

# The Time is Right for a National Pharmacare Program for Canada

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### Abstract

The World Health Organization has declared that all countries should have universal health coverage, ensuring equitable access to treatment and necessary medicines for every patient. Canada is the exception among developed countries with universal health care systems, in that it does not also provide universal coverage for prescription drugs. Out-of-pocket costs for prescription drugs are a significant barrier to treatment for millions of Canadians. In addition, Canada's fractured system of individual provinces and territories negotiating the purchase of their own medicines has diluted Canada's purchasing power and has led to some of the highest drug costs in world. In December 2016, a Citizen's Reference Panel on Pharmacare in Canada recommended the creation of a new national formulary for universal publicly covered medicines, and in April 2017, the Ontario government announced it would cover prescription medications for everyone under the age of 25. A national pharmacare program could provide equal publicly-funded drug coverage to all Canadians regardless of where they live, and through a single national purchasing body and lower administrative overhead, reduce the cost of drugs by consolidating Canada's purchasing power. This program could begin with a list of essential medications, and eventually expand to include a comprehensive list. With strong public support for increasing affordability of and equitable access to medications for all Canadians, clear benefits to health outcomes, and evidence from other countries with single purchaser systems of lower drug costs, the time is right for the provincial, territorial, and federal governments to take action and create a national pharmacare program.

Canada's modern healthcare system was conceived in 1966, when the federal, provincial and territorial governments created the *Medical Care Act*. Founded on the four principles of universality, comprehensiveness, portability, and administration, the act's intention was for all Canadians to have access to medically necessary care, with no point-of-care charges, anywhere in Canada. Over the next 50 years, the services and medications covered by each province drifted apart. Each province has a different formulary of publicly-covered drugs, and individually negotiates their purchase from pharmaceutical companies at different prices and with less bargaining power than a single national purchaser would. A national pharmacare program, with a single national body negotiating the purchase of drugs which would be publicly covered for everyone, would reduce the cost of drugs and ensure equal access for all Canadians, regardless of where they live.

Since Medicare was founded, drugs have become a significantly more expensive part of the cost of healthcare in Canada. While spending on Medicare's core services – hospitals and physicians – has declined relative to other areas of health spending, the cost of drugs has risen to 16.0% of total healthcare costs in 2014, exceeding the cost of physician services (15.3%).<sup>1</sup> Drugs now represent the second largest healthcare budget expenditure after hospitals, totaling \$34.6 billion in 2014 (\$29.4 billion for prescribed drugs).<sup>1</sup> Hospital stays are now much shorter, and with Medicare only covering doctors' and hospitals' services, this has shifted the cost of prescription drugs onto patients.

While most Canadians have some form of supplemental health insurance, which can help with out-of-hospital drug costs, there are still millions of Canadians who fall through the cracks and are left to pay for their medications out-of-pocket. Out-of-pocket payments account for 22% of prescription drug spending, as approximately 11% of Canadians do not have prescription drug coverage, and a total of 20% of Canadians report being uninsured or underinsured, in that a majority of their prescription drug costs are paid for out-of-pocket.<sup>2</sup> In 2014, the average out-of-pocket annual health expenditure per person reached \$868, having grown at an annual rate of 4.5% since records began in 1988.<sup>1</sup>

Paying for medications out-of-pocket can be prohibitively expensive, especially for patients with low incomes. Often, patients may take their medications less frequently than they should so the medications last longer, accumulate debt to pay

for their prescriptions, or forego medications altogether.<sup>2</sup> An estimated 10% of Canadians cannot fill prescriptions because of the expense.<sup>3</sup> Cost-related non-adherence to medications is reported by 26.5% of those without insurance, compared to only 6.8% by those who have insurance.<sup>4</sup>

It is well known that drug coverage, and socioeconomic status more broadly, correlates with health outcomes, morbidity, and mortality.<sup>5</sup> Of Canadians with an income less than \$50,000, one in three (31%) reported they or someone in their household did not take their medications as prescribed due to cost.<sup>2</sup> This was roughly double the reported rate (16%) among Canadians with incomes over \$100,000 (the reported rate including all incomes was 23%).<sup>2</sup> A 2012 study estimated that as many as 5000 deaths associated with diabetes between 2002 and 2008 of working-age Ontarians could have been prevented by equal publicly-funded prescription drug coverage, similar to that available to people over the age of 65.<sup>6</sup> The current mixed system of private and public insurance coverage as well as out-of-pocket payment for drugs in Canada only serves to reinforce the inequitable impact of socio-economic status on health outcomes.

