

# Benefits CANADA

## The impact of geography on drug plan costs

Mike Sullivan | April 09, 2012



It's easy to get caught up in the age and gender distribution of a plan population when attempting to assess future costs for a given plan—and trying to develop solutions to contain those costs.

But there is one variable that has a profound impact on plan costs yet is commonly overlooked: the geographical profile of a plan population. Plans with significant population bases in provinces such as British Columbia and Saskatchewan have an advantage over plans with most of their membership in regions such as Alberta, Ontario and Atlantic Canada.

Consider the three examples of plan experiences listed below, which Cubic Health has reviewed over the past year.

1. A plan with more than \$40 million in prescription drug plan spending in 2010 has the following proportions of its expensive specialty (i.e., biologic) drug utilization paid for by other plans through co-ordination of benefits:

- Western Canada: 48%
- Ontario: 18%
- Atlantic Canada: 14%

2. The average amounts eligible per drug claim for Western Canada, Atlantic Canada and Ontario were \$58.92, \$64.41 and \$69.63, respectively, despite a very similar age demographic among the regions.

3. Looking at another plan with more than \$10 million in prescription drug plan spending in its most recent benefits year...

- the Western Canadian plan had specialty drug spending equal to 13.2% of plan spending (with an average eligible cost per claim of \$59.42); and
- the Ontario plan had specialty drug spending equal to 21.4% of plan spending (with an average eligible cost per claim of \$76.30).

The big advantage for employers in provinces such as B.C. and Saskatchewan is that all residents are eligible for coverage under the provincial drug benefit programs once an income-based cost threshold is met. That gives employers with significant plan populations in those provinces a built-in security blanket for some expensive claimants. These kinds of advantages don't exist for plan sponsors in many other jurisdictions in Canada.

This isn't to suggest that plan sponsors in provinces such as B.C. can simply go to sleep because their problems are solved, but it should sound an alarm among plan sponsors in Alberta and Central and Atlantic Canada that have yet to consider the structure of their existing plan designs.

### **More on the “have-not” province of Ontario**

The recently proposed Ontario provincial budget includes a provision where higher-income seniors will incur a greater proportion of their prescription drug costs by 2014 through increased deductibles. This should be the first sign for Ontario plan sponsors that any B.C.- or Saskatchewan-style bailouts of high-cost claimants are about as realistic as the province's Original Six hockey team winning the Stanley Cup in the next few generations. Ontario's decision is certainly grounded in sound policy—it has long had the most generous prescription drug benefits coverage for seniors in the country—but if this sacred cow is being prepped for the BBQ, it's likely a sign of things to come.

April 1, 2012, also marked the drop of generic prices for the private sector to the same 25% of brand price level that the provincial drug plan has enjoyed for 12 months. It will be interesting to see the fallout on drug ingredient cost markups and dispensing fees charged to private plan sponsors (on both brand and generic drugs) over the next 12 months. There could be a great deal of turbulence in the retail pharmacy marketplace, given that, by April 2013, professional allowances paid by generic manufacturers to pharmacies will be completely eliminated within private sector plans in favour of “commercial terms” refunds that will be capped at 10%.

It's hard to predict what will happen over the next year, and what the impact will be on Ontario plan sponsors. But if the recent trends are any indication, we are likely to see increases in markups and the frequency in dispensing of chronic claims, but less movement on the current professional fees.

In a recent evaluation of more than \$700 million in drug claims between late 2009 and late 2011, we saw the following average markups being submitted by pharmacies for reimbursement above the manufacturer list price (MLP):

Fourth quarter 2009 – brand drugs: MLP + 17.9%

Fourth quarter 2011 – brand drugs: MLP + 20.0%

Fourth quarter 2009 – generic drugs: MLP + 14.2%

Fourth quarter 2011 – generic drugs: MLP + 19.2%

### **Generic Crestor arrives and more generic prices drop**

On a final note, the first week of April is supposed to mark the availability of generic rosuvastatin (Crestor) on the market in Canada. The announcement of the release of generic Crestor came a week before both New Brunswick and Newfoundland announced generic price reductions to 35% of the brand price. New Brunswick will see that price implemented by December 2012 and Newfoundland by April 2013.

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