

A NATIONAL PHARMACARE STRATEGY

CANADIAN FEDERATION OF NURSES UNIONS BACKGROUND

Pharmacare is a proposal for a national publicly funded and administered insurance plan for medications. It would cover essential drug costs the same way medicare covers hospital costs and physicians based on the principle of universal access to safe and appropriate care.

Pharmacare is not a new idea. In fact it is another step in the implementation of public medicare. Many Canadians are unaware that while the *Canada Health Act* includes only physician and hospital care, Justice Emmett Hall's Royal Commission in 1964 (that recommended the establishment of national medicare) also called for a children's dental plan, home care and a national drug plan. Tommy Douglas similarly recognized hospital and physician care to be only the first stage of medicare while other extensions including Pharmacare were to be an essential second stage.¹

The situation in Canada

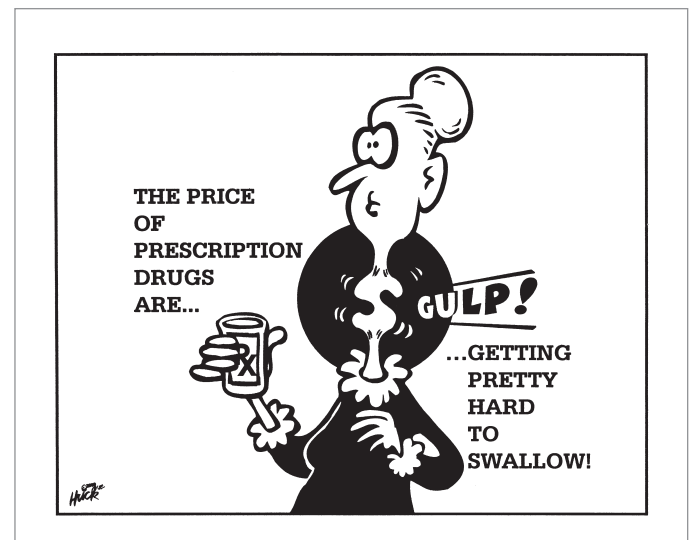
Drug expenditures are estimated to be \$31.1 billion in Canada, having increased steadily from \$3.8 billion in 1985.² Drugs now rank second after hospitals in total health care expenditures. Spending on pharmaceuticals rose from 9.5% of total (public and private) health care spending in 1985 to a forecasted 16.3% in 2010.³ Even though there is as yet no universal program, prescription drugs have gone from a 2% share of public medicare spending in 1975 to 9% in 2009.⁴

While there is no comprehensive plan to cover pharmaceuticals, there is a patchwork of government plans including prescriptions for patients in hospital, seniors, those on social

assistance and tax credits to individuals. Total public spending on pharmaceuticals reached \$12.1 billion in 2010. Public spending on Pharmacare as a percentage of total Pharmacare spending is only 45% which is low compared to other OECD countries. However, this does not represent savings to the public and "prevents many Canadians from receiving the quality health care they need."⁵

Implications of population aging

In a document produced by the Library of Parliament, entitled *Current and Emerging Issues for the 41st Parliament*, researchers pointed out that population aging will lead health care costs to grow in areas without universal coverage, including pharmaceuticals, long-term care, home care and end-of-life care.⁶



Disorder, disparity and dysfunction

In spite of a public health care system founded on equal access, many remain at a disadvantage:

