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# DRUGS FOR THE PEOPLE: AT WHAT COST?

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2010 will mark a change in the trajectory of ever-increasing amounts of dollars being spent on prescription drugs in Canada. Health care delivery is a provincial, not a federal, responsibility in Canada. Consequently, there are some variations in coverage by province. Generalizing, most Canadians who are age 65 or older have most prescription drugs paid for by their provincial (government) health plan, subject to certain deductibles and exclusions. Working Canadians under age 65 and their dependents are frequently covered by an employer's supplementary medical plan that covers the cost of most prescription drugs, often subject to a deductible or co-payment. Poorer Canadians may receive assistance in paying for their prescription drugs through social assistance. Most insurance plans encourage or require substitution of a generic drug when available. Over 90 percent of Canadians have some level of private or public coverage of prescription drugs.

But drugs are costly and the amount spent on drugs has been rising. The Canadian Institute for Health Information reports that drug expenditures rose every year between 1985 and 2008, with an average annual growth rate of 10.5 percent, more than the average annual growth rate of health expenditures and significantly more than the rate of GDP growth. Total drug expenditures amounted to approximately $30 billion in 2009.

Canada is experiencing population aging and its large baby-boom cohort is just about to begin to reach age 65, which may add additional cost pressures to both provincial and employer funded health plans. New and costly drugs continue to be developed. Moreover, with an insufficient supply of doctors (less than two per 1,000 population), there is the potential for an increase in drug prescribing as a method of saving time in serving the public, especially given the small size of Canada's population and the vastness of its geography.

With effect from July 1, 2010, Ontario, Canada's most populous province, took a dramatic step to control rising drug costs in the provincial insurance program and these actions will be gradually introduced to the private sector. The province announced a limit on the price that it would pay for generic substitutes of 25 percent of the price of the original brand-name drug and elimination of professional allowances paid by manufacturers to pharmacies. With respect to private sector plans, the generic price was limited to 50 percent of the brand-name price, decreasing to 35 percent of the brand-name price on April 1, 2011 and to 25 percent of the brand-name price on April 1, 2012. Professional allowances were capped at 50 percent immediately, with further reduction to zero by April 1, 2013. The reaction from pharmacies given the significant impact on revenue has been to focus efforts on private drug plans through changes in dispensing fees, mark-ups, new professional services and preferred pharmacy networks.

Interestingly, the prescription drug manufacturers appear prepared to accept such a limit. The strong reaction came from some of the province's major pharmacies. Shoppers Drug Mart, a large Canadian pharmacy chain, launched an information campaign stating that the government's proposed measures might lead it to have to limit its hours of operation and services.

While Canadians were waiting to see which party would back down in this battle of heavyweights—the Ontario government and the pharmacy chain—the provincial governments upped the ante. At a meeting of the provincial health ministers in 2010, all provinces agreed in principle to follow Ontario's lead and to adopt an approach to limit the price paid for generics. At press time, only two other provinces had made announcements and their limits were not as extreme as Ontario's. However, an agreement in principle to take action to reduce drug costs is a significant development. By acting together, the provinces desire to leverage buying power and mitigate drug cost inflation trends. The net impact to the public, employers and plan members remains, in question.

Canadians have a long history of paying higher prices for generic drugs, paying 30 percent more than the OECD average for prescription drugs on the current pricing policies. In a 2008 report, the Competition Bureau of Canada reported that Canadian taxpayers, consumers and business could be saving $800 million per year rising to more than $1 billion per year if there were changes to the ways private plans and governments pay for generics. Among the report's recommendations were approaches used in the United States such as using preferred pharmacy networks, mail-order pharmacies, and providing patients with incentives to seek lower prices.

A less market-friendly approach was recommended in a study released in September 2010, by Marc-Andre Gagnon, a university professor, assisted by Guillaume Hebert, a researcher, published by the Canadian Centre for Policy Alternatives, namely that Canada should adopt a universal drug plan. The study examines the cost of a universal drug plan, considering four different approaches to industrial policies with respect to drugs. It calculates that the aggregate expenditures on drugs would be reduced by adopting a universal drug plan, regardless of the industrial policy considered.

Whether Canada will adopt a universal drug plan remains to be seen. Each province differs considerably in the drugs covered and cost shared by plan members. The economic and political implications and thus political will pose challenges in a universal approach being instituted. However, the Canada Pension Plan agreement provides an example that could be followed or modified (pensions are also a provincial responsibility).

What can Americans learn from these Canadian actions? First, inflation in drug expenditures is a global issue. Second, pooling of buying power by governments, employers and health providers in the United States is being adapted and adopted by other countries such as Canada. Third, regulatory levers on pricing and healthcare delivery, while greatly debated, can create savings for both the public and private sector. I know that "single payer" raises red flags, but de-politicizing this issue may be an important step in controlling and reducing costs. Michael Porter's industry competition model describes how strong suppliers can affect prices. In the drug market, drug manufacturers and pharmacies are very powerful. But as Porter points out, strong buyers can also affect prices. Some insurers may have such market power, but governments, when they take coordinated action, certainly do. One step in containing health care expenditures is containing drug costs. There are lessons to be learned from the recent bold initiatives in Canada.

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