A Roadmap to a Rational Pharmacare Policy in Canada

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Presenter: Marc-André Gagnon, PhD

• Relationships with commercial interests: NONE

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  – Ordre des Pharmaciens du Québec
  – Canadian Health Coalition
OUTLINE

1. The Canadian system for drug coverage; Inefficient, inequitable, unsustainable
2. Recent Development in a Fragmented System
3. Collective Cost of Private Insurance
4. Rethinking Industrial Policy in Canada
5. Roadmap to a Rational Pharmacare Policy
6. Cost and Benefits of Implementing a National Drug Plan
Pharmacare for Canada?

1964: Hall Commission recommended Universal drug coverage for Canada


2002: Romanow Commission recommended universal catastrophic drug coverage as a first step towards universal pharmacare.

2004-2014: The National Pharmaceuticals Strategy fails to achieve even catastrophic drug coverage for all Canadians.
Total expenditure per capita on prescription drugs, 2012 or nearest year
US$, purchasing power parity
Source: CIHI, OECD Health Statistics 2014
Percentage of the population covered by a public drug insurance plan in all OECD countries (%), 2010

(e): OECD estimate
Source: OECD Health Data: Social Protection
Growth per capita for prescription drug costs, from 2000 to 2012
(international comparison based on PPP; 2000=100)
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What if Canadian per capita costs had evolved as in comparable countries?

<table>
<thead>
<tr>
<th>Country</th>
<th>2000-2012 per capita cost difference (2000=100)</th>
<th>Lost savings for Canada $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>196</td>
<td>0</td>
</tr>
<tr>
<td>United States</td>
<td>187</td>
<td>1.3 billion</td>
</tr>
<tr>
<td>Germany</td>
<td>184</td>
<td>1.7 billion</td>
</tr>
<tr>
<td>Australia</td>
<td>177</td>
<td>2.7 billion</td>
</tr>
<tr>
<td>France/UK</td>
<td>155</td>
<td>5.8 billion</td>
</tr>
<tr>
<td>New Zealand</td>
<td>150</td>
<td>6.5 billion</td>
</tr>
<tr>
<td>Denmark</td>
<td>136</td>
<td>8.5 billion</td>
</tr>
</tbody>
</table>
Recent development in a fragmented system
1 - Decrease in the price of generics
Comparison between the price of the five generic drugs sold the most in Ontario and the price of the same drugs in the United States and New Zealand, in cents (¢), 2012

Source: Law, 2013
Average subsidy for Simvastatin 40mg Tablet, New Zealand

Source: Pharmac
Average subsidy for Omeprazole 20mg Capsule, New Zealand

- Reference pricing adjusted and widened access to Omeprazole. $1.82 (22% reduction)
- Agreed price reduction. $0.83 (33% reduction)
- Listed Dr Reddys Omeprazole (Dr Reddys) and Omezol (Mylan) Multiple subsidy levels
- Sole supply to Dr Reddys.
- Accept Mylan tender bid $0.042 (58% reduction)

Source: Pharmac
2 - Product Listing Agreements
3 - Pan Canadian Pharmaceutical Alliance (PCPA)
4 – Drug Shortages
Collective Cost of Private Insurance

- (Institutional) Skimming
- Waste ($5.1 bn)
- Tax subsidies ($1.2 bn)
- Administration costs ($1.3 bn)
- Private Coverage of Public Employees ($3 bn?)
Rethinking Industrial Policy in Canada
If US and Germany were excluded, average median foreign-Canadian price ratio would be 87% instead of 1.06%.
IP for R&D - A brief success:
Evolution of the R&D to sales ratio in Canada

Source: PMPRB annual reports
R&D to sales ratio in 2012

Source: PMPRB, EFPIA
Evolution of revenues and R&D in Canada for All Patentees

Source: PMPRB annual reports
Canada and Patented Drugs, 2013:

-Since 1988, Canada has offered generous prices to attract R&D investments.

-If price levels for patented drugs in Canada were similar to France or the UK, Canadians would save around $2.9 billion on patented drugs each year.

-Total R&D investment in Canada was $753 M in 2013 - half of which was recouped through tax credits.

-The PMPRB regulation system makes Canadians pay artificially inflated prices by around $2.9 billions in order to generate around $380 millions in net R&D expenditures.
Understanding the business model we are fostering

Does the current system provide the right financial incentives for drug companies to develop new treatments and improve health outcomes?
Average real profits of US dominant pharmaceutical firms as compared to average real profit of Fortune 500 firms (1954-2013, in millions of constant 1984 US$)

Source: Fortune
Average net returns on revenues (%) of dominant pharmaceuticals firms as compared to dominant firms in other industrial sectors. US, 1954-2013

Source: Fortune
Shape of things to come?

**Valeant’s Operating Principles (from the 2013 Annual Report):**
3. Maintain a bias toward durable products that are largely cash pay, or are reimbursed through private insurance.

[...] Over 75% of our product sales are also cash pay or reimbursed through private insurance, helping to protect us from government-driven price decreases that are becoming increasingly common around the world. We expect to continue our focus on durable products in less price-sensitive markets, which should ensure our longer-term outlook mirrors that of a consumer packaged goods company, not a traditional pharmaceutical company.

