

Affordable Access to Medicines

A Prescription for Canada

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Summary

Canadians pay some of the highest drug prices in the world.¹ Those costs have implications for access to medication and, consequently, for the health of patients — especially those living on low-incomes. But high drug prices also have an impact on the public purse.

After two decades pursuing various approaches to managing medication costs, Canadians can see a clear path for improving health by enhancing access, while also reducing public expense.

Specifically:

- Canada can pursue targeted efforts at coordinated public buying of medications which would reduce public costs significantly

- These savings would enable publicly purchased medicines to be distributed to patients at little or no out-of-pocket cost
- Providing medications with no direct cost to the patient would increase adherence and improve health outcomes, thereby reducing the costs associated with unnecessary hospitalizations

These gains can all be achieved while lowering public expenditures by almost a quarter billion dollars annually for at least 80 commonly prescribed drugs. These gains occur most effectively and reliably in a publicly administered single-payer system.

This model of limited pharmacare provides benefits in health outcomes and access to care while significantly lowering costs. It is an inescapably sound public policy.

An Overpriced System

By now, it is a widely known fact that Canadians pay more for pharmaceuticals than almost any country in the world. With average drug prices 30% above the OECD average,² Canada trails only Switzerland and the U.S. in prescription costs.³ Excessive drug prices cost taxpayers, businesses and families billions. Bringing drug prices down to the OECD average could have saved Canadians \$9.6 billion a year.⁴ Bringing per capita drug spending in line with spending in the UK would provide better access to medications, but cost \$14 billion less.⁵ Even bringing Canada into line with the German system, a comparatively high priced jurisdiction, would save \$4 billion per year.

By any measure, Canadians pay more than they need to for medicines. Governments, businesses, and households can readily save billions of dollars by bringing Canadian drug prices in line with international standards.

Some Extraordinary Costs and Exceptional Opportunities

Though the overall cost of Canada's current system is worrisome, some of the details are shocking. For dozens of pharmaceuticals Canadians pay 5, 10, even 25 times the best rate on international markets.⁶ Bargaining the best international price for just 82 of the most commonly prescribed generic medicines would save \$129 million for the Government of Ontario alone.⁷ If this same bargaining power were applied to private drug plans in Ontario it would reduce those costs by \$116 million.⁸ In fact, better bargaining could provide savings large enough to enable the Province to provide these highly used medications, for free, to all the patients that need

them, on public and private plans, for \$87 million less than the Provincial Government alone spends now.

Since drug prices in Ontario are among the lowest in Canada, and Ontario represents only 38% of Canada's spending on medicines, a national program to provide access to these medicines could ensure that every patient who needs them had them at little or no cost, while the public expenditure would fall by more than \$229 million.

For some medications, the capacity exists to provide them to all of the patients who need them while substantially reducing public spending and reducing costs to businesses and households.

Impact on Health

There are compelling health reasons to provide highly effective medications at lower costs. Studies show that cost is a barrier to adherence, and that non-adherence has serious health consequences that impact both patient outcomes and health care costs.

Studies show that, each year, 1 in 10 Canadian patients fails to take prescribed medication due to the associated costs^{9,10} and almost 1 in 4 have failed to take prescribed medicine because of cost in the last 5 years.¹¹ Further research has found that reducing financial barriers to medication increases the consistency with which patients purchase and take their medicines as prescribed.¹²

Studies in the U.S. and Canada demonstrate meaningful health benefits resulting from increased adherence and project significant cost savings from more consistent use of medications.^{13,14,15} Conversely, non-adherence generates expensive health problems. Studies indicate that 6.5% of hospital admissions are the result of non-adherence to medications.¹⁶ The total cost of non-adherence in Canada is estimated at \$7 billion–\$9 billion per year.¹⁷

Not surprisingly, the negative impacts of drug costs disproportionately affect people with low incomes. Lower income people show higher non-adherence rates^{18,19} and rates of non-adherence are shown to rise as costs increase, even with fees as low as \$10.²⁰ These barriers are not only restricted to the actual cost of drugs but also result from high dispensing fees, copayments, and deductibles. Increases and decreases in these ancillary fees have a significant impact on adherence and, with it, on health and overall health care costs.^{21,22}

Economic access to medication is an issue for many Canadians and evidence clearly shows that overcoming these challenges by reducing drug costs and associated copayments measurably improves the health of patients, and prevents other costly health issues.

Challenges in Addressing Costs

Unfortunately, the policies that have been adopted across Canada to set manageable drug prices have had mixed success. Through much of the last 20 years, provinces have attempted to manage drug costs by pegging generic drug prices to a fixed percentage of the brand name drug price (originally between 70% and 90%). While this did manage some costs, it also increased the cost of generics that had been produced below the mandated percentage.²³ Some provinces, including Alberta and Ontario, lowered the percentages to better manage those prices, but individual provincial action has left bargaining power fragmented and created significant anomalies in drug costs from province to province.

