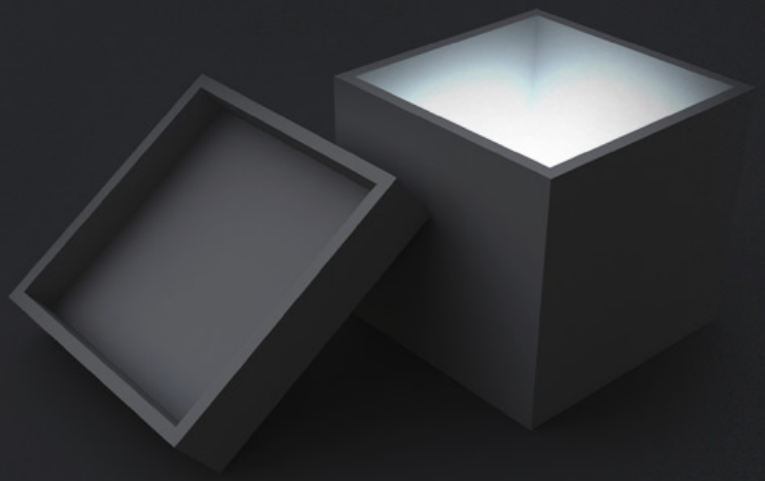
STICKER SHOCK:
Private Payers' Perspective

March 3, 2015



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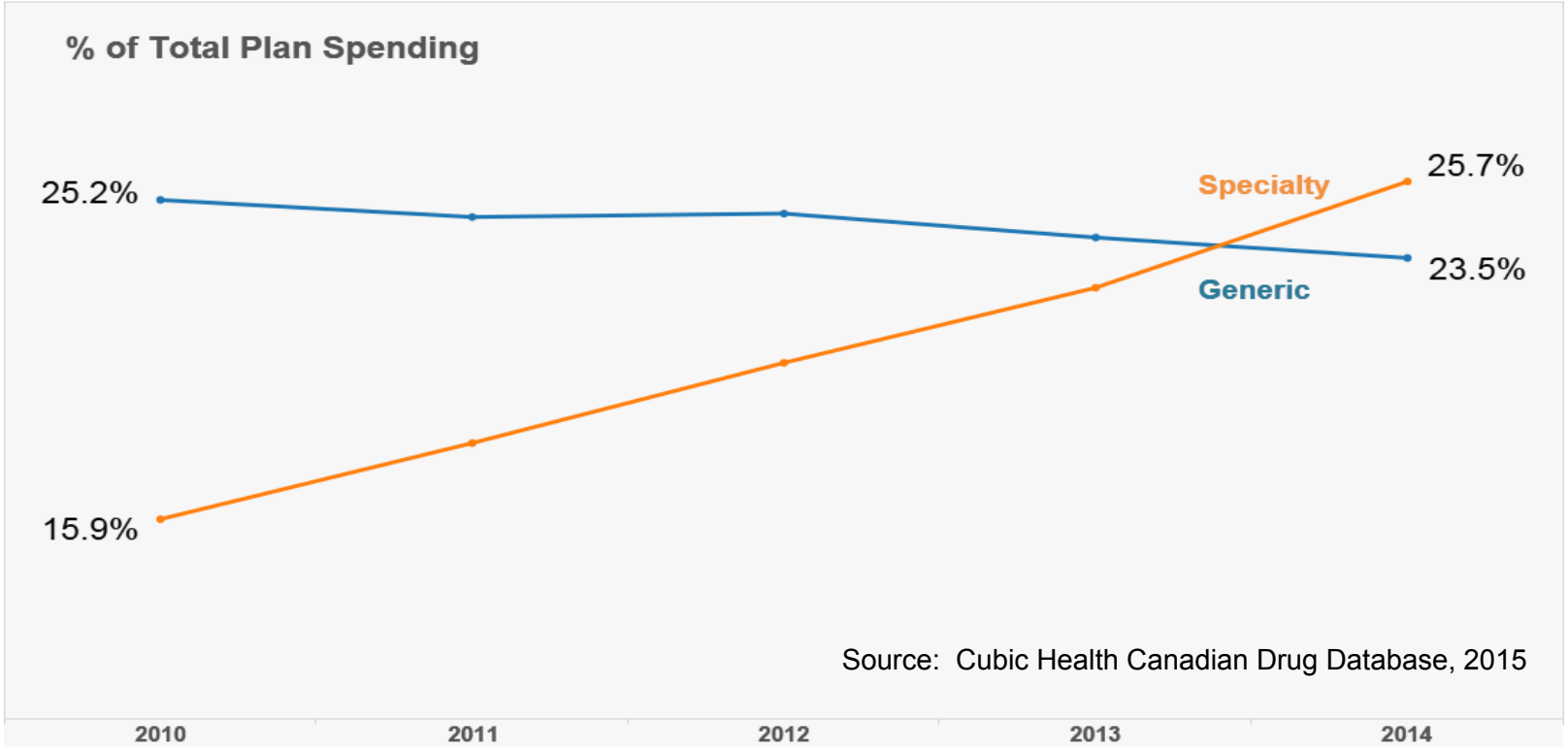
The End of an Era

