

# CANADA



‘Coming out with all these things at once really blindsided everybody.’ — *Mike Sullivan*, president of Cubic Health Inc.

## DRUG FEES CONTROVERSY



AARON LYNETT / NATIONAL POST

The debate over generic drug prices has grown heated, with Deb Matthews, Ontario's Health Minister, accusing pharmacists of taking patients "hostage."

## QUESTIONS & ANSWERS

### Going behind the counter

How the complex world of generic drug pricing works in Ontario, and most other provinces

**Q** How much does Canada spend on prescription drugs?  
**A** \$25.1-billion. Brand-name: 48% of prescriptions. Generic: 52% of prescriptions.

**Q** Who pays for them?  
**A** Provincial government drug plans: 47%; Private insurance and workplace drug plans: 37%; Individuals out of pocket: 16%.

**Q** How does the pricing of generic drugs work, and who gets what?  
**A** 1) Generic manufacturer sells to pharmacy, through a wholesaler. The price is restricted now in Ontario to 50% of the brand-name version of the drug when prescription is covered by the provincial benefit plan. There is no price restriction when covered by a private drug plan or individual.

2) Pharmacy requests rebate from manufacturer. In Ontario, that's limited to 20% of the price when the drug is paid for by the Ontario drug benefit plan, but unlimited and averaging 85% of price when paid by private drug plans or individuals.

3) Pharmacist charges a dispensing fee, \$7 now in Ontario.

4) Pharmacist charges a mark-up on drug price, 8% in Ontario.

5) Provincial drug plan, private plan or individual pays the resulting total, with plans sometimes requiring patients to cover part of the cost.

**Q** How much do Ontario pharmacies receive annually in rebates?  
**A** Estimated at \$800-million by the Health Ministry.

**Q** What will change under Ontario's plan?  
**A** 1) Rebates — called professional allowances in Ontario — to be banned, immediately on public side, phased in over three years on private side.

2) Prices of generic drugs to be reduced to 25% of the brand-name price, with same phase-in on private side.

3) Dispensing fees increased to \$8 in urban areas and up to \$11 in rural areas under government plan; unrestricted on private side.

4) Mark-up capped at 8% on public side, unrestricted on private side.

5) \$100-million fund available to pay for specific services provided by pharmacists.

Sources: IMS Health Canada, Canadian Institute for Health Information, Ontario Health Ministry

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## Ontario's drug reforms being closely watched across country

# PHARMACY FIGHT

### BY THE NUMBERS

BY TOM BLACKWELL

Bit by bit over the past few years, workplace benefit plans in Ontario watched as the price of generic drugs climbed ever upward. Some thought the medicine's manufacturers were behind the increase; Barbara Martinez knew better.

The inflation stemmed from the rebates the generic firms paid to pharmacies, says Ms. Martinez, now a consultant who advises company benefit managers — but formerly a sales representative for a generic company.

"I used to be on the street selling and negotiating the rebates. I have a very unique perspective," said the analyst with Mercer Canada Ltd. "A pharmacy chain says.... 'This guy's giving me this rebate. Are you going to match it, are you going to better it?' It's just a never-ending battle."

The system works much the same in most other provinces, too, and those rebates have helped fuel generic prices in Canada that are among the highest in the developed world, according to the federal Competition Bureau and others.

The Ontario government unveiled reforms to tackle the issue earlier this month, and touched off a bitter spat that is pitting government against industry. The province banned rebates — officially called professional allowances — that it estimates swell pharmacy coffers by \$800-million a year, and ordered that generic prices be lowered.

There is little debate the allowances are a hard-to-justify distortion within the system. As the reforms come under closer scrutiny, though, even some sympathetic outside experts suggest the government may have gone too far, and predict the changes will spur unintended consequences: service cuts, higher fees that individual patients will have to pay, and maybe even a new version of those infamous rebates.

The changes, meanwhile, are being followed closely across the country.