Most Canadians are covered by supplemental health insurance and many provinces have legislation to cover the poor and elderly. This helps explain the lack of political will for the creation of a national pharmacare program. However, a 2015 survey by Angus Reid found that an overwhelming majority of Canadians (91%) support the concept of a national pharmacare program that would provide universal access to prescription drugs (51% voiced “strong” support).<sup>2</sup> Similar support was found in other surveys published in 2015 and 2016.<sup>7-9</sup>

Two noteworthy events in the past 6 months may be indicative of increasing momentum in public and government support for pharmacare in Canada. On December 6, 2016, the report of the Citizens’ Reference Panel on Pharmacare in Canada was presented to the House of Commons’ Standing Committee on Health. The panel of 35 members of the public was randomly selected in such a way as to be demographically representative of the Canadian population.<sup>5</sup> The panel heard testimony from twenty experts with diverse viewpoints, including doctors, pharmacists, pharmaceutical and insurance industry representatives, academics, and patient representatives.<sup>5</sup> After examining the options, the Citizen’s Reference Panel recommended the creation of a new national formulary for universal publicly covered medicines accommodating the full range of patient needs.<sup>5</sup>

The panel’s report stresses that there is a lack of public awareness of the issue of insufficient drug coverage for Canadians without supplemental insurance, and its negative effect on health outcomes, as well as the regional variability in service, access to drugs, and the price of medications.<sup>5</sup> The panel recommended the creation of a universal mandatory public drug insurance system that would provide coverage to all Canadians, including for rare diseases, with private insurance restricted to covering medications not included on the national public formulary.<sup>5</sup> The program could begin with a list of essential medicines that would be covered for all, and expand to cover the complete formulary of medications, approved based on clinical value and cost-effectiveness.

In an article published in February 2017 in the Canadian Medical Association Journal, Morgan *et al.* reported that universal public coverage of 117 essential medicines—accounting for 44% of all prescriptions and 30% of total prescription drug expenditures in Canada—would save \$4.27 billion per year, a reduction of 28%.<sup>10</sup> The incremental government cost of the program was estimated to be \$1.23 billion per year.<sup>10</sup> While shifting the cost of out-of-hospital medications from private insurance to a tax-funded model would reduce out-of-pocket costs for patients, it would likely require modest increases in tax rates. In March 2017, Adams and Smith published a review that assessed the cost of proposed pharmacare plans.<sup>7</sup> In it, they cited Gagnon’s 2014 proposal which estimated the total prescription drug costs in a pharmacare program at \$18.8 billion, or \$6.8 billion greater than the \$12.0 billion level of funding in 2012.<sup>7</sup> However, Gagnon noted there would be additional savings of \$2.5 billion through elimination of both administrative overhead from private plans and tax subsidies.<sup>7</sup> The tax exemption for private health and dental plans is projected to cost the federal government \$2.9 billion in 2017.<sup>7</sup>

Political will may also be shifting in favor of pharmacare, with the announcement by the Ontario Liberal government in April 2017 that it would be the first province to provide free coverage for anyone under 25 years old starting from January 1, 2018.<sup>11</sup> The 4400 medications included in this plan would be the same as the current Ontario Drug Benefit (ODB), which is limited to those on social assistance or over the age of 65.<sup>11</sup> The extension of pharmacare benefits to under-25s would double the number of people covered for prescription medications in Ontario, from 3.9 to nearly 8 million.<sup>12</sup>

This announcement by the government of Canada’s most populous province, which has also called on the federal government to create a national pharmacare program, may signal a change in the willingness of governments to support pharmacare. The Ontario NDP has also made a pharmacare proposal which would cover everyone regardless of age, but would only extend to a list of 125 essential drugs.<sup>11</sup> Both programs have a similar annual cost, estimated at \$465 and \$475 million for the Liberal and NDP plans, respectively.<sup>11</sup>

At the federal level, the Green Party announced in July 2015 its support for a national pharmacare plan, which is said would save up to \$11 billion annually and provide access to prescription drugs for 2 million Canadians who would not otherwise be able to afford them.<sup>13</sup> This plan would adopt the four key recommendations of the Pharmacare2020 report: universal access to necessary medicines; fair distribution of prescription drug costs; safe and appropriate prescribing; and maximum health benefits per dollar spent.<sup>13,14</sup> The Pharmacare2020 report has already been endorsed by 281 professors and university-affiliated leaders in health policy, health economics, pharmacy, and medicine across the country.<sup>15</sup>

