white paper

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national pharmacare

NOVEMBER 2018

In February 2018, the federal government announced in its budget the creation of the Advisory Council on the Implementation of National Pharmacare. As a result, several market experts examined the matter and came up with alternatives that could be implemented by the government to address the issues raised.

In a discussion paper published in June 2018, the Advisory Council identified three key issues.

1. ACCESS TO MEDICATION: TOO MANY LEFT BEHIND

While prescription drug coverage in Canada is provided through a patchwork of more than 100 public and 100,000 private insurance plans, access to medicines remains difficult for many.

- A study published by the Conference Board of Canada presents a picture of the situation:
  - 600,000 to 700,000 Canadians do not have access to a public drug insurance plan
  - Many provinces that offer optional public plans have a low enrolment rate
  - Anywhere between 2 to 4 million Canadians do not currently have drug insurance coverage

2. DRUG COSTS: A SERIOUS, COMPLEX ISSUE

Spending on prescription drugs is no longer sustainable.

- According to the Advisory Council's discussion paper, the share of Canadian GDP spent on prescription drugs has more than tripled over the past 30 years, and now sits at 1.6% of the GDP.

The structure for introducing new drugs is particularly complex.

- No fewer than five federal bodies are involved in the regulation, evaluation and management of drug costs, in addition to provincial entities that replicate—in part or in full—the work of some federal organizations.

Prescription drug costs are not consistent for all Canadians.

- Confidential agreements in the public sector prevent the private sector from benefiting from the same cost savings. Insurance companies must negotiate with pharmaceutical companies on behalf of private plans. Therefore, plan sponsors and their insured members do not have optimal purchasing power across Canada.

3. HIGH-COST DRUGS: THE TIP OF THE ICEBERG

In recent years, the commercialization of high-cost drugs has intensified, as has the transfer from public to private plans of several drugs normally dispensed by hospitals, particularly in oncology.

For many private plans, this increase is compounded by the loss of adequate protection against the financial risks of high-cost drugs. The many barriers in the existing risk-pooling mechanisms mean that insured members and their families are often the ones left to absorb these soaring costs.

Finally, managing patients using high-cost drugs is a complex task for health care specialists. For the same drug, each insurer has its own acceptance criteria that differ not only from one insurer to another, but sometimes from the criteria established by public plans in some provinces.

This problem has been around for many years.

In 2013, Normandin Beaudry published a white paper titled *A Solution for Private Drug Plans* to find an approach for mitigating the burden on sponsors dealing with high-cost drug claims

According to Normandin Beaudry's database, **in 2017 1% of all participants claiming the most expensive drugs represented a third of the drug costs of all plans.** And this financial burden only continues to grow.

Normandin Beaudry's four guiding principles

The guiding principles presented in this section were established following a thorough analysis of comments received from various stakeholders of Canada's drug insurance industry: insurers, pharmaceutical companies, private plan sponsors, unions, and business networks. Normandin Beaudry's position is also based on discussions with several of its clients.

PRINCIPLE 1

PROTECTING ALL CITIZENS

Normandin Beaudry believes that all Canadians should have access to basic drug insurance that covers at least all medical conditions.

This principle resonates across the country. Access to health care is deeply rooted in Canadian values, just as it is omnipresent in positions published on the subject.

> *"We believe anyone with a health card should have coverage for the medicines they need."*
>
> – Canadian Labour Congress

> *"All Canadians should have equitable access to medically necessary. prescription drugs."*
>
> – The Future of Drug Coverage in Canada, published by The Pharmaceutical Policy Research Collaboration, University of British Columbia

> *"We agree with the imperative that all Canadians should have access to the prescription medications they need."*
>
> – Sun Life Financial, 2018

This consensus is nothing new, as this has been documented in studies commissioned by the federal government for more than 50 years.

> *"What the Commission recommends is that in Canada this gap be closed, that as a nation we now take the necessary legislative, organizational and financial decisions to make all the fruits of the health sciences available to all our residents without let or hindrance of any kind. All our recommendations are directed toward this objective. There can be no greater challenge to a society of free men."*
>
> - Royal Commission, 1964

PRINCIPLE 2

CREATING A NATIONAL PLAN FOR CERTAIN MEDICINES

Scientific advances in health have revolutionized and shaken societal habits.