"Coming out with all of these things at once really blindsided everybody," said

**Price of generic version of 10 mg dose of Ramipril, an ACE inhibitor drug for treating high blood pressure and heart disease, in different provinces, before Ontario reforms**

**When paid by private drug plan or individual**

- 75¢ British Columbia
- 69¢ Alberta
- 74¢ Saskatchewan
- 71¢ Manitoba
- 70¢ Ontario
- 50¢ Quebec
- 72¢ Atlantic Canada

**When paid by provincial drug plan**

- 67¢ British Columbia
- 63¢ Alberta
- 67¢ Saskatchewan
- 63¢ Manitoba
- 47.5¢ Ontario
- 47.5¢ Quebec
- 67¢ Atlantic Canada

Source: Cubic Health Inc.

The reality is you can't make these drastic cuts and expect pharmacy to stay the same

Mike Sullivan, president of Cubic Health Inc., which also advises workplace health plans. "The whole apocalypse descended in one fell swoop."

Ontario did promise to increase pharmacist dispensing fees, and set up a \$100-million fund to pay for specific patient services offered by pharmacists. The druggists say they will still have to absorb a crippling financial hit, though, with the result being a move toward shorter hours and less attentive service.

The debate has grown heated, with Deb Matthews, the Health Minister, accusing pharmacists of taking patients "hostage," and the Shoppers Drug Mart chain announcing it was immediately cutting back its store hours in the minister's own London riding.

The whole debate is rooted in the long-standing hope that generic drugs — bargain-priced copies allowed on the market when patents expire for a brand-name original — could do more to contain the burgeoning cost of prescription medicine, now at \$22-billion a year in Canada.

According to figures in a 2006 federal report, though,

prices of generics here are significantly higher than in most other industrialized countries. The culprit, the federal Competition Bureau later concluded, was not lack of competition among generic manufacturers, but the fact the marketplace rivalry focused on rebates paid to pharmacies to guarantee shelf space for generic products, savings that do not trickle down to those who pay for the medication.

Ontario took a first stab at the problem in 2006, with a bill that trimmed rebates for generic drugs covered under the provincial plan, and slashed prices of those drugs to 50% of the brand-name price.

Pharmacies protested then, too, but the sector has actually thrived, with 140 more stores now than before the changes.

The earlier reforms did nothing to change the system on the private side — drugs covered by company plans and uninsured individuals — and pharmacies began exacting higher allowances there, with rebates reaching an average of 85%, and drug prices climbing.

The new plan — slashing prices to 25% of the brand-names and banning rebates — applies to both the private and public sector. Even factoring in the slightly higher dispensing fees and the new services fund, the average hit for pharmacies will be about \$300,000, said Nadine Saby, CEO of the Canadian Association of Chain Drug Stores. "This is nothing but a massive health-care cut," she charged yesterday.

Neil Bornstein, who runs the West Hill Pharmasave in Toronto's east end, said he

will be out \$160,000, a gap he still isn't sure how to close.

This time, the pharmacy rhetoric has some substance, analysts argue. Druggists may well be forced to cut back services, which could send more people to emergency departments with medication-related problems, said Neil MacKinnon, a pharmacy professor at Dalhousie University.

"The reality is you can't make these drastic cuts and expect pharmacy to stay the same," he said.

No one is ruling out the possibility the province will make some concessions, which might include further boosting dispensing fees — pharmacies say they should be doubled to \$14 — and offering more money for specialized services.

If that does not happen, observers predict drug stores will look to the private sector again to recoup losses, perhaps by boosting dispensing fees for drugs paid for by the private sector. Meanwhile, one industry source says pharmacy chains have already warned generic makers they are looking at volume discounts and other "commercial terms" — allowed under the new rules — as a fresh source of revenue flow from manufacturer to drug store.

Ms. Martinez said the word is that dispensing fees on the private side, which now range from \$4 to \$12 and will remain unregulated, could soar to \$20, some of which patients may have to pay. But at least customers would know where their money is going, she said. "The prices of generic drugs keep going up and up and up in order to fund these extra services that pharmacists provide, but it's hidden to us," Ms. Martinez said.

"If the rebates are eliminated and the price is regulated, what it's going to do is force pharmacists to tell people what it does cost to get their care."

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