

Drug Pricing Discrepancies in Canada

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There are some profound drug pricing discrepancies in existence within private sector drug plans that highlight the driving forces behind the end of the existing model of how private sector drug plans are administered and funded in Canada, and a move to a more plan-sponsor centric system. Given that the private sector is responsible for more than half of the estimated \$22.5 billion spent on prescription drugs in 2008, the financial impact of these discrepancies is growing more significant each day.

In an economy that has lost a great deal of its lustre over the past year, plan sponsors are recognizing, in growing numbers, that the existing model that has not served their interests well in recent years and has to change. A new set of stakeholders is emerging to fill this growing market demand for change.

Given the amount of money at stake, it's not a matter of if changes to the model are coming, it's only a matter of how soon they will arrive.

This article examines both the macro-level pricing issues impacting private sector plan sponsors across Canada, as well as the plan-level pricing discrepancies that plan sponsors can address in the short-term. These pieces combined spell the end of the existing model of private sector drug plan financing.

Canada vs. the Developed World

Canada may be home to the world's longest skating rink and maple syrup, but we are also home to the highest generic drug prices in the developed world. In a recent report published by the Fraser Institute, it would appear that, on average, Canadians are spending more than double on generic medications than our neighbors to the south. While we may have lower brand name pharmaceutical costs than the United States, our generic penetration rates in a largely non-managed plan environment are exceptionally low (especially when you consider that plans in the U.S. routinely have generic penetration rates as high as 60%) and our generic prices are materially higher.

It is very difficult to believe that generic simvastatin (reference product is Zocor, an alternative to Lipitor and Crestor) costs nearly 700% more in Canada than in the U.S. It is interesting to imagine the opportunities for Canadian plan sponsors if they could access even a portion of that discount.

The Public vs. Private Sector

The example of gabapentin (a drug primarily used to treat nerve-related pain and epilepsy) in Ontario is a great example of the public vs. private sector pricing discrepancies. The Ontario Drug Benefit (ODB) Formulary price (book price) for gabapentin 300mg is currently 33% lower than the private sector wholesaler price. Interestingly, gabapentin is one of the first four products to be subjected to the Government of Ontario's new Competitive Agreement (CA) tendering process where the government will begin to receive rebates directly from the manufacturers who win the tender, further lowering their cost for a given CA product.

If the rebate levels to the Government of Ontario exceed 35% (which many executives in the generic industry think is very likely to happen), that would mean that the cost of gabapentin will be more than double for the private sector than it is for ODB claimants (i.e., seniors 65 and over). The interesting part about this is the government isn't opening up its own network of pharmacies and buying product from the manufacturers directly at a cost savings; these are the same products off the same shelf at any given pharmacy that will likely cost the private sector more than double what the public sector will pay.

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The Private Sector vs. Private Sector

Even more surprising than the public-private sector pricing discrepancies are the pricing issues within the private sector. Generic pantoprazole (reference product is Pantoloc—a popular stomach acid lowering therapy) is on average 46% more expensive in seven Canadian provinces than it is in the three least expensive provinces. How does that make any sense?

The saying goes that if you have any type of cancer you should move to British Columbia because of its very generous coverage of the latest cancer treatments. A newer version of that saying should be if you have a stomach ulcer or reflux disease, move away from B.C.

The Private Sector vs. Private Sector: Part 2

It is interesting to see what goes on within a given private sector plan with multiple claims for the same quantity of a particular drug dispensed at a number of different local pharmacies. We have seen a very wide range of eligible ingredient costs submitted to a plan, which the plan sponsor is required to pay.

Take the example of Advair 250 Discus inhaler. In one recent case we noted, there was a greater than 10% discrepancy between the ingredient cost submitted (and paid for by the plan) for one inhaler dispensed at Pharmacy A and an identical claim dispensed at Pharmacy B down the road. That's significant when you figure that one Advair inhaler is worth roughly \$100. This was not an isolated example either. This is an unnecessary additional cost for these plan sponsors to be bearing.

Excessive Mark-Up on Actual Acquisition Cost (AAC)

This is commonly seen in reimbursement plans in Canada. A reimbursement plan means that the plan member is treated as a cash paying customer at the pharmacy. Since there are few price controls in place without real-time adjudication, it is interesting to see what can happen in this environment. We have commonly seen claims that have been paid in a reimbursement environment that had drug ingredient costs that were 10% to 30% higher they should have been. This can obviously cost reimbursement plans a great deal of money.

The Beginning of the End of the Existing Model

If the private sector is now paying more than \$12 billion annually for prescription drugs, imagine a world where better management allowed for a 10% savings in drug costs annually. That would effectively eliminate the annual cost inflation trend for most employers and would save the private sector \$1.2 billion each year. If generic prices in Canada were similar to those in the U.S., we would already be at that 10% savings figure given that, on average, generic drugs make up 20% of plan spending in Canada.

The existing model no longer works for the private sector. The fact that those paying the bill have not been able to participate in any form of cost savings like the public sector has (or payers in other countries have) is a bitter pill to swallow for individuals challenged with managing their plan's spending and future investments. Change is coming because the money involved is very significant and the challenges ahead will require plan sponsors to take a much more active role in managing their investments in this area.

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