reflect upon why they provide a plan, and reaffirm what it's for. The days when the most expensive drug was a few thousand dollars per year are gone. The most expensive drugs now cost in the tens or hundreds of thousands of dollars annually.

Beneplan Inc has recommended for many years that employers place an annual cap on their drug plan, and many of our members have adopted this recommendation. We have a few cases of employees or dependents that hit the drug cap, and in that case, Beneplan's customer service team helped them channel their claims to the Ontario Trillium Drug Plan successfully. There was one instance out of many where Trillium rejected the drug, and that was due to the experimental nature of the therapy being proposed.

Placing a drug cap does not necessarily hurt the employees who need to make large drug claims – however, failure to apply a cap will absolutely hurt the rest of your employees who are required to share the cost of the plan when one employee makes large claims. Further, insurers are increasing the cost of pooling premiums – they are being charged as a percentage of premiums, and the average pooling charge in 2015 is 17% of premiums, compared to 7% of premiums in 2005. This tells us that as unlimited drug plans continue to be hit by biologic drugs, insurers will continue to download the costs onto plan sponsors. Once you have a 'pooled claim,', ie, a drug claim which is over your pooling point ($10,000 per individual in Beneplan's case), it also becomes difficult to shop the market, as carriers are more likely to decline to quote on the plan.

Even though unlimited drug plans are protected by stop loss coverage, the stop loss is an insurance product and it will increase in cost if the likelihood of bigger claims rise. In 2014, we saw more plans claim amounts above the $10,000 stop loss in drugs, which drove up the cost of in stop-loss for high risk plans. We believe this will continue.



Paramedicals:

A 'perk' or medical benefit?

Photo: Nik Divnii, 500px

Red Flag

Paramedical Abuse

Beneplan has been pointing to paramedical services as one of the main reasons for the increased cost of healthcare. Paramedical services include acupuncturists, chiropractors, naturopaths, physiotherapy, massage therapy, podiatrists, and osteopaths, among others. These services are becoming a very significant component of health claims; they have risen from about 3% of a typical health plan in 1998 to an average of 30% in 2013.

This area is a tricky one, as different employers have varying philosophies on how they wish their paramedical dollars to be spent.

Some employers agree that paramedical services should be viewed as an entitlement, part of employee compensation – that employees are entitled to use up their massage coverage, whether they need it or not.

Other employers disagree and only wish for their money to be spent in a prudent way, in line with the philosophy that these benefits are meant for those with a medical need – that they should not be seen as a 'perk' available to all employees to maximize.

Meanwhile, many employees are teaching each other, and learning from questionable practitioners, on how to abuse and even defraud the paramedical benefits in order to obtain the following items in lieu of medical treatment:

- Spa services
- Unlicensed health practitioners
- Regular dress shoes (not intended for orthopaedic use)
- Designer purses and accessories
- Flatscreen TVs
- Outright Cash
- And more

Aside from the abuse portion, the medical community continue to question whether some paramedical services are truly beneficial, or if they provide more of a placebo effect.

When paramedical claims begin to escalate, they also affect premiums. Many employers are not in a position to have premiums increase by 10% or 20% because they are subsidizing Gucci purses and Cash perks. However, they also don't want to advertise that they are cutting benefits, because they don't want to decrease morale, or they have a tough union contract.

Beneplan's **solution** to this dilemma is to reduce premiums while maintaining or improving coverage through introducing the **pre-approval process**. Many of the participating employers have shifted their paramedical benefit to Beneplan for adjudication using the this protocol. The protocol requires that paramedical services are payable only if they are medically necessary, and approved in advance of submitting expenses – just like a dental predetermination. When employers made the shift, the results have been astounding, as often the usage is reduced to only 50% of its prior usage.

Over the last few years, other paramedical items such as compression hose, orthotics, and orthopedic shoes have become subject to unusually high usage, resulting in a further increase in costs to health plans. Most insurance companies are attempting to rein in this usage, but sometimes more scrutiny is necessary.

It is important to note that compression hose are dispensed by professionals who require very little formal training, and the markup is generally very high. One of Beneplan's representatives attended an afternoon seminar on compression hose, and then automatically received a certificate stating that she is qualified to prescribe, measure, and dispense these products. The cost to the manufacturer is a few dollars, but it is often sold to your plan for a minimum of $150.

Beneplan Inc has added these items to our paramedical tough adjudication protocol for some Co-operative members, and the results have been excellent. If you wish to discuss this service, please call Vince Principato (vprincipato@beneplan.ca; 1-800-387-1670 x235) or Yafa Sakkejha (yafa@beneplan.ca; x252).

Wellspiration Program

The Beneplan Wellspiration program has been a success. We have offered this program to our members at no cost and in 2014, 400 of your employees have used it with excellent results.

The program's objective is to educate your employees in areas of nutrition, exercise and stress management. Beneplan's Director of Wellness, Evelyne Mitskopoulos CNP, is able to conduct information sessions at workplace, or communicate with your members one-on-one, at no cost. Member companies are eligible for up to 3 face-to-face sessions per year, provided there are at least 10 employees signed up for a lunch & learn, or at least 5 signed up for 1:1 consultations. Here are some recent testimonials:

Please sign up by contacting 1-800-387-1670 x226, or evelyne@Beneplan.ca.

Testimonials

"Evelyne, you have helped my wife finally start an exercise and healthy eating after 20 years of us failing to make any changes. You have been wonderful in so many ways."

"I've been following Evelyne's lifestyle program for all of our family members and I notice that my teenager's mood swings have calmed down. It's an amazing service!"

"My 21 year old son was prescribed medical marijuana by his physician to combat depression. Thanks to Evelyne's help with alternative ways to fight depression, we've decided not to fill his prescription, with the approval of his doctor. We are grateful."

Thank You

Recognizing our partners at the
2015 Community Marketplace