- Some drugs can completely eradicate certain illnesses. For instance, medicines for Hepatitis C, which were marketed years ago, have treated thousands of Canadians. It is now possible to imagine a world without Hepatitis C. On the other hand, these medications required several years of research and development and cost taxpayers anywhere from $60,000 to $120,000 per patient.

  For a single individual, some medicines represent expenses in excess of $500,000, even $1 million every year. Such high costs not only limit a plan sponsor's financial ability to offer a group benefits plan to its employees/members, but the measures available to manage such claims are insufficient in the private sector.

Normandin Beaudry believes that such a financial burden should be distributed among all Canadian taxpayers. The societal impact and financial risks of high-cost drugs would therefore be shared by all public and private sectors.

To evaluate if a prescription drug carries significant societal impacts and financial risks, the federal government could base its analysis on the following criteria:

- Cost
- The proportion of the population afflicted
- The treatment's pharmacoeconomic efficacy
- The singularity of the solution available
- The societal impact of coverage
- Plan sponsors' and members' ability to pay
- Incentives to invest in pharmaceutical research and development in Canada

The cost of medicines thus identified would be borne by governmental coverage, from the first dollar. Consolidating high-impact drugs within a single body would provide consistency and equity throughout the country, especially in terms of authorization criteria. A list of prescription drugs, based on rigorous criteria, would furthermore allow to negotiate competitive costs for the entire Canadian market.

PRINCIPLE 3

A WINNING DUO TO BE MAINTAINED

There are several reasons for maintaining a shared responsibility between the public and private sectors.

- With fierce competition and limited resources, private plan sponsors would continue to exert some pressure for maximum efficiency.
- In a context of full nationalization, organizations offering private plans would lose a distinguishing feature of their total rewards offer, while potentially having to spend more to fund the public plan.
- Additionally, with private plans being tax-deductible expenses for companies, national pharmacare could result in the removal of this benefit and the imposition of a new tax.
- Private plans are generally more generous than public plans in terms of reimbursements and lists of covered prescription drugs. National pharmacare could lead to the loss of certain benefits for individuals currently covered by private plans. There is therefore a real risk of levelling down.
- A partial or total national pharmacare plan means plan sponsors would be saddled with the complex task of managing existing agreements included in different labour contracts and promises made to retirees.

- As a society, prevention should be at the core of our concerns, which would also help counter rising health care costs. Private plans are based on this principle and foster prevention and the presence of active employees in the workplace. A business with skyrocketing costs would naturally be more inclined to invest in prevention. In the absence of any evidence to the contrary, public plans have not demonstrated this same dynamic.

- Economies of scale could be generated through the concerted negotiation of drug costs between all stakeholders, for the benefit of all Canadians. National pharmacare is not the only way to achieve such savings.

- Maintaining this economic ecosystem would protect thousands of high-paying jobs in the pharmaceutical and insurance markets.

- The implementation of a single-payer national pharmacare plan would impose a heavy responsibility on the government, involving the implementation of nationwide IT infrastructures, in a complex area where health, technology and insurance converge.

PRINCIPLE 4

FOR AN OPTIMAL SYSTEM

Normandin Beaudry believes than an optimized system would provide all Canadians access to new available treatments at a reasonable cost, as quickly as in comparable major economies.

HOW TO ENHANCE THE CURRENT SYSTEM?

The need to reorganize the underlying government structure behind the drug approval and marketing processes is a promising solution.

As mentioned in the issues raised by the Advisory Council, five different federal bodies are involved in the regulation, evaluation and management of drug costs, in addition to provincial entities that replicate—in part or in full—the work of some federal organizations.

- The delay between submitting a medication to Health Canada and its commercialization can exceed 24 months. This delay is significantly longer than what we have observed in most comparable countries.

The authorization process for exception drugs is not only long, but is also inconsistent between public plans, private plans and the different insurers. Simply standardizing forms and authorization criteria would reduce authorization delays and the time spent by health care specialists, in addition to fostering sound financial management of all private drug insurance plans throughout the country.

The pooling process for high-cost drugs should be revamped at the national level. By correcting the existing flaws, an approach binding insurers—while maintaining a competitive dynamic between them—would allow to better distribute and manage risk. This solution is essential to the sustainability of private plans, especially for small and medium-sized businesses.

