Benefits CANADA

The most important trend in managing the cost of drug benefit plans

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Until recently, generic drugs have been an afterthought when it comes to looking at ways to contain drug costs in private plans. Expensive biological drugs and the high cost of "me-too" brand name drugs and brand-name line extensions that offer little (if any) additional value have been the headlines in this area for years.

However, slowly and surely, as blockbuster drugs such as Paxil, Losec, Effexor XR, and Altace have lost their patent protection in recent years, the overall proportion of plan spending on generic drugs has increased materially. Furthermore, there are other key brand name products (most notably Lipitor) that are projected to be losing their patents with the next 12-18 months which will be another stake in the heart of the brand name pharmaceutical industry, and likely pay for some new high-end sports cars for executives on the generic side of the fence.

This all sounds great on paper if you are the one paying the bill. In reality, however, the story has not been that rosy. The good news is that this is starting to change.

In 2008, the United States experienced a 1.3% increase in total expenditures for prescription drugs from the year before. That is the lowest inflation figure on drug costs in over 50 years. According to the Canadian Institute for Health Information (CIHI), prescription drug costs in this country increased by an estimated 9% in 2008. That figure may seem high to a number of large Canadian plan sponsors who incurred 5-7% cost increases in 2008, but whether the figure is 7% or 9%, the question remains the same: how did Uncle Sam do so much better than Uncle Maple Syrup in managing expenditures on prescription drugs, especially when Americans pay some of the highest brand name drug prices in the world?

The answer has two parts. The first is that 7 out of 10 prescriptions in most large plans in the U.S. are filled with generics. We are lucky if that number is 5 out 10 in plans here in Canada. Good luck if a material number of your plan members live in Quebec because you are as likely to see generic penetration rates of 50% as you are the Toronto Stock Exchange reach 14,000 points again in 2009.

The second part of the answer is the key: generic drug prices on key products are a fraction in the U.S. of what they are in Canada. There are a number of reasons behind this which would consume dozens of pages, but it is interesting to see this growing disparity when many of the largest players in the Canada generic market are also significant players globally (i.e. Teva, Apotex, Ranbaxy, and Ratiopharm.)

Here are a few examples of what Canadians pay for generic drugs compared to what a pharmacy in the U.S. can acquire these same products at:

Gabapentin 300mg capsules:
- Cost to a U.S. pharmacy: **$0.04 per capsule**
- ODB List Price: **$0.4865 (12 times the cost)**
- Wholesale Price in Canada (approx): **$0.64 (16 times the cost)**

Enalapril 10mg tablets:
- Cost to a U.S. pharmacy: **$0.03 per tablet**

• ODB List price**: **$0.5143 (17 times the cost)**
• Wholesale Price in Canada (approx): **$0.80 (26 times the cost)**
** ODB awarded the tender for enalapril to Vasotec (the brand name reference product) so the price for Vasotec 10mg is identified above.

These examples were not chosen because they are dramatic. They were chosen because these are two of the four products that were originally put to tender by the Ontario Drug Benefit program as a follow up to the overhaul ushered in with Bill 102. The original tender on gabapentin has since been cancelled. However, as noted above, the Competitive Agreement for enalapril was awarded to Merck-Frosst Canada, the manufacturer of the name brand product Vasotec.

A couple of interesting points to note:

• ODB is paying a minimum of 12 times the price that U.S. pharmacies pay for the same product in these cases. The only thing not very transparent about the "Transparent Drug System for Patients Act (i.e. Bill 102) is what kind of rebates the government is taking on this product. If you figure they are paying 12 times more for the drug as a list price then U.S. pharmacies, one must think Mr. McGuinty and Co. are getting a building a nice side pot to fund some politically favourable agenda items. Good for them.
• The public sector (as demonstrated by ODB in the examples above) is still getting a significant price break today when compared to the private sector. Even if private plans could start accessing drugs at prices closer to the ODB price, there is a great deal of savings to be realized in striving for that target alone. Gabapentin costs private plans roughly 30% more than public sector plans like ODB. That figure is even greater for enalapril.

A Case Example for Change
In the U.S., there are now over 34,000 pharmacies that have followed Wal-Mart's lead and offer $4 generic prescriptions. They can do that because of what they pay for these generics. Let's take the case of enalapril. If a pharmacy is paying $0.03 per tablet, a one month supply would cost less than $1. They can still charge $4 and not go out of business. Apparently, an increase in foot traffic is enough to justify this kind of pricing—which comes as no surprise given that Wal-Mart is one of the best managed companies on the planet.

That same one month supply would cost a large plan sponsor in Canada $24 for the ingredient cost alone. If you factor in allowable mark-ups, that number could be as high as $26.

$1 versus $24 - $26. That is a breathtaking difference for exactly the same product.

Let's suppose, for example, that a pharmacy chain in Canada was looking to partner with plan sponsors to drive more business in their stores, and more value to the plan sponsor. The Competition Bureau report that made headlines across the country late last year assumed promotional allowances of 40% paid by generic manufacturers to pharmacies in cases where these allowances are not already restricted.

Let's assume that a pharmacy could purchase enalapril above for 48 cents as opposed to 80 cents per tablet. Interestingly enough, that is what ODB pays pharmacies for the same product. If pharmacies kept 25% of that discount for themselves to fund their patient care activities, and offered the product to plan sponsors as part of a more sophisticated Preferred Provider Network agreement (that could include patient care initiatives, discounts on OTC purchases for participating plan members, and greater foot traffic in their stores, etc.) for $0.56 – the ingredient cost of a one month supply of that drug just decreased from $24 - $26 to $16.80. That is a savings of 33% to the plan sponsor (and its members in cases where plan members have a co-insurance requirement).

If you figure that generic drugs can make up as much as 30% of the current spending of a private plan, a 33% savings in this area results in a 10% decrease in the total cost of the drug plan.

Ironically, the current expenditure for the average plan on expensive biological drugs that treat catastrophic conditions is 10% to11% of spending. This change alone would allow the average plan to cover the costs of their entire specialty drug budget.

This is a win-win for all: pharmacy chains can start inking agreements that go beyond simply capping dispensing fees, and allow for sustainable patient care, while at the same time opening up the door for more business. Plan sponsors for their part would reap meaningful savings, and plan members have a properly managed benefit that can afford the catastrophic drugs for conditions like cancer, MS and rheumatoid arthritis.

This is starting to happen now and it's gaining momentum, which is encouraging to see. It's great to see key stakeholder groups that appreciate and understand the big picture.

A Word of Caution

For those stakeholders in Canada who refuse to accept the new reality of delivering prescription drug benefits to Canadians with private plan coverage, consider this: last week, a large U.S. wholesaler bought Burlington, On.-based Innomar Strategies, a specialty pharmaceutical products management company for $15 million in cash, subject to a working capital adjustment. Anyone who doesn't think things are changing, and will continue to change, needs only pay attention to how our pharmacy marketplace is growing more attractive to large, international players who see enormous opportunity.

Canadians in places like Manitoba made fortunes selling lower-cost brand name drugs to Americans without healthcare coverage in the "internet pharmacy" glory days earlier this decade. If Canadians are paying **10-20 times** more for the same generic drug north of the border, does anyone think for one minute that is going to last?

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