

Private Plan Sponsors are Losing the Race

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There are not very many areas with respect to operating a business where governments are light years ahead of the private sector, but the management of drug plan benefits is certainly one. Not only are private plan sponsors losing the race, they are losing by an increasing—and embarrassing—margin. The incredible part of this story is that billions of dollars are at stake.

According to the Canadian Institute for Health Information (CIHI), Canadians spent nearly \$27 billion on prescription and non-prescription drugs (prescription drugs made up 85% of that spending) in 2007. Only 48% of that amount was paid for by the public sector, leaving in excess of \$14 billion for cash paying customers and private plans to absorb.

The Latest Straw on the Camel's Back

The Government of Ontario announced the launch of its “Competitive Agreements” initiative in early July. This follows on changes that were ushered into the system with the passing of the Transparent Drug System for Patients Act. This new program is looking to assist the provincial government in decreasing the amount it pays for generic drugs.

The Competitive Agreements (CA) process involves the government naming two winning bidders for each product it places on the CA list. The criteria for successful inclusion as one of the two CA suppliers for a given drug are: price, and the security of the product's supply. The formulary or “book” price of these drugs would remain at 50% of the brand cost (as it is today), but the winning companies would provide quarterly cash rebates directly to the provincial government. The first four drugs on the CA list include enalapril (blood pressure), metformin (diabetes), ranitidine (stomach acid disorders), and gabapentin (epilepsy and neuropathic pain). This process is expected to be in place by Jan. 1, 2009 for these first four molecules.

Only the products from the two winning companies will be reimbursed by the government. The other comparable generic products will no longer be listed benefits eligible for coverage.

You have to hand it to the government—this is a clever way to reduce their costs without upsetting the apple cart. By keeping the book price at 50% of the brand name cost, it encourages competition between generic manufacturers who do not run the risk of other jurisdictions finding out about their deals with Ontario. It also ensures that the provincial government realizes its own cost savings without having to affect similar savings for the private sector.

It is conceivable that the unit price of CA drugs in Ontario could be more than double the cost for private plan sponsors than the government, providing yet another prime example of a provincial government increasing its lead by a wide margin over the private sector. For example, if we assume that a pharmacy could obtain generic drugs at the book price for private plans, all it would take would be for the competition in the CA process for key molecules to become heated, and rebate levels to the government set at 50% or higher in order for private plans to be paying double the price for the same drug as the public plan.

What kind of pressure is this going to put on manufacturers and stakeholders involved in the manufacturing and distribution of drugs to offset these losses in the public sector by seeking larger returns within the private sector plans? What is that going to mean for private plans that are unprepared?

Impact of Pricing Volatility



We have entered a new age of prescription pricing volatility in Canada. Prices are changing with increasing frequency and we are noticing very significant discrepancies in pricing between some jurisdictions. For plan sponsors that have never considered the impact of this volatility on their plans, it is worthy of attention.

For example, the second biggest class of drugs in Canada (behind statin drugs used to treat high cholesterol) is proton pump inhibitors (PPI) used to treat a variety of gastrointestinal issues including reflux. The names in this category are well known: Nexium, Prevacid, Pariet, Pantoloc, and of course the original market leader before its patent expired, Losec.

Let's consider the pricing differences across the country of the two remaining brand name drugs in this class: Nexium and Prevacid. The difference in unit price of the most common strength of each drug is 6% between the least expensive and most expensive province. The same can be said for Apo-Omeprazole, the leading generic alternative to Losec. Its range is 5%.

Now let's consider the two newest generic PPIs: rabeprazole (Pariet) and pantoprazole (Pantaloc). Depending on your postal code, the range of unit prices for generic Pariet is an incredible 48% between the least and most expensive provinces for this particular drug. The story with generic Pantaloc is no different with a 47% difference in price

How does that make you feel if you are paying for these claims, yet have no idea what you are paying? If I paid 48% more for a Big Mac in one province than another, I know how I would feel.

What Now?

For plans that have not reviewed their plan experiences over the past 24 months, these pricing issues may only be the tip of the iceberg as to what is happening in the plan. There have been many cases over the past two years where Canadian plan sponsors have been able to realize immediate plan savings of between 4% and 8% of total drug plan spending without the need to alter their plan designs. Other groups have seen even greater savings without eroding the value of their benefit by making a handful of small, but very effective plan design changes.

The marketplace is extremely dynamic today and the stakes are continuing to grow. There is a compelling need for plans to look closely at their own experience and ensure they are doing what they can to insulate themselves from unnecessary cost inflation within their drug plans.

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