A significant proportion of the cost of the national pharmacare program could be offset by the savings that would be achieved through a single national drug purchasing body. Canada’s multi-payer drug purchasing system is among the most expensive in the world because of its diminished purchasing power.<sup>16</sup> Prices for generic drugs are 79% higher than the median of prices found in the Organisation for Economic

Co-operation and Development (OECD), and brand-name drugs are 30% more expensive.<sup>16</sup> The current fractured system of 13 individual provinces and territories negotiating drug prices with pharmaceutical companies has less negotiating power than a single national body, which would have more leverage to drive down prices. In Europe, several countries have even joined together to form a supranational coalition to boost their collective bargaining power, negotiating with pharmaceutical companies as a bloc and exchanging data and records, as well as coordinating evaluation methods.<sup>17</sup> What started as a coalition between the Netherlands and Belgium in 2015 has now expanded to include Austria and Luxembourg, with the potential addition of Ireland in the near future.<sup>17</sup>

While the pan-Canadian Pharmaceutical Alliance (pCPA) has negotiated on behalf of the provinces, territories and the federal government in the purchase of some newly-approved brand name and generic pharmaceuticals, a single national purchaser could arguably negotiate from an even stronger position. As of April 2016, the pCPA has had some success in achieving price reductions through joint negotiations on 95 brand name and 18 generic drugs, resulting in savings of \$712 million annually.<sup>18</sup>

Despite the long-standing argument from the pharmaceutical industry that lower drug prices would result in less industry-funded research and development (R&D), this would be an unlikely result of the creation of a national drug purchasing body in Canada since there is limited novel drug R&D performed domestically, and drug development in Canada is in general targeted to an international market. Compared to the major markets of the US and EU, Canadian sales represents a relatively small revenue source for pharmaceutical companies at only 2.0% of the global market.<sup>19</sup> Therefore a decrease in Canadian prices would not be expected to have a significant effect on total profits. More than half of Canadian pharmaceutical production is exported, and more than two-thirds of the Canadian market is supplied by foreign imports.<sup>19</sup> Nevertheless, pushback from the pharmaceutical industry is likely to be a major hurdle in implementing a national pharmacare program.

Similarly, the private health insurance industry would likely oppose a national pharmacare program. The cost of managing a single-payer insurer in each province is estimated to be \$1 billion less than the direct cost of managing dozens of public and hundreds of private drug plans, and represents a significant cost-savings opportunity.<sup>16</sup> However, a potential drawback of a national pharmacare program would be the resulting loss of revenue to supplementary health insurers from prescription drug insurance, creating a need to rescale the health insurance business in Canada.<sup>7</sup> Prescription drugs comprised 33% of insured benefit payouts in 2015, and support a large infrastructure that serves as backbone for other supplementary benefits, including dental, paramedic, and vision coverage.<sup>7</sup> An enhanced Medicare program could eventually look to provide publicly-funded coverage for these health benefits as well, which would further extend equal access to basic health services for all Canadians.

Amongst developed countries with universal health cover-

age, Canada is alone in not also offering universal prescription drug benefits, resulting in insufficient drug coverage for many Canadians and unequal health outcomes.<sup>16</sup> Canada has the highest drug prices in the OECD after the United States, with drugs accounting for 16% of health care costs in Canada. While instituting a national pharmacare program that included a single national drug purchasing body would consolidate Canada's negotiating power and lower drug prices, some have argued that more efforts should be made to lower drug prices first, before considering a pharmacare program. The federal Health Minister, Jane Philpott, has argued that given Canada has the second highest per-capita prescription drug prices, it would be irresponsible to lock in to these prices by adopting a universal pharmacare program at this time.<sup>7,20</sup>

The current Canadian drug coverage system does not provide equitable access to prescription drugs. A national pharmacare program could provide equal publicly-funded drug coverage to all Canadians, regardless of where they live. The cost of this program could be offset by the savings achieved by negotiating drug prices through a single national body, and through a reduction in the tax breaks employers currently receive for providing employee health benefits, as those would be largely replaced by the public program. A national pharmacare program would result in more equal access, affordability, and improved health outcomes for Canadians. By announcing in April 2017 its pharmacare program for under 25s, the Ontario government has opened the door to pharmacare programs in Canada and brought this issue into the spotlight. There is clear public support across the country for pharmacare, and it should be a key priority for provinces, territories and the federal government.

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