- 2011 – 2014 was the greatest era in recent memory for private plan sponsors in terms of passive cost containment within drug plan benefit
- Generic pricing reforms and a wave of patent expirations shielded plans from cost, helped offset impact of specialty therapies
- 2015 – 2018 will be a **completely different picture**

The End of an Era

- **2014 was the Year of Inversion**: Plans covering Canada's workforce now spend more on specialty drugs than on all generics combined



The End of an Era

- A lack of adoption appropriate plan designs in the private payer marketplace will have a profoundly negative impact on containing costs moving forward.
- In addition, the growing cost of catastrophic claims insurance (stop-loss) will put additional pressure on affordability of existing plans.
- There are substantial future financial liabilities that have not been considered by a majority of plans which will further impact plan affordability.

Growth of Specialty Burden

% of Plan Spending for Specialty Drugs

	2010	2011	2012	2013	2014
Active Plans	15.9	18.1	20.4	22.6	25.7
Retiree Plans	8.2	9.5	10.8	11.6	13.0

Source: Cubic Health Canadian Drug Database, 2015

Impact on Stop-Loss

Plan has current stop-loss threshold at $15,000

- Coverage carries a **current premium of 13.9%,** Carrier wants an increase to 18.25% at renewal
- Carrier B quoting on business wants 7% premium
- Carrier C wants 9.9% premium
- Carrier D wants 10.8% premium

How does same risk and same stop-loss point warrant such significant discrepancies?

Impact on Stop-Loss

- The inflation of stop-loss premiums will be a significant issue for all ASO plans moving forward
- Example of what 3 separate plans have seen over the last 3 years at different thresholds:

Threshold	Year 1	Year 2	Year 3
$10,000	8.6%	9%	12.5%
$15,000	4.75%	8.75%	9.4%
$20,000	6.4%	7.3%	8.8%

Specialty Pricing Asymmetry

- Whereas public plans have the ability to impact reimbursement of ingredient costs with fixed mark-ups, PLIs, and other arrangements, private payers traditionally have not had access to same
- Example of the wide variation in what private plans paid for specialty drugs in 2014:

Remicade	MLP + **3%**	to	MLP + **17.1%**
Enbrel	MLP + **3%**	to	MLP + **16.5%**
Humira	MLP + **3%**	to	MLP + **16.7%**

Future (Financial) Risk Profiles

PLAN	Age-Related Chronic Conditions	Specialty - Chronic		Total Recurring Annual Future Risk	Recurring Annual Future Risk as % of Current Plan Spend
		Conversion of Existing Claimants	Addition of New Claimants		
A	$68,217	$236,405	$410,273	$714,895	16.3%
B	$105,000	$193,166	$190,866	$489,032	17.0%
C	$22,326	$242,712	$301,424	$566,462	15.6%

How affordable will plans be moving forward if they have to deal with this degree of annual cost increase due to chronic, recurring therapies only?

The Future

- Plan designs will have to change – dramatically
- Service providers and members will be held more accountable
- There will be a need to consider appropriate cost offsets for plan sponsors through integration of drug & disability data sets

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