

## Update on Ontario Drug System Changes

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*April 13, 2010*

It has been amazing to see how much press this issue has been getting in Ontario, with both the Premier and the Minister of Health getting into the ring to throw barbs back at pharmacy owners over the past 24 hours.

What might be interesting to our audience is that it would appear that the issue of the drug pricing discrepancy between what public plans and private plan sponsors pay is getting more attention - which is great news for private plans. The message has certainly been received by Queen's Park, and is filtering out.

SqueezePlay on BNN had the discrepancy that private plans pay as its lead story last night. Here is a link to the video, and a perspective on the issue (or at least what could be covered in 6 minutes.)

<http://watch.bnn.ca/squeezeplay/april-2010/squeezeplay-april-12-2010/#clip288111>

The following is an update on some of the weekend's developments with the posting of draft regulations, and some of the potential impacts on Ontario based plans, and those predominantly based in Atlantic and Western Canada. There are certainly terrific opportunities here, but also some potential liabilities you should be aware of. Keep in mind, back in 2006, observers figured Bill 102 would bring a sense of control to drug costs but quite the opposite turned out to be true.

- Pharmacies in Ontario will be categorized into one of 4 groups: Category 1, 2, 3 or 4 - this rating will determine whether you can send ODB a dispensing fee of \$8, \$9, \$10 or \$11 (respectively)
- The criteria for defining the categories include: current prescription volumes, number of pharmacies in the area, distance to closest pharmacy, and "Rurality Index" (related to postal code presumably)
- In another slap across the face of Shoppers Drug Mart and other large chains, ODB will maintain its current mark-up of 8% on the ingredient cost for most pharmacies, allow a 10% mark-up for "rural" stores (one would assume that means category 4 or category 3 and 4 stores), but allow only a 5% mark-up for large chains like Shoppers, Sobeys, etc. who are self-distributing (meaning they buy direct and don't use wholesalers)

- That means that not only does Shoppers lose out on drug ingredient cost on the generic side, and decreases in Professional Allowances, they now will also take a 3% hit across the board (brand and generic) on mark-ups.... not likely to go over well in the Kingdom of Life Brand

**However, these mark-up changes only apply to the public sector - not the private sector** . The public sector has also built in a maximum mark-up of \$125 for very expensive drugs.

The proposed regulations also outlined the reduction from 50% to 25% for generic drug prices for the public sector, and phased in decreased in generic prices and Professional Allowances over the next 3 years on private side.

The changes in Alberta pale in comparison to what is happening in Ontario because Alberta only decreased generic prices to 45% or 56% (depending on the drug) but they have not outlawed or reduced Professional Allowances at all. Alberta has also increased dispensing fees to build a transition allowance, so the cost savings on generics will be reduced by that increase.

In Atlantic Canada, Medavie Blue Cross has tried to take on pharmacy and lower drug prices for its clients, but the pricing concessions in Atlantic Canada are nowhere near what Ontario or even Alberta have achieved. Medavie controls the market in Atlantic Canada, so what they settle on from a pricing perspective typically becomes the norm. It should be noted that drug prices in Atlantic Canada are already the highest in the country in a vast majority of cases, which further blunts some of the reform happening in that region. However, what is happening across the country has opened up the door for some innovative preferred provider programs and alternative distribution services now that the curtain has been pulled back in Ontario and Alberta. There is a significant amount of opportunity in Atlantic Canada for plans that understand their cost structure and can build on solutions with that knowledge.

The Manitoba Government has bafflingly decided to stay put. Somehow they got a dose of Jonestown Kool-Aid and feel that there is no need to change their broken system. That's a shame, because their system is a mess - especially if you are private plan or cash paying customer. Great people in Manitoba, but unfortunately for them, very, very misguided politicians and bureaucrats at the wheel. Perhaps all of Canada's finest herbal products are not all concentrated in BC...

Saskatchewan has long had contracts in place for a number of key generic drugs, so we don't see any immediate action there. In other words, another example of how Saskatchewan truly is the best place in the country! A have province indeed....

BC is taking a look at Ontario and Alberta's actions, but what they will do has yet to be seen.

The initial fear is that pricing reductions in Ontario could lead to pricing spikes elsewhere in the country as pharmacies look to make up for lost revenues.

Ontario centric plans need to be concerned about increases in dispensing fees which are likely, more cost-shifting to patients (including more differential billing of drug costs/mark-ups and dispensing fees to plan members, and possible moves away from generics back to brand name items.

There is still no word on how quickly the claims processors/Carriers in Ontario will usher in pricing changes once legislation is finalized - but one lesson we can all take from Bill 102 is that the only way to be certain your plan is getting the best deal is to stay on top of the experience and ensure all of the loopholes are closed. Plans with a greater proportion of members outside of Ontario have a window of opportunity to capitalize on preferred providers who will want a bigger market share to offset pricing challenges in Ontario.

We would also advise plans to start educating members about the new pricing changes, and how to differentiate between proper co-insurance and differential billing. That is best achieved through education with respect to the components that make up the cost of a drug claim.

No question there are great opportunities on the horizon for private plans, but there is work to do before that is realized. That work will vary depending on the geography of your plan members, your plan design, and your current Carrier.