Finally, Canada could exercise its full purchasing power by negotiating for all citizens, whether they're insured by a public or private plan. Not only would this lead to cost savings, but it would eliminate current inequities created by price variations.

Options considered by the federal government

As of November 2018, the Advisory Council has retained three options for the implementation of a federal drug insurance plan:

- Adopting a universal plan covering prescription drugs for all Canadians
- Implementing a safety net protecting Canadians with medical conditions requiring the use of high-cost drugs
- Maintaining the public-private mix, with regulations and public funding ensuring access to prescription drugs for all Canadians

Normandin Beaudry's proposal is presented in pages 19 and following. It is a combination of elements proposed by the Advisory Council. But first, let's look at the Quebec model.

The Quebec model

According to many industry experts from across the country, the Quebec model is an example to follow. Normandin Beaudry, a total rewards and actuarial consulting firm, has been closely following the evolution of Quebec's Public Prescription Drug Insurance Plan (PPDIP) for nearly two decades and agrees with the experts' opinion. Many parallels can be drawn between these current discussions and the implementation of the PPDIP in 1997.

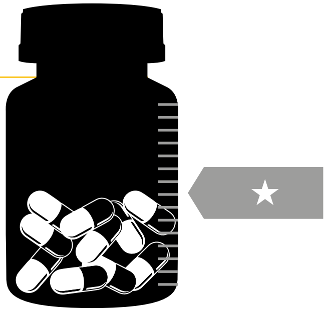
Does this model fit in with Normandin Beaudry's guiding principles?

PRINCIPLE 1

ACCESS: GOAL ACHIEVED

In Quebec, prescription drug insurance coverage is mandatory. When a private plan is available, it takes precedence over the public plan. If an individual is not eligible for a private plan, the public plan thereby applies, offering basic coverage that is relatively generous. Note that private plans must be at least as generous as the public plan.

PRINCIPLE 2



COST STABILITY: GOAL PARTIALLY ACHIEVED

The Quebec Drug Insurance Pooling Corporation protects private plans from potential repercussions of high-cost drug claims. However, this approach still comes with its share of risks as these plans must absorb a significant portion of costs, thereby creating a financial burden that can be difficult to contend with.

PRINCIPLE 3

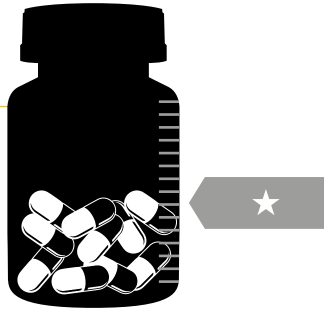
PUBLIC-PRIVATE MIX: GOAL MOSTLY ACHIEVED

Quebec is a good example of a mix, where private plans and the public plan (PPDIP) coexist. Citizens who do not have access to a private plan are automatically covered by the PPDIP.

To maximize the benefits, it would be essential to put an end to confidential agreements, which only benefit a segment of the Canadian population, as well as all other systematic price differentials.

The total cost of a medication consists of components other than the cost of molecules, such as the wholesaler margin and the pharmacist's dispensing fees. Disparities remain in Quebec between the total price paid by a patient covered by the public plan and that paid by an individual under a private plan. The implementation of a national drug plan should close these gaps and ensure that all Canadians pay a fair price for the same medication.

PRINCIPLE 4



EFFICIENCY: GOAL PARTIALLY ACHIEVED

Aside from certain confidential agreements that concern a small number of medicines, the Quebec model promotes the effective control of molecule costs by negotiating for private plans as well as for the public plan (PPDIP). This approach could be an interesting option to examine ahead of the eventual development of a national drug insurance plan.

On the other hand, the approval process conducted by the Institut national d'excellence en santé et services sociaux (INESSS) replicates a significant portion of the work done at a national level by the Canadian Agency for Drugs and Technologies in Health (CADTH). Only the work replication is called into question here, and not the quality of the work performed by these agencies.

Normandin Beaudry's proposal

The approach Normandin Beaudry proposes is inspired in part by the Quebec model. It is a hybrid solution between the safety net and the public-private mix options presented by the federal government.

It is fully in line with the four established guiding principles: access, cost stability, public-private mix and efficiency.

To address the issues raised, without disrupting the current ecosystem.

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HIGH-COST DRUGS WITH A SIGNIFICANT SOCIETAL AND FINANCIAL IMPACT
?

