Welcome to our client newsletter. We trust you will find the enclosed information to be timely and useful to your business planning. If you have any questions regarding this content, please contact your local Gallagher representative.

Inside This Issue

1  Major Total Reward Trends on Career Development
2  Specialty Drugs and Pooling Protection
3  The Health Engagement Sweet Spot

Mark Your Calendar for the 2016 IBIS Academy!
See page 4 for more information

Major Total Reward Trends on Career Development

By Liz Wright, Managing Director, Human Resources & Compensation Consulting, Gallagher McDowall Associates

Gallagher McDowall Associates believes that the next decade will see employers set their HR strategies to optimize their ability to attract and retain the best talent to effectively grow their organization.

Given the looming demographic changes, including the need for increasing women participation in the workforce, further emphasis will be put on this segment as well as visible minorities and immigrants. Career development plans will be aligned to this new direction on gender intelligence.

- Diversity strategies are creating opportunities for career development: Organizations are customizing individual development plans for their target employees and discussing potential career paths to promote the advancement of women and visible minorities.

- Flexible working conditions: Technological advancements are allowing more employees the opportunity to work remotely. Companies with flexible work schedules and telecommuting arrangements have a competitive edge in the employment market. These arrangements allow for work schedules to be more compatible with parenting and caregiving responsibilities.

- Pay equity governance: Organizations will put renewed emphasis on ensuring compliance with legislative requirements and are starting to realize the importance of gender equality given their diversity strategies.

- Communicating the value of total rewards/compensation packages: When pay increases are being withheld or minimized, this is the time to emphasize the value of the total compensation package employees are receiving. Employees tend to overlook the value of group benefits, pensions and other perks when they are focusing on their next pay increase. Benefits that are geared towards caregivers such as daycare, eldercare will be particularly sought after and valued.

- Executive development: Corporate governance has evolved in the last decade and corporate boards are focusing extensively on the workings of the business, especially through committees. An increasing number of senior executives are receiving significant exposure to these committees while supporting board initiatives. Training programs, which were initially designed to develop board members, are now being attended by executives in order to help them understand the ever-increasing expectations in the area of corporate governance. These training and development programs will also expose female executives to board members as potential feeders to become future board members.
We are entering an era of high-cost specialty drug claims combined with increasing utilization, unprecedented in Canada. This trend is placing cost pressures on both plan sponsors and insurance providers.

In 2014 Express Scripts Canada conducted a study showing that 70% of high-cost claimants require at least one specialty drug. Over a five-year period, only 47% of these claimants required a specialty drug prior to 2010.1

The first category of specialty drugs with a significant impact on employer-sponsored drug plans was for the treatment of rheumatoid arthritis, such as Remicade, Humira, and Enbrel. Although these drugs are expensive (e.g., $20,000 to $40,000 per individual annually) and recurring, only a small percentage of the population require these therapies.

The second significant category was oral anti-viral drugs for the treatment of hepatitis C (priced at $60,000 plus), starting with Sovaldi (December 2013), followed by Harvoni (October 2014) and Holkira Pak (December 2014). The private drug spend for this category was over $50 million in the first quarter of 2015.2 Previously, only drugs for extremely rare conditions impacting a small percentage of the population were priced at these costs. With an estimated 250,000 Canadians living with hepatitis C, insurers are concerned about the growth in utilization of these therapies over the next few years. However, as these drugs have the ability to cure hepatitis C, these claims are not expected to be recurring.

The newest specialty drug for the treatment of high cholesterol, PCSK9 inhibitors, was originally designed to treat a small subsection of the population with a familial hypercholesterolemia, a genetic disorder. The first drug approved in Canada is Repatha (September 2015) with a cost of approximately $7,000 per year. If this class of drugs is prescribed to the wider population of chronic high cholesterol sufferers, the cost to employer-sponsored plans will be significant. Telus Health Solutions estimates that the public and private drug spend for this class of drugs could reach $2.6 billion by 2026.3

With the continuous development and increasing utilization of new high-cost medications, cost pressures are threatening the sustainability of plan-sponsored drug programs. How can the industry absorb these significant costs? An immediate approach has been to amend stop-loss pooling arrangements.

