



Ask the Expert

What can plan sponsors do to ensure cost containment in their plans, given the momentum we're seeing in the market with respect to drug benefits changes?

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The biggest concern we have for plan sponsors is, they will be lulled into a false sense of security, given the proposed changes in Ontario and those recently introduced in Alberta. Some sponsors may believe these changes will automatically provide significant cost containment in the future, but these changes actually run the risk of costing plans more money in the short term.

To be clear, lower generic prices are a good thing for plan sponsors and their members—there is no debate about that. The issue here is, not only are these changes solely focused on generic drug costs, there are also some adverse, unintended consequences that plans need to consider. For example, Ontario and Alberta pharmacies may follow the lead of their peers in Quebec and Saskatchewan and dispense a much higher proportion of monthly supplies for intermittent and chronic medications, transforming four or five fills for a given medication into 12 or more fills over the course of the year. There is also the issue of increases to the markups that are currently charged on both brand and generic drug ingredient costs. Pharmacies have the ability (and the right) to do all of these things.

With this in mind, plan sponsors must understand their own unique experience and take advantage of the various stakeholders wanting to assist them in achieving their cost-containment goals, such as pharmacies looking to develop preferred provider networks.

Plan sponsors should also put controls in place to prevent unintended consequences. For example, does a plan have any limits on the number of fills it will allow per medication per person per year? What mechanisms does a plan have for increasing generic penetration—outside of the Mandatory Generic Substitution clause?

The average eligible generic ingredient cost per claim in a standard plan in 2009 was \$34 to \$37. In Ontario, the average manufacturer list price within the private sector for a number of common generic drugs is currently 25% to 40% higher than the Ontario Drug Benefit price. However, with these proposed changes, a number of older generic drugs, such as amoxicillin (Amoxil) and sertraline (Zoloft), will not see any price change.

As a result, we can estimate that in the near term, the average generic ingredient cost reduction across the board will be no more than 30%. That means, on our \$35 base generic drug cost, a 30% reduction would save our model plan \$10.50 per claim. That, however, doesn't account for increases likely to be seen in markups and dispensing fees, which are not controlled by provincial governments.

If the average dispensing fee increases from, say, \$9.50 to \$13.50, we have now eaten into approximately 40% of the ingredient cost savings. But, since roughly 50% of claims are generic, and 50% are still brand products, an average dispensing fee that increases by \$4 would impact all claims, not just the generic experience. Therefore, that would erode 80% of the savings in this example through dispensing fee increases alone. Some plans may argue they have a cap in place, so this issue won't impact them. That may be true, but the balance can be billed to the member. And, if pharmacies increase their markups across the entire product line, even a 2% increase in the markup on brand drugs would erode another 20% or so of the estimated savings.

The onus is squarely on individual plans to review their own experience, implement the right controls, develop the appropriate plan design modifications, educate their employee base and partner with stakeholders. That way, the savings that are realized moving forward can be measured and allocated to areas of the benefits program that better assist plan sponsors and their members. **BC**