- 3% of Canadians pay more than 4.5% of their gross income on drug costs, and about 10% pay over 2.5%.⁷
- 6% of Canadians reported spending more than \$1,000 out of pocket on pharmaceuticals in the previous year. This was higher than any other of the seven countries surveyed.⁸
- 8% of Canadian respondents said they had not filled a prescription or had skipped a dose in the past year because of the cost, and 24% of Canadians had no drug coverage.⁹
- The poorest consumers of pharmaceuticals pay more than the wealthiest.¹⁰
- When Quebec temporarily required welfare recipients and the elderly to pay towards their drug costs, approximately 9% of the former and 15% of the latter stopped essential drug treatments. This was matched with an increase in visits to emergency departments, hospitals and doctors' offices.¹¹
- There are significant disparities between the coverages that are available from one province to another. Low-income seniors in Saskatchewan with average drug use paid 10 times the amount paid by their counterparts in Ontario.¹² A study published in the *Canadian Medical Association Journal* reported that the out-of-pocket costs for a patient with an identical prescription for congestive heart failure ranged between \$74 and \$1,332,

depending on the province or territory of residence.¹³

- Adjusting for inflation, the amount we spend on drugs is rising at a rate of 7-8%, three times the rate of inflation.¹⁴
- New drugs that offer no substantial benefit over existing drugs account for 80% of the increased drug expenditure.¹⁵
- Without strict and transparent drug reviews, marketing, and not science, will be the driving force behind drug usage, pricing and expenditure.¹⁶

Employment-based coverage

At present, about 16 million Canadians have some level of employment-based drug coverage.¹⁷ There is a wide disparity in which treatments are covered by these plans, annual limits, premiums and deductibles. Private drug insurance via workplace benefits tends to come with higher paying jobs, leaving those least able to afford out-of-pocket drug expenses without coverage. With the rising cost of providing these benefits, employees are being pressured into accepting rollbacks in coverage, increases in premiums and/or pressure to limit other benefits and compensation. Workers and their families who depend on these plans risk losing coverage when a worker changes jobs, quits or is laid off. These plans do not provide secure long-term coverage.

Employers are finding it difficult to keep up with the rising costs of health care plans. General Motors' private health care plans in the U.S. cost them more than they spend on steel — about

\$1,500 per vehicle. GM Canada pays only \$500 per vehicle for health plans.¹⁸ Private plans are also considerably less efficient and are becoming even more inefficient. Premiums for private plans rose 15% per year between 2003 and 2005 while the drugs themselves increased 8%. Insurance companies are compensated in the form of a percentage of expenditures and therefore have every reason to prefer costs to go up rather than down.¹⁹

“Catastrophic coverage” is not the answer

There have been proposals to limit Pharmacare to so called “catastrophic” coverage. These proposals incorporate high deductibles for people who are already ill, leaving them to make difficult choices between the medications they need and other essentials. They do not provide the government the collective bargaining power of a universal drug plan. For this reason, there is no certainty that a limited “catastrophic” drug plan would actually cost the government any less than a universal comprehensive plan for all Canadians. It would certainly lack the fairness, equity and efficiency of the more comprehensive plan.

The international experience

Most industrialized countries have some form of national Pharmacare program. Government spending on drugs per capita in Canada ranks near the bottom of the list of industrialized countries, consistently only higher than that of the United States.²⁰

Only the United States has higher per capita drug spending than Canada while Canada has the fourth lowest public spending on pharmaceuticals (ahead of Poland, the United States and Mexico).²¹

Higher drug costs have often been explained in Canada as support for our pharmaceutical industry, however the ratio of research and development to sales is fairly low in Canada. Switzerland, for example, has a 113% R&D to sales ratio while Canada has only 7.5%.²²

We can do better!

A single-payer system would result in greater bargaining power with the drug companies

- Australian government drug managers negotiate an acceptable price with manufacturers and pay about 9% less than Canadians. New Zealand achieved nearly 50% savings using coordinated bargaining methods.²³
- *The Economic Case for Universal Pharmacare*, which considers several different types of savings, argues that total savings for all Canadians would be \$10.7 billion.²⁴

The Economic Case for Universal Pharmacare

In the *Economic Case for Universal Pharmacare*, Marc-André Gagnon considers four scenarios for implementing a universal Pharmacare plan and evaluates the savings each would deliver over the status quo.

