Benefits CANADA

The Financial Fallout of Bill 102 on Private Sector Drug Plans

February 23, 2009 | Mike Sullivan

Depending on your perspective, and what stakeholder group you belong to, you may not like what the provincial government in Ontario has done with its Bill 102 legislation (euphonically termed the Transparent Drug System for Patients Act—or Bill 102 for those of us who like fewer syllables). But you have to respect what they have achieved. Bill 102 is now solidly shifting more than a fair share of the financial burden from our friends at Queen's Park to private sector plan sponsors that were not prepared for what happened.

The bad news: it's only getting worse for those of you reading this who are responsible for managing compensation and benefits and/or those who approve the budgets in a private sector environment. Here's something to keep in mind: in Ontario, the private sector spent more on drugs than the public sector in 2007, according to the Canadian Institute of Health Information. So while the Ontario Drug Benefit (ODB) plan may be the biggest single plan sponsor in Ontario, the combination of all private plans, in theory, should yield more power.

Sadly, most private plan sponsors have no idea what is happening in this area, so the government has gladly stepped in to take advantage. For readers who live in a province that doesn't start and end with the letter O, the financial implications described below are no less significant for you.

It is a common myth that the ODB is the biggest buyer of medications in Canada—and, therefore, should be afforded lower prices—but that is not the case at all. The ODB doesn't buy and sell any drugs, it just pays the bill, like every private sector plan sponsor in Canada. One hundred percent of prescription drugs in this country (purchased outside of a hospital and intended for humans) for private and public sector plan members are bought and sold by pharmacies, not by the government.

So why is it, then, that there are two very different prices for the same drug product purchased at the same pharmacy—one for those over 65 years of age and one for those under that magic number—when the private sector drug spend is just as significant as the public sector?

If you are a plan sponsor with members living in Ontario, here is the range of drug ingredient costs that were submitted to your plan for 90 tablets for Lipitor 20 mg in 2007 and 2008 (dispensing fees excluded), depending on which pharmacy you used:
• 2007: $202.18 to $260.76 (a difference of 29%)
• 2008: $202.18 to $260.76 (no change from 2007)

This makes sense since the wholesale price of Lipitor (the most popular drug in the world) hasn't changed in Ontario in that time. What was the range the government paid for that same quantity? $202.18 to $202.18. A nice clean range at the very low end of the price spectrum.

Granted, if you have a pay-direct drug plan, your plan would have cut off the allowable ingredient cost somewhere between $217 and $218, but that is a long way off from $202. In fact, it's about 7.5% off from $202—which, curiously enough, is right in that 7% to 8% range that many plans saw their drug spend increase by last year. What a different world it would be if private plans were ensuring they were closer to the $202 end of that range than the $218 or, worse, the $260 end.

If you have a reimbursement plan, the example above is even more ominous: you were paying for Lipitor at $260.76 in those cases where that amount was submitted.

Let's take a look at a generic drug example, since generic drugs have received a great deal of attention since the latest Competition Bureau report. The old rule goes: as more generics enter a market and make exactly the same product as their competitors, the lower the price should be.

Let's see what happened in Ontario with a blockbuster generic drug that received its approval in Canada in late 2006: generic ramipril (Altace). The range of submitted ingredient costs for private plan sponsors for 90 capsules in Ontario was as follows:
• Generic ramipril 10 mg (2007): $45.32 to $72.61 (average submitted cost of $61.15)
• Generic ramipril 10 mg (2008): $46.17 to $74.81 (average submitted cost of $64.32)

It is interesting to note that there is an incredible **60% difference** in cost between the range of submitted costs in 2007 and a **62% difference** in 2008. It was also curious to see the average cost of the generic drug increase between 2007 and 2008, given that at least seven companies have that product available in Ontario compared to one company the day it was released. This is not to suggest this phenomenon of an increase in generic prices is consistent across all drugs, but it is interesting to see how competition didn't make much of a difference in this case, in terms of the average cost submitted. Wouldn't it be great if, somehow, all of your plan members on ramipril managed to secure 90 days of the drug at $48 or $50 instead of $70 or $72, while you are trying to determine how you can better manage benefits costs in the face of wage freezes, layoffs and budget cuts? For those thinking they are safe with a pay-direct drug plan, it should be noted that in the data set above, the ingredient cost allowed was cut back only to the $66 mark. It's still a big savings over the reimbursement, with the client paying up to $72 or $74 for the same medication. But interestingly, in both years, less than half of all claims were submitted for an amount above the maximum cut-off point.

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What does the ODB pay for 90 capsules of generic ramipril 10 mg these days when you walk into a pharmacy with a driver's licence that says you are over 65 and looking to live forever with your favourite blood pressure-lowering medication? $46.17. No more, no less.

This issue is not just about Ontario. The financial fallout is spreading across the country, as other provincial governments let Ontario do the heavy lifting and race to copy aspects of Bill 102. If the public sector is putting in place measures to reduce costs across the country, where does that leave the private sector? Last year in Alberta, the range of submitted ingredient prices for Lipitor 20 mg within private plans was $192.82 to $231.89. In Newfoundland, it was $203.11 to $236.81. This is not an Ontario-only issue. The situation is not about to improve with tendering coming online in Ontario (with British Columbia and Alberta keeping a very close eye on things).

You have to tip your cap to the Ontario government, the clear leaders in this game. You may not like it, but you have to respect it. They instantly decide they will reduce their drug-cost markup, and pharmacies have to fall in line or face the threat of less business. They decide they will only allow generics at 50% of the brand price (instead of at 60% or 70%), and pharmacies have no choice but to agree. Instantly, a two-tiered pricing system is created: preferential prices for Dalton and Co., higher prices for private plans.

They decide to start tendering generic drugs and pocket the rebates at levels they don't need to disclose, and private plans sit by and watch with awe but little action. Finally, in the most recent act of this play, the knight rides in to save the day in Ontario by using these combined savings to add a pile of expensive new drugs as benefits on the formulary, including Lucentis for age-related macular degeneration. Not only does no other provincial plan cover Lucentis as a general benefit, it isn't even an Exception Drug in any other region.

What a nice ace in your pocket when you are looking for votes some day.

Private plan sponsors need to understand that drug-pricing issues are going to be enormously important in managing plan costs moving forward and educate themselves as to how they can participate in the solution rather than be victimized by the problem. The solutions are there—they just need to be accessed. In the cases presented above, and in many other cases that relate to the most commonly dispensed drugs in Canada, the savings referred to are significant.

Mike Sullivan is President of Cubic Health Inc., a Toronto-based drug plan management company that works with clients to optimize plan design and quantify the impact of alternate plan structures, measure plan performance, complete detailed budget forecasting using client-specific data, and actively manage the drug benefit.