Pooling arrangements were designed to provide plan sponsors with protection against catastrophic claims by sharing the risk of high cost claims with a large number of plan sponsors, the “pool”, in exchange for a premium paid to the carrier, the “pool charge.” Claims that exceed a pre-determined stop-loss or pooling threshold are removed from the plan sponsor’s experience and placed into the insurer’s pool, where the risk is assumed by the insurer. Traditionally, these arrangements were intended to cover off unexpected, non-recurring high-cost claims and the pool charge was generally renewed based on the experience of the insurer’s entire pool (i.e., the collective experience of all plan sponsors participating in the pool).

However, in recent years the nature of pooled claims has changed, becoming predominantly recurring high-cost drug claims for chronic conditions. In addition, the rate of pooled claims in excess of the pooling threshold is accelerating year-over-year at a much faster pace than the growth in the overall drug spend. Without increasing pooling premiums and/or adjusting the pooling thresholds, insurers find themselves absorbing an increased share of the financial risk for pooled claims, which threatens the long-term viability of this protection for plan sponsors.

As a result, pooling charges are increasing, and this is particularly noticeable under ASO or Refund arrangements where we have seen pool charge increases in the order of 50% to 60% at renewal. In addition, we are noticing a growing trend towards the experience rating of pooled claims for ASO and Refund arrangements, whereby carriers are subdividing their pools based on losses and applying differing pooling increases rather than global adjustments based on the experience of the entire pool. Of significant concern is the increasing incidence of insurers refusing to provide quotations on clients with significant pooling losses and, in some cases, reserving the right to exclude recurring claims altogether from the pooling arrangements. All of these factors point to escalating costs to plan sponsors.

---

1 2014 Drug Trend Report (Express Scripts Canada)
2 The Conversation, Specialty Drugs: Trends, Challenges and Solutions (Sun Life Financial, November 2015)
3 Ibid
Faced with the potential for rapidly accelerating costs, what actions should plan sponsors be taking?

While increasing drug costs appear inevitable, plan sponsors should be making modifications to their plans that ensure that every dollar spent is utilized in the most effective manner possible. Today, most plan sponsors still offer drug plans with an open formulary, which covers all drugs that legally require a prescription and essentially guarantees that any new, approved high-cost medication will be paid under the plan, irrespective of whether it provides for any improved therapeutic outcome versus an existing, less costly alternative medication or therapy. Modifying the plan to incorporate mandatory generic substitution (ensuring that the plan only pays for lower cost generic alternatives to brand name drugs, where they exist) and prior authorization (ensuring that all less costly medications and therapies have been exhausted prior to authorizing a substantively more expensive approach) provide for cost savings without adversely impacting employee health. Additionally, tiered and managed formularies provide opportunities for employees to play a greater role in ensuring the long-term sustainability of their programs by creating incentives to increase the level of reimbursement available to them if they are prepared to become more proactive in working with their physicians and pharmacists to identify alternative medications to more costly options.

The carriers, for their part, are beginning to take unilateral actions to stem the tide. In addition to increased pooling charges and stop-loss thresholds, carriers are developing Preferred Provider Networks (utilizing their bulk purchasing power to negotiate cost reductions from providers and passing these savings along as incentives to plan sponsors to direct their employees to these providers) and many have started implementing mandatory generic substitution and prior authorization programs on a mandatory basis for clients who choose their services.

Given the stakes, now is the time to prepare for the cost pressures that will continue to impact your programs. Working with your trusted advisor to assess your programs and modify them as needed ensures that you will be able to continue to provide benefits that are viewed as an extremely valuable component of your employee reward system, well into the future.

The Health Engagement Sweet Spot

*By Chuck Reynolds, Area President, Benfield, a division of Gallagher Benefit Services, Inc.*

There is an employee health engagement sweet spot—a point at the intersection of highly positive feelings and a commitment to health and wellbeing. At this intersection, one could say the benefits of better workforce health are turbocharged by the benefits of enhanced employee attitudes toward the company. At this intersection, for instance, increased work capacity due to improved fitness meets an increased desire to do well for the company, yielding greater work productivity and discretionary effort.