- Scenario 1 presumes the same industrial policies we have with respect to drug companies. This scenario calculates savings of \$1.454 billion in drug costs as well as \$1.493 billion through eliminating the administrative costs of private plans and the tax subsidies they receive. *Total savings 2.95 billion or 11.7% of current costs.*
- Scenario 2 presumes the introduction of universal Pharmacare in the context of industrial policies brought in line with other OECD countries. The \$1.493 billion administrative and tax savings in scenario 1 would be added to a 12% or \$3 billion savings in the costs of prescription drugs as Canada would go from the 3rd-4th most expensive country in the world for prescription drugs to sixth. *Total savings \$4.47 billion or 17.8% of current costs.*
- Scenario 3 calculates the savings if Canada were to extend its industrial policies in order to promote the Canadian pharmaceutical industry even more than it does today. The increased cost of \$260 million would reduce the savings outlined in scenario 1 by that amount. *Total savings \$2.67 billion or 10.6% of current costs.*
- Scenario 4 considers the savings if all industrial policies which inflate drug costs artificially were to be cancelled leaving Canada in a position similar to New Zealand where policies are designed to reduce drug costs rather than support the pharmaceutical industry. Through tendering and reference-pricing, \$10.2 billion in savings could be realized along with another \$540 million in additional savings due to the increase in consumption. *Total savings \$10.7 billion or 42.8% of current costs.*

Gagnon, M.A., Hébert, G. (2010). *The Economic Case for Universal Pharmacare*. Canadian Centre for Policy Alternatives.
<http://pharmacarenow.ca/wp-content/uploads/2010/09/Universal-Pharmacare-Report-e.pdf>

Administrative costs would drop under public administration²⁵

- According to a study from the *New England Journal of Medicine* (2003), Canada's national health insurance program has an overhead of 1.3% while US private insurers averaged an overhead of 11.7%.²⁶ The administrative costs for private drug plans in Canada are estimated at 8% whereas large public plans in Ontario and Quebec have administrative costs between 2 and 3%.²⁷
- US public health care spending at \$2,862 per capita exceeds Canada's 2,410 per capita even though Canada's public health system covers virtually all Canadians.²⁸ The greater efficiency of a universal system allows Canadians to spend \$3,430 per capita on health care while Americans spend \$6,350 per capita.²⁹ In spite of much lower health spending, Canadians live longer and have lower infant mortality rates.³⁰
- With a public Pharmacare program, government would be in a position to keep drug prices in check. Freezing spending on prescription drugs for just one year would save enough to hire 20,000 nurses!³¹ Replacing the current patchwork of plans with a national program would honour our commitment to universality and portability.
- The *Fiscal Sustainability Report* from the Parliamentary Budget Officer in February 2010 identified spending on pharmaceuticals as the single greatest driver in the projected increase in health care spending and therefore a substantial threat to the health and finances of Canadians.³²

In 2008, the Health Council of Canada conducted a review of the National Pharmaceuticals Strategy to monitor how it had progressed in the four years since it was launched. The report's title and its principle conclusion were the same: *The National Pharmaceuticals Strategy: A Prescription Unfilled*.³³

The Canadian Health Coalition and the Canadian Centre for Policy Alternatives released a report entitled *Life before Pharmacare*, which made seven recommendations for a national Pharmacare program, including:³⁴

- A universal federal-provincial cost-shared public drug plan administered by provinces and territories.
- A national formulary to cover the complete cost of all essential drugs.
- A national strategy to obtain reductions in drug prices through bulk purchasing.
- A national public drug information system free of conflict of interest with the pharmaceutical industry.
- Strengthen and strictly enforce legislation to ban all forms of direct-to-consumer advertising of prescription drugs in Canada.
- Improved prescribing behaviour of professionals.
- Accelerated access to more affordable non-patented drugs and repeal of regulations that extended monopoly patents beyond 20 years.