YES

1 **STATE-SPONSORED COVERAGE** FOR ALL CANADIANS FROM THE FIRST DOLLAR

NO

LIFE-SAVING DRUGS AND MEDICINES NECESSARY FOR ALL BASIC MEDICAL CONDITIONS
?

YES

2 **MINIMUM COVERAGE** FOR ALL CANADIANS, ADMINISTERED BY THE PROVINCES

NO

OTHER DRUGS THAT HAVE BEEN AUTHORIZED FOR SALE IN CANADA
?

YES

3 **ADDITIONAL COVERAGE** DEPENDING ON WHAT PROVINCIAL AND PRIVATE PLANS CHOOSE

Normandin Beaudry proposes a three-tier approach. These tiers are presented sequentially for the administrative course of a prescription drug, and not that of the insured.

1. STATE-SPONSORED COVERAGE OF HIGH-COST DRUGS FOR ALL CANADIANS, FROM THE FIRST DOLLAR

- This coverage would be administered by a federal entity and would protect all Canadians.
  - This governing body would be responsible for selecting drugs to be covered, negotiating costs with pharmaceutical companies, as well as overseeing the authorization process that would allow patients, depending on their medical conditions, to have access to these medicines.
  - Given that the reimbursement would be made from the first dollar, this would eliminate the administrative burden created by the coordination of benefits between different plans, as is currently the case in some provinces. This simplified administrative procedure would greatly increase **efficiency** at all levels compared to the current system.
  - Other private or public plans will no longer have to worry about reimbursing medicines covered by this plan.
  - Such a federal system would guarantee **access** to these medicines to all Canadians who need them and would foster greater **cost stability**.

2. MINIMUM COVERAGE FOR ALL CANADIANS, ADMINISTERED BY THE PROVINCES

- This coverage would require provinces to grant all Canadians **access** to a drug insurance plan and would guarantee minimum coverage established by the federal government. However, provinces would retain control of the parameters of their plans, including the **public-private mix** and enrolment rules, in recognition of their regional differences.

- This latitude, maintained for the medication reimbursement method, should however provide the same basic coverage to all Canadians, thereby ensuring everyone's financial security. Provinces would thus be free to establish solutions that best meet their population's needs. For example, while they are fundamentally different, British Columbia's Medical Services Plan and Quebec's PPDIP provide adequate coverage to their population. The federal government could simply ensure that all provinces protect their citizens in this manner, based on criteria guaranteeing at least **access** to the same list of medications, reimbursed by the provincial plans, whether public or private.

- This list would cover medications for all medical conditions, and not only life-saving drugs. Public and private plans would have to conform to this minimum list; in cases where the public plan is not the first payer, private plans would also have to comply with these minimum requirements.

- Naturally, high-cost drugs covered in tier 1 would not be eligible under this basic coverage, as these would be subject to standardized coverage for all Canadians.

3. COVERAGE OF OTHER DRUGS THAT HAVE BEEN AUTHORIZED FOR SALE IN CANADA

- One of Health Canada's roles is to analyze if a drug product is fit for consumption prior to being authorized for sale. Many medicines that are not part of the state-sponsored plan established in tier 1 and not covered by the minimum coverage established in tier 2 are currently available for sale on the Canadian market. The decision whether to cover these medications would be up to the provinces and private plans.
  - For instance, lifestyle drugs could be part of this list.
  - If a province decided to include some of these drugs in its public plan, it would retain the right to compel the province's private plans to provide coverage for these drugs as well. In that case, private plans would have to cover at least all medicines included in the provincial list, while retaining the freedom to offer more comprehensive coverage.
  - Private plan sponsors could choose to cover a wider range of medications, while adhering to federal and provincial regulations. This would allow them to personalize coverage and to set themselves apart with their total rewards offer.

One federal body would be responsible for overseeing these three coverage tiers and establishing authorized sale prices, for the public and private plans, thereby ensuring greater **efficiency** of the system, improved **cost stability** as well as greater standardization across the country.

CONCLUSION

While Normandin Beaudry's proposal does not disrupt the current ecosystem, it provides corrective actions and addresses issues raised by the Advisory Council. The steps for implementation could be further analyzed once the parameters of national pharmacare have been defined.

The Advisory Council's recommendations will be released in spring 2019. Normandin Beaudry will continue to follow this matter closely and assist its clients in getting the most out of it!

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