As shown in the graphic, however, other scenarios are possible. Of particular concern are the lower quadrants, where a perceived lack of support for health can—even among employees who are highly engaged in their health—reduce engagement in work and goodwill toward the company.
The Health Engagement Sweet Spot: Continued from page 3

Hitting the Sweet Spot
To hit the sweet spot, organizations must:

• Strategically align their health-related policies, programs, incentives and management support.

• Communicate effectively to help employees understand and appreciate health and wellbeing benefits.

Employers need to view policies, programs, incentives and management support from the employee's perspective to strategically align these elements. It’s important to ask, “Does everything align? Is the signal we are sending employees about health and wellbeing clear and consistent? Or, are we sending mixed messages?” For example, a smoker looking to quit gets a mixed signal when required to pay out-of-pocket for smoking cessation medications that are not covered under their employer-sponsored benefit program. Similarly, a group of employees frustrated with an abusive manager may perceive a new stress management program as hypocrisy instead of helpful.

Communicating Effectively to Build Trust & Credibility
There are three critical success factors to consider:

• Address Belief: Effective communication starts by answering: “What do we need people to do? What do they need to know? And, what do they need to believe?” The “belief” question is important to achieve big goals like engagement or culture change, when communications must address: “What do we need people to believe about the initiative, their own ability to succeed and the differences that change will bring?”

• Message Ownership: People don’t trust institutions or departments; they trust people. Important communications about health and related programs should come from the person responsible and accountable for the company’s offering. Over time, this person’s credibility will grow if the strategy is aligned and their messaging is clear.

• Tailor Communications to Your Audience: Benefits and compensation-related communications can be confusing and potentially tedious. Once core content is established, using creative, surprising and humorous messaging can get the audience’s attention and positively impact understanding and engagement. However, selecting your communication vehicle is also important. Understanding workforce demographics goes a long way to helping establish the right kind of communication strategy. For example, the way a pre-retiree receives information may be very different from a Gen Y employee.

No communication can overcome a strategy that is misaligned, but once a company has done the hard work of achieving strategic alignment, communication can make all the difference in how investments in employee health and wellbeing are perceived.

This article is just one of 16 articles comprising Gallagher’s 2015 State of the Market Report. To download the full version, visit ajg.com.

Mark Your Calendar for 2016 IBIS Academy!
Presented by Arthur J. Gallagher, IBIS Academy is the longest-running international employee benefits conference in the world, held annually in Europe since 1971. The 46th Academy will take place in Amsterdam, Netherlands, from 23–27 May 2016. Contact your Gallagher representative to learn more.
Executive Benefits Consulting
Attract and retain the right leadership team by offering a competitive executive benefits plan. Gallagher helps you structure a strategic compensation program that nurtures loyalty, meets your specific financial goals and helps you secure effective leadership.

Group Insurance
Invest in your employees and your future with a comprehensive benefits program that reduces your risk, meets your cost targets and helps you compete for top talent. As a true partner, Gallagher listens, advises and provides strategic, customized solutions to address your financial, operational and regulatory business challenges. You get a solution that makes sense for your employees and the ongoing health of your organization.

Compensation & Total Rewards Consulting
Ranging from executive to broad-based compensation consulting services, Gallagher offers strong expertise to help meet your organizational challenges and concerns. By taking a strategic approach to total rewards, our experienced consultants can help align your programs for optimal outcomes such as top talent attraction, retention, and engagement.

Multinational Benefits & Human Resources Consulting
Protect your organization from regulatory and compliance risks while meeting the needs of an international workforce. Our expertise and proprietary technology help HR departments assess evolving global benefits topics and strategically manage benefits plans that attract and retain the talent needed to do business on a global scale.

Retirement Plan Consulting
Maximize your total benefits and compensation by aligning your retirement philosophy and plans with your organization’s goals. A consultative partnership with Gallagher helps you manage plan selection, design and structure, regulations, filing requirements, employee education and long-term retirement planning for your employees.

Voluntary Benefits Consulting
Compete for the best employees by providing the perfect set of voluntary options to complement your core benefits and compensation offering. Gallagher can identify potential gaps and opportunities, and recommend and communicate voluntary options that align employee needs with your organization’s goals.