The Canadian Federation of Nurses Unions, representing 176,000 members and associate

members, strongly supports the development of a comprehensive, pan-Canadian Pharmacare program. Prescription drugs are the fastest rising health care expense in Canada, pressuring our public health care system and jeopardizing access to essential medicines for many Canadians.

Since 1992, nurses have been lobbying for a national Pharmacare program, to ensure access, safety and cost controls.

Notes

- 1 Mackenzie, H. and Rachlis, M. (2010). *The Sustainability of Medicare*. Canadian Federation of Nurses Unions: Ottawa. http://www.nursesunions.ca/sites/default/files/Sustainability.web_e.pdf
- 2 Canadian Institute for Health Information. (2011). *Drug Expenditure in Canada, 1985 to 2010*. Author: Ottawa. http://secure.cihi.ca/cihiweb/products/drug_expenditure_2010_en.pdf
- 3 *Ibid.*
- 4 Mackenzie, H. and Rachlis, M. (2010). *The Sustainability of Medicare*. Canadian Federation of Nurses Unions: Ottawa. http://www.nursesunions.ca/sites/default/files/Sustainability.web_e.pdf
- 5 Gagnon, M.A., Hébert, G. (2010). *The Economic Case for Universal Pharmacare*. Canadian Centre for Policy Alternatives. <http://pharmacarenow.ca/wp-content/uploads/2010/09/Universal-Pharmacare-Report-e.pdf>
- 6 Havi Echenberg, H., Gauthier, J. and Léonard, A. (2011). Some Public Policy Implications of an Aging Population. *41st Parliament: Current and Emerging Issues*. Library of Parliament. <http://www.parl.gc.ca/Content/LOP/ResearchPublications/cei-07-e.htm>
- 7 Lexchin, J. (2007). *No Excuse for Denying Drug Coverage: It's time to end Canadians' long wait for Pharmacare*. Canadian Centre for Policy Alternatives.
- 8 The Commonwealth Fund. (2007). *2007 International Health Policy Survey in Seven Countries*. Author.
- 9 *Ibid.*

- 10 Morgan, S. and Cunningham, C. (2007). The Effect of Evidence-Based Drug Coverage Policies on Pharmaceutical R&D: A Case Study from British Columbia. *Healthcare Policy*: 3(3), 2007.
- 11 Lexchin, J. (2007). *No Excuse for Denying Drug Coverage: It's time to end Canadians' long wait for Pharmacare*. Canadian Centre for Policy Alternatives.
- 12 Lexchin, J. (2005.) *50 years of waiting for Pharmacare is Long Enough*. Canadian Federation of Nurses Unions: Ottawa.
http://www.nursesunions.ca/sites/default/files/50_year_pharmacare.pdf
- 13 Demers, V. et al. (2008). Comparison of Provincial Prescription Drug Plans and the Impact on Patients' Annual Drug Expenditures. *Canadian Medical Association Journal*: 178(4), February 12, 2008.
<http://www.cmaj.ca/content/178/4/405.full>
- 14 Lexchin, J. (2005.) *50 years of waiting for Pharmacare is Long Enough*. Canadian Federation of Nurses Unions: Ottawa.
http://www.nursesunions.ca/sites/default/files/50_year_pharmacare.pdf
- 15 Morgan, S. et al. (2005). 'Breakthrough' drugs and growth in expenditure on prescription drugs in Canada. *British Medical Journal*: 331, October 2005.
- 16 Lexchin, J. (2006). *Why Canada Needs a National Pharmacare Plan*. Presentation to Members of Parliament October 3, 2006.
- 17 Gagnon, M.A., Hébert, G. (2010). *The Economic Case for Universal Pharmacare*. Canadian Centre for Policy Alternatives.
<http://pharmacarenow.ca/wp-content/uploads/2010/09/Universal-Pharmacare-Report-e.pdf>
- 18 Pratt S. (2005). Canadian corporations need to stick up for our health-care system. *Edmonton Journal*, July 17, 2005, and Brownstein, R. (2005). U.S. Healthcare problem too big for employers and workers. *Los Angeles Times*, June 20, 2005.
- 19 Gagnon, M.A., Hébert, G. (2010). *The Economic Case for Universal Pharmacare*. Canadian Centre for Policy Alternatives.
<http://pharmacarenow.ca/wp-content/uploads/2010/09/Universal-Pharmacare-Report-e.pdf>
- 20 Lexchin, J. (2005.) *50 years of waiting for Pharmacare is Long Enough*. Canadian Federation of Nurses Unions: Ottawa.
http://www.nursesunions.ca/sites/default/files/50_year_pharmacare.pdf
- 21 Canadian Institute for Health Information. (2011). *Drug Expenditure in Canada, 1985 to 2010*. Author: Ottawa.
http://secure.cihi.ca/cihiweb/products/drug_expenditure_2010_en.pdf
- 22 Gagnon, M.A., Hébert, G. (2010). *The Economic Case for Universal Pharmacare*. Canadian Centre for Policy Alternatives.
<http://pharmacarenow.ca/wp-content/uploads/2010/09/Universal-Pharmacare-Report-e.pdf>
- 23 Lexchin, J. (2007). *No Excuse for Denying Drug Coverage: It's time to end Canadians' long wait for Pharmacare*. Canadian Centre for Policy Alternatives.
- 24 Gagnon, M.A., Hébert, G. (2010). *The Economic Case for Universal Pharmacare*. Canadian Centre for Policy Alternatives.
<http://pharmacarenow.ca/wp-content/uploads/2010/09/Universal-Pharmacare-Report-e.pdf>

