Business Intelligence for Advisors

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After re-reading the article I wrote for Forum four years ago, entitled “The Road Ahead in Drug Plans”, I decided it was time for an update on this topic. At the time, I asked the question of whether the prescription drug coverage within most employer sponsored plans was sustainable. The question is just as valid today, if not more so, especially in light of what’s on the horizon. (*For another great article about the drug coverage “horizon”, read Sal Cimino’s article on the price of biologics.)*

For employers and employees the drug landscape in Canada is complex, with variations in both the public and private coverage primarily based on the employee’s province of residence. Although plan sponsors have little control over the public system coverage, most face a myriad of coverage options when designing their group insurance plan , including deductibles, coinsurance, generic and managed drug formularies.

Over the past number of years, we have actually seen a softening of drug inflation. In fact, ESI Canada, who is a pharmacy benefit manager for many Canadian insurers and Third Party Administrators, reported recently in their Outcomes 2010 webinar that annual drug inflation for their block has decreased from a high of 11.2% in 2003 to 5.4% in 2009. This trend has come partially as a result of not as many high cost new drugs entering the marketplace, as well as a number of more commonly prescribed brand name drugs coming off patent allowing for lower cost generics to take a greater position. In fact, from 2009 through 2014, we are reaching the “generic cliff” with a significant proportion of highly prescribed brand name drugs losing patent protection, including Lipitor within the last few months, which is the top prescribed drug from a cost standpoint for many insurers. For ESI, all of the brand name drugs coming off patent in 2010 represent 9.3% of their total drug spend in 2009. Furthermore, if you expand this list to all brand drugs coming off patent from 2009 to 2014, it would represent 28.9% of ESI’s total drug spend for 2009.

Recently some provincial governments, most notably Ontario and Alberta, have taken aim at the pharmacy industry in an attempt to help control some of the spiraling drug costs. On April 7th, 2010, the Ontario government announced sweeping changes to the drug system in the province affecting both public and private plans. The reforms include reductions in the cost of generic drugs, increased dispensing fees for pharmacists and new funding primarily for remote rural pharmacies. The Ontario government estimates these initiatives will save more than $500 million annually. Deb Matthews, the minister for health and long-term care, said the government is sending “a message to big pharmacies that their days of inflated prescription drug prices paid on the backs of patients are over.”

These reforms, which are due to begin being phased in on July 1st, have sparked a very public battle between the Ontario government and the pharmacy industry, illustrating that health policy decisions in Canada are extremely political.

At first glance, we might think this to be all good news for plan sponsors. Unfortunately, things are rarely as simple as they appear, especially when it comes to the drug landscape in Canada.

As Mike Sullivan, President of Cubic Health Inc. states, “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." Sullivan adds, "although there's no doubt that lower generic prices are a good thing for employers, there will likely be some adverse unintended consequences".

For example, it is likely that pharmacies will begin to increase dispensing fees to offset the lost revenue from generic rebates. Sullivan speculates "if the average dispensing fee increases from $9.50 to $13.50, it will eat into approximately 40% of the ingredient cost savings for generic drugs. However, since roughly 50% of claims are generic and 50% still brand name products, an average dispensing fee increase of $4 would impact all claims, not just generics, further eroding the savings".

An additional trend that will continue to put significant pressure on drug inflation is the growing market share of biologic drug. The term "biologics" can be used to refer to a wide range of biological products in medicine. However, in most cases, the term "biologics" is used more restrictively for a class of medications that are produced by means of biological processes involving recumbent DNA technology. Looking at ESI's data, biologic or specialty drugs did not even appear in their top 10 drug spend in 2000 while 3 out of 10 were specialty drugs in 2009. In fact, of the estimated 275 drugs in the late stage of development nearly half are biologics, many for the treatment of cancer.

So, what are employers and advisors to do? First, become educated on the drug landscape, including the specifics of provincial coverage, plan design options and coming trends. Second, stay tuned for my next article as I'll focus on ideas that will help employers maintain drug coverage as an affordable and meaningful component of their benefits program.