Strategies for reducing costs and lowering economic barriers have been fragmented, and as a result have impeded progress on ensuring equitable access to needed medications.

Beginning to Turn the Cost Curve

Since 2010, interprovincial cooperation through the Pan-Canadian Pricing Alliance (PCPA) has used coordinated bargaining power to produce significant results. Negotiations have been completed on dozens of drugs, reducing the purchase price to only 18% of the brand name cost and saving Canadians an estimated \$230 million annually.²⁴

However, research on drug cost shows considerably greater savings could still be achieved, providing more reliable access to medications and better health outcomes for Canadians.

Despite promising gains, the existing model of managing generic prices remains based on a percentage of the brand name price, which is largely unrelated to the real cost of production of the drugs required and, therefore, a poor tool for setting prices. Dozens of drugs originally pegged at 70% of the brand name value have since been lowered to 45%, 25%, and most recently 18%, while others have required exemptions to legislation lowering the percentage to 35%.²⁵

Global comparisons show that a percentage-based model produces unreliable cost reductions. Comparative studies of drug costs show that Ontario, one of the provinces which most aggressively reduced the prices paid for generic drugs, has paid far more than the best global market price for scores of common medications, resulting in significant public costs. A 2009 study of Ontario's generic drug costs compared them with jurisdictions that use competitive bidding for tendered generic drug contracts. Our system performed poorly. Between 90% and 93% of the drugs

assessed were cheaper in other jurisdictions. 71% of the drugs were more than twice as expensive in Ontario and 13% were more than 10 times more expensive. While the PCPA has lowered the cost of many of those drugs from 25% to 18% since that study was conducted, many of the most common drugs are purchased at between one third and one fifth of that price in other jurisdictions, and three of the top ten drugs are sold for less than one tenth of the PCPA's renegotiated price.²⁶

Newly coordinated strategies to reduce costs have improved the impact of cost reduction efforts but the approach prevents them from achieving prices competitive with international rates obtained through tendering and competition.

Turning the Curve on Administrative Costs

Though a consolidated, competitive approach can bring purchase prices down as low as possible, it does not lower administrative costs. The current, multi-payer system for drug insurance plans imposes significant costs on patients, and the evidence strongly supports the use of publicly managed single-payer systems. In 2009, the cost of administration in the public health care system in Canada accounted for 3.2% of total spending while the cost of administering private insurance programs was 15.1% of private insurance spending.²⁷ Shifting from a system that includes multiple, redundant drug plans to a single-payer system akin to our current public health care system would have, by a variety of estimates, saved approximately \$1.3 billion per year nationally.²⁸ The already high cost of private plans has also been rising steadily while the cost of public plans has remained quite stable. In 2011, Canadians paid \$6.8 billion more in premiums to for profit insurance companies than they got in care, representing an overhead cost of about 23%.²⁹ These high and rising costs result from the perverse incentives present in private, for-profit drug plans. Private insurers derive much of their profits from imposing overhead charges that are set as a percentage of total costs, providing a disincentive to cost management resulting in less effort to promote the use of generics, high dispensing fees and little impetus to find other efficiencies.^{30, 31, 32}

These costs are not only a burden on Canadian households and businesses, they also constitute a burden on the public purse. Private plans receive considerable tax subsidies, costing the public \$1.23 billion annually from the Federal Government with further subsidies provided by the provinces.³³

A publicly administered, not-for-profit, single-payer system is the drug insurance model best able to provide cost management, reduce administrative expenditures, maximize health impacts, and lower costs to taxpayers.

Criteria for Success

In addressing affordable access to medications, optimal benefit is achieved by ensuring specific characteristics:

- Bargain the best price: internationally, the lowest prices are consistently achieved through coordinated, tendered purchase and competition
- Minimize ancillary costs: high copayments, fees, and deductibles are barriers to access
- Use the public system: the waste and excessive administrative costs endemic in private drug plans undermine savings
- Maximize access: the health benefits of high rates of adherence increase when more people have access to affordable medicines, so narrowing application to particular age or income groups reduces these benefits

Approaches that avoid comparative tendering, or rely on heavy copayments, private insurers and narrow access to avoid costs will produce fewer of the benefits available and greater long term expense.

An Exceptional Opportunity

Research and analysis over the last five years have opened the door to significant improvements in access to medications while lowering public costs.

For at least 80 of the most commonly prescribed generic medicines, and likely many more, every Canadian that needs those medications could access them through the public health care system at little or no direct cost to the patient while lowering public spending by almost a quarter billion dollars annually. This would reduce the cost to businesses and families for drug insurance and decrease administrative costs, while improving health outcomes and reducing a variety of other health care costs. It is difficult to imagine a more compelling public policy.

Recommendations for government policy:

- **Undertake a program of systematic joint purchase for a larger range of prescription medications**
- **Use competitive tendering for bulk purchases to achieve significant savings**
- **Use the savings to provide those medications to all patients, at little or no out-of-pocket cost, in keeping with the rest of our public health care system**

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Notes

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