- 25 Lexchin, J. (2005.) *50 years of waiting for Pharmacare is Long Enough*. Canadian Federation of Nurses Unions: Ottawa.
http://www.nursesunions.ca/sites/default/files/50_year_pharmacare.pdf
- 26 Woolhandler, S. Campbell, T. and Himmelstein, D. Costs of Health Care Administration in the United States and Canada. *New England Journal of Medicine*: 349(8), 768-775, 2003.
- 27 Lexchin, J. (2007). *No Excuse for Denying Drug Coverage: It's time to end Canadians' long wait for Pharmacare*. Canadian Centre for Policy Alternatives.
- 28 World Health Organization. (2008). *Core Health Indicators*. WHO web site.
http://apps.who.int/whosis/database/core/core_select.cfm
- 29 *Ibid.*
- 30 Lexchin, J. (2005.) *50 years of waiting for Pharmacare is Long Enough*. Canadian Federation of Nurses Unions.
http://www.nursesunions.ca/sites/default/files/50_year_pharmacare.pdf
- 31 Morgan, S. (2007). Equity in Access to Medicines in Canada: Diagnoses and Prescriptions. Presentation for Canadian Federation of Nurses Unions Conference: *How soon is now? Health Care for Every Generation*, August 8th, 2007.
- 32 Parliamentary Budget Office. *Fiscal Sustainability Report*. February 2010, p.18.
http://www2.parl.gc.ca/Sites/PBO-DPB/documents/FSR_2010.pdf
- 33 Health Council of Canada. (2009). *A Status Report on The National Pharmaceuticals Strategy: A Prescription Unfilled*. Health Council of Canada: Toronto.
http://www.healthcouncilcanada.ca/docs/rpts/2009/HCC_NPS_StatusReport_web.pdf
- 34 Canadian Centre for Policy Alternatives and Canadian Health Coalition. (2008). *Life Before Pharmacare: Report on the Canadian Health Coalition's Hearings into a Universal Public Drug Plan*. Authors.
http://www.policyalternatives.ca/sites/default/files/uploads/publications/National_Office_Pubs/2008/Life_Before_Pharmacare.pdf

All links accessed as of September 2011.