



Information Bulletin No. 1

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For insurers and administrators of employee benefit plans

The *Société* at a Glance

The *Prescription Drug Insurance Act* requires insurers and administrators of employee benefit plans (that is, the contracting parties in the case of non-insured plans) to pool the risks presented by the cost of medications. A private corporation founded in 1997, the *Société de compensation en assurance médicaments du Québec* ensures the good management of the risk-sharing system set up by the industry. It is the only body recognized for this purpose by the Quebec government.

Its Origins

❖ The *Prescription Drug Insurance Act*, and Section 43

The roots of the *Société de compensation en assurance médicaments du Québec* (the *Société*) go back to June 19, 1996, with the enactment of the *Prescription Drug Insurance Act* (The Act). Let us recall that the general drug insurance plan, which has been in effect since January 1, 1997, was created under this law in order to provide coverage for prescription medications to all Quebec citizens. Since that time, the life insurance industry has been required to offer coverage for the medications included in the government formulary to every person eligible for a group insurance program or a non-insured employee benefit program, without regard for the person's state of health.

Aware that this requirement would necessarily have repercussions on rating and that these repercussions could prove untenable for some insured persons, the legislature adopted Section 43 of the Act, which reads as follows:

"All insurers transacting group insurance and all administrators of employee benefit plans who provide coverage for the cost of pharmaceutical services and medications must pool the risks arising from the basic plan coverage they provide according to the terms and conditions they determine.

The terms and conditions must be communicated by the representatives of the insurers and administrators, in writing, to the Minister not later than 1 November each year. Failing that, the terms and conditions shall be determined by government regulation for the period it indicates."

❖ The Creation of a Task Force Representative of the Industry

To avoid having the government impose pooling parameters for the year 1997, the industry was required to submit a proposal by November 1, 1996 at the latest. Therefore, beginning in the summer of 1996, the life insurance industry complied with this section by setting up a task force representing the various concerned parties, which was to define the parameters of the current risk-sharing system (see sidebar).

The pooling system

The cost of medications is pooled above a certain threshold, which varies according to the size of the groups of insured persons and the ability of those groups to absorb significant increases in the cost of consumption of medications. The objective is to avoid the necessity for a given group to bear too great an increase in premiums.

A part of the premium – the “pooling factor” – is reserved for pooling. At the time of compensation, the pooling factor may be reviewed to ensure complete compensation of the sums in question. Thus, the total of the amounts claimed above the pooling thresholds at the end of any given year is equal to the total of the amounts collected. No surplus or deficit is created.

Subsequently, on December 5, 1996, the Quebec Health and Social Services Minister ratified the terms and conditions proposed by the industry. The industry task force was then replaced by a committee responsible for the management of pooling; this committee was incorporated on August 1, 1997 as the *Société de compensation en assurance médicaments du Québec*.

The pooling system developed by the *Société* is the only mechanism recognised by the government, and the *Société* is the sole body competent to oversee the good management of this system established in accordance with the law.

Its Structure and Mandate

Although it arises from the *Prescription Drug Insurance Act*, the *Société* is a private corporation under the control of the life insurance industry. The makeup of its Board of Directors ensures a balanced representation of the industry, bringing together representatives of insurance companies, employers and/or employee benefit administrators and/or trustees. The *Société's* form of management is based on rigorous governance rules.

The mandate of the *Société* is to oversee the good management of the pooling system, which includes the annual review of the terms and conditions of risk pooling and their application. More specifically, it has the authority:¹

- to designate a neutral party to manage the compensation process;
- to obtain all necessary information for the smooth operation of the compensation process, including, if necessary, verification by the designated neutral party of contracts submitted for pooling, and the validity of all claims for compensation made by insurers;
- during the compensation process, to levy payments from insurers and pay out the appropriate compensations;
- to receive any request from an insurer for verification of the process and follow up in an appropriate manner;

¹ Source : Risk Pooling Methods for Drug Insurance Proposed by the Insurance Industry to the Health Minister in Accordance with Section 43 of the Quebec Drug Insurance Act, October 25, 1996, p. 22, section 4.3

- to review any verification of the process made by the neutral party as well as overall results of pooling for the past year;
- to obtain any information necessary to justify the updating of pooling thresholds and annual charges;
- to submit terms and conditions of pooling to the Minister by November 1 each year at the latest.

The *Société* already has the experience of eight reviews of the terms and conditions of pooling, including the parameters for the year 2005, as well as five complete compensation processes (1997–2001). At the time of writing, the compensation process for the year 2002 is entering its final phase, while that for the year 2003 – begun in March 2004 – is proceeding normally.

A Model of Collaboration

Such results could not have been produced without the collaboration of the Quebec Health and Social Services Ministry, or without the co-operation of members of our industry, two factors that enable the pooling system to function well.

In the Next Issue

In the *Société's* Information Bulletin No. 2, read an overview of the parameters of risk pooling.

Ed. note: This bulletin does not have the force of law. It presents the point of view of the *Société de compensation en assurance médicaments du Québec* on various subjects, based on the *Quebec Prescription Drug Act*.