4. Focus our resources on bringing new products to the market (output), not R&D spend (input).

Traditionally, pharmaceutical companies have pointed to R&D spend as the best metric for predicting new product flow in the coming years. More recently, most of these companies have had to resort to in-licensing products and M&A activity to fill their new product gaps. By contrast, we have focused our R&D spending on line extensions and higher-probability, late stage development programs.

Member of BIOTECanada

“First Canadian Big Pharma Company”: **R&D to sales ratio in 2013 in Canada: 0%**
Roadmap to a Rational Pharmacare Policy

A national strategy to develop institutional capacity to contain costs, improve health outcomes and achieve sustainability.

Includes:
• National drug plan covering all Canadians
• National formulary
• Systematic recourse to PCPA to contain cost (cannot work if half the market has an open formulary)
• Elimination of co-pays or deductibles based on official prices
• Monitoring prescribing habits/promoting rational use of medicines
Cost and Savings for Implementing Universal Pharmacare in Canada
Estimation of the costs and benefits generated by a Canadian universal pharmacare program, keeping the same industrial policies associated to drug costs, based on 2012-2013 figures

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prescription drug expenditures in 2012</td>
<td>$27,734 million</td>
</tr>
<tr>
<td>Distribution of prescription drug costs/benefits</td>
<td></td>
</tr>
<tr>
<td>2. Growth in expenditures from increase in use</td>
<td>+10% of actual expenses</td>
</tr>
<tr>
<td>3. Reduction in expenditures from decrease in dispensing fees</td>
<td>-2% of actual expenses</td>
</tr>
<tr>
<td>4. Reduction in expenditures from drug assessment</td>
<td>-4.3% of actual expenses</td>
</tr>
<tr>
<td>5. Elimination of the monthly deductible in Quebec</td>
<td>-$364 million</td>
</tr>
<tr>
<td>6. Generic drugs tendering process</td>
<td>-$642 million</td>
</tr>
<tr>
<td><strong>Total savings on prescription drugs</strong></td>
<td>-$155 million</td>
</tr>
<tr>
<td><strong>Total prescription drug expenditures with a universal pharmacare plan</strong></td>
<td>$27,579 million</td>
</tr>
<tr>
<td><strong>Additional impacts other than for prescription drugs</strong></td>
<td></td>
</tr>
<tr>
<td>7. Elimination of extra administrative costs of private plans</td>
<td>-$1,349 million</td>
</tr>
<tr>
<td>8. Elimination of tax subsidies</td>
<td>-$1,204 million</td>
</tr>
<tr>
<td><strong>Total of additional impacts</strong></td>
<td>-$2,553 million</td>
</tr>
<tr>
<td><strong>Total net savings</strong></td>
<td>$2,708 million</td>
</tr>
</tbody>
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Source: Author's figures; Gagnon and Hébert, 2010
Cost and savings estimations from implementation of a Canadian universal pharmacare program with repeal of industrial policies associated to drug costs based on 2012-2013 figures

<table>
<thead>
<tr>
<th>1. Current expenses in prescription medication</th>
<th>$27,734 million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Allocation of costs/profits in prescribed medications</strong></td>
<td></td>
</tr>
<tr>
<td>Savings per competitive pricing</td>
<td>-$9,920 million</td>
</tr>
<tr>
<td>2. Expenses increase by consumption increase</td>
<td>+10% of expenditures</td>
</tr>
<tr>
<td>3. Expenses decrease according to decrease in dispensing fees</td>
<td>-2% of expenditures</td>
</tr>
<tr>
<td>5. Elimination of monthly deductible - Quebec</td>
<td>-$364 million</td>
</tr>
<tr>
<td>Total savings for prescription drugs</td>
<td>-$8,895 million</td>
</tr>
<tr>
<td><strong>Total expenses for prescription drugs within a universal pharmacare program</strong></td>
<td>$18,839 million</td>
</tr>
<tr>
<td><strong>Additional Impacts (other than prescription drugs)</strong></td>
<td></td>
</tr>
<tr>
<td>7. Eliminating private plan administrative costs</td>
<td>-$1,349 million</td>
</tr>
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<td>8. Eliminating tax subsidies</td>
<td>-$1,204 million</td>
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<tr>
<td><strong>Total additional impacts</strong></td>
<td>-$2,553 million</td>
</tr>
<tr>
<td><strong>Total balance of savings</strong></td>
<td>$11,448 million  (41% of expenditures)</td>
</tr>
</tbody>
</table>

Source: Author’s figures; Gagnon and Hébert, 2010
Conclusion

A universal pharmacare program is not a panacea. But, if implemented with the needed institutional capacities:

• It would improve access to medicines and health outcomes.

• It would generate savings of 10% to 41% on prescription drugs.

• It would increase net disposable income for all Canadians, reduce labour costs for Canadian enterprises, and allow public reinvestments elsewhere in the health care system.
Thank You

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Additional references on the issue:


