PHARMACARE 2020

The Future of Drug Coverage in Canada

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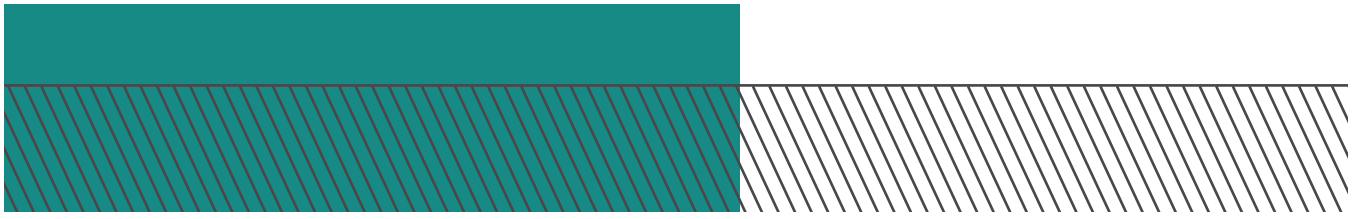
Table of Contents



Foreword

We are pleased to present this report, Pharmacare 2020, which is the culmination of many years of research and collaboration involving academics, health professionals, policy-makers, and public interest groups.

Pharmacare 2020 was a collaborative initiative of the Pharmaceutical Policy Research Collaboration, a CIHR/Health Canada Emerging Team on Equity in Access to Necessary Medicines (2009–2014). Its goal was to foster evidence-informed conversation on the future of prescription drug coverage in Canada.

The name, Pharmacare 2020, was chosen because it alluded to two important issues.

First, we were motivated to address the lack of a clear vision in policy discussions concerning what Pharmacare is – or what it ought to be. Although the term Pharmacare has been used in Canada since the 1960s, many people have rightfully asked what it means.

We therefore sought to provide a clear vision of Pharmacare by identifying the principles and features of a system of drug coverage in Canada that would best achieve the key goals of prescription drug financing policy.

We arrived at the final vision through a combination of dialogue – with researchers, policy-makers, patients, health charities, health professionals, and industry stakeholders – and rigorous pharmaceutical policy research, much of which we have published in top journals and with leading think-tanks.

In the end, theory, evidence, and policy experience all pointed toward a clear and coherent vision of a system of prescription drug benefits that would best address the following four key policy goals for Canadians:

- **Access:** universal access to necessary medicines
- **Fairness:** fair distribution of prescription drug costs
- **Safety:** safe and appropriate prescribing
- **Value for money:** maximum health benefits per dollar spent.

The vision is of a public drug plan that follows four policy recommendations:

1. Provide universal coverage of selected medicines at little or no direct cost to patients through Pharmacare.

2. Select and finance medically necessary prescription drugs at a population level without needs-based charges – such as deductibles, coinsurance, or risk-rated premiums – on individuals or other plan sponsors (e.g., businesses).

3. Establish a publicly accountable body to manage Pharmacare, one that integrates the best available data and evidence into decisions concerning drug coverage, drug prescribing, and patient follow-up.

4. Establish Pharmacare as a single-payer system with a publicly accountable management agency to secure the best health outcomes for Canadians from a transparent drug budget.

This is Pharmacare for Canada. It would work in conjunction with Canadian Medicare to promote the health and well-being of Canadians.

This vision of what Pharmacare is – or should be – for Canada is shared not only by the authors of this final report. The recommendations of this report have been reviewed and endorsed by over 100 university-affiliated professors and clinical experts in pharmaceutical policy, health policy, health economics, health services research, medicine, pharmacy, nursing, and psychology. Furthermore, the public opinion research by the Angus Reid Institute that is cited in this report suggests that a vast majority of Canadians share this vision too.

The second important issue that the name Pharmacare 2020 alludes to is a timeline. Canada has been waiting for Pharmacare since the 1960s. The vision is now clear. Thus, the task turns to the art and science of program development and implementation. This will be difficult and will require political leadership and inter-jurisdictional collaboration – but it is not impossible, as Canadian Medicare has shown. This led to our fifth policy recommendation:

5. Fully implement Pharmacare – a public drug plan that is universal, comprehensive, evidence-based, and sustainable – by 2020.

We chose 2020 because it defines a reasonable timeline for reform – short enough to ensure that action is taken soon, but long enough to ensure that implementation is done right. We hope the readers of this report will agree and will work collaboratively toward implementation of Pharmacare by 2020.

Respectfully,

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Summary

The World Health Organization has declared that all nations are obligated to ensure equitable access to necessary medicines through pharmaceutical policies that work in conjunction with broader systems of universal health coverage. To that end, every developed country with a universal health care system provides universal coverage of prescription drugs – except Canada.

All Canadians deserve equitable access to necessary medicines. Universal "Pharmacare" – working in conjunction with our "Medicare" system – is the best way to achieve this at a fair and affordable cost to patients and society as a whole.

Canada's federal, provincial, and territorial governments should commit to a plan that will see full implementation of a public drug plan that is universal, comprehensive, evidence-based, and sustainable. This is Pharmacare for Canada.

Pharmacare is a natural, long-planned component of Canadian Medicare. Full implementation by 2020 is both desirable and feasible. Such a timeline signals firm commitment while allowing time for careful implementation of this important, long-term program.

Evidence from across Canada and around the world shows that Pharmacare is the best system for achieving:

- universal access to necessary medicines
- fair distribution of prescription drug costs
- safe and appropriate prescribing, and
- maximum health benefits per dollar spent.

This report explains why this is the case and therefore why Canadians deserve Pharmacare by 2020. ■

History of Pharmacare in Canada

Pharmacare is the unfinished business of Canadian Medicare

There have been calls to include prescription drugs in Canada's universal public health care system since the 1960s.

In 1964, the Royal Commission on Health Services– known as the Hall Commission after its chair, Saskatchewan Supreme Court Justice Emmett Hall – recommended that Canada implement a universal, public pharmacare program following the introduction of universal coverage of medical care.

Justice Hall argued that "in view of the high cost of many of the new life-saving, life-sustaining, pain-killing, and disease-preventing medicines, prescribed drugs should be introduced as a benefit of the public health services program." The Hall Commission recommended that federal and provincial governments work together to make a list of medicines – selected on the basis of their clinical and economic value to society – available to all Canadians at a cost of just $1 per prescription (about $8 in today's terms).

In 1997, the National Forum on Health – an expert advisory panel chaired by then Prime Minister Jean Chrétien – also recommended that Canada implement a universal public drug benefit program. The National Forum argued that "because pharmaceuticals are medically necessary and public financing is the only reasonable way to promote universal access and to control costs, we believe Canada should take the necessary steps to include drugs as part of its publicly funded health care system."

The National Forum recommended that universal public drug plans in all provinces make available prescription drugs selected on the basis of evidence of clinical and economic value. It recommended that the program impose user charges only on products that are not the most cost-effective treatment options – such as when expensive brands are used instead of equally effective and lower-cost generic drugs.

In 2002, the Commission on the Future of Health Care in Canada – named the Romanow Commission after its chair, former premier of Saskatchewan, Roy Romanow – recommended that all governments in Canada work together to integrate medically necessary prescription drugs within Canadian medicare. The Romanow Commission argued that establishing universal "catastrophic" drug coverage – which has effectively been done across Canada – was the first step toward ". . . the ultimate objective of bringing prescription drugs under the Canada Health Act."

Mr. Romanow also argued that investments needed to be made to ensure that ". . . prescription drugs are integrated into the system in a way that ensures they are appropriately prescribed and utilized." To that end, he recommended that a national agency be created to negotiate drug prices and coverage decisions for the universal drug plan, monitor prescribing and drug safety, and provide objective information about medicines to patients and health care providers.

Despite these calls Canada has made little progress toward Pharmacare. Public health insurance programs have financed nearly all expenditures on medical care (99% public) and hospital care (90% public) in Canada since the 1970s. In contrast, public drug benefit programs in Canada evolved in ways that historically resulted in relatively comprehensive public coverage for selected populations, such as senior citizens and social assistance recipients. Rather than extend such coverage to all Canadians, several provinces have moved toward universal drug plans that provide all residents protection against "catastrophic" drug costs only, regardless of age.

Though some of the changes in provincial drug plans represent a step toward greater universality in coverage, they also reflect a retrenchment of public drug benefits in Canada. As a share of prescription drug expenditures in Canada, government-financed drug plans have shrunk from a peak of 47% in 1991 to just 38% today.

Today, growing numbers of individuals, interest groups, and even politicians are calling once again for expansion of public drug coverage in Canada. The vast majority of these groups are calling for "Pharmacare," the subject of this report. ■

Introduction

Pharmacare is the Unfinished Business of Canadian Medicare

Overarching principle: All Canadians deserve equitable access to safe, cost-effective, and appropriately prescribed medicines at a fair and affordable cost to patients and society as a whole.

Prescription drugs are among the most important components of modern health care. When prescribed and used appropriately, they can prevent and cure disease, and extend and improve the quality of life.

Pharmaceuticals are so essential to health and well-being that the World Health Organization has declared that all nations should ensure universal access to necessary medicines.[1] The World Health Organization also recommends that this be accomplished through pharmaceutical policies that work in conjunction with broader systems of universal health coverage.[2]

Consistent with these recommendations, every developed country with a universal health care system provides universal coverage of medically necessary prescriptions. Every such country except Canada, that is.

Canada has a universal, comprehensive public health insurance system for medical and hospital care – our "Medicare" system. Conspicuously, however, coverage of prescription drugs used outside hospitals in Canada is neither universal nor comprehensive.

Drug coverage in Canada can best be described as an incomplete and uncoordinated patchwork of public and private drug plans. This patchwork leaves many patients with little or no coverage at all and, because it fragments our purchasing power, results in higher drug costs for all Canadians.

Canadians will fill over 500 million prescriptions at retail pharmacies this year.[3] This will cost about $30 billion.[4] Although this amount is less than the $64 billion spent on all forms of hospital care, it is nearly as much as the $33 billion paid for all medical and diagnostic services provided by physicians in Canada, and it is more than double the $13 billion cost of all dental care.

Thirty billion dollars is also four times as much as we spent on prescriptions 20 years ago. No other component of Canadian health care has grown as quickly.

Every developed country with a universal health care system provides universal coverage of prescription drugs – except Canada

[1] *The Selection of Essential Medicines.* World Health Organization. 2002. http://apps.who.int/medicinedocs/en/d/Js2296e/1.html

[2] See discussion in *Medicines in Health Systems: Advancing Access, Affordability and Appropriate Use.* World Health Organization. 2014. http://www.who.int/alliance-hpsr/resources/FR_webfinal_v1.pdf

[3] *The Canadian Rx Atlas,* 3rd Edition. University of British Columbia. 2013. https://circle.ubc.ca/handle/2429/50349

[4] National Health Expenditure Trends, 1975 to 2014. Canadian Institute for Health Information. 2014. http://www.cihi.ca/CIHI-ext-portal/pdf/internet/nhex_2014_report_en

Introduction

Although pharmaceuticals used in Canadian hospitals are fully covered under our Medicare system, most Canadians receive no public assistance with the costs of prescriptions they fill at pharmacies.

Public drug plans vary across Canada, with some covering patients based on age, some based on income, and some based on specific medical needs (such as cancer, HIV, or cystic fibrosis). In total, public drug plans cover $12 billion in prescriptions, or 42% of all prescription drug costs in Canada.[5]

Private drug plans cover 36% of prescription drug costs in Canada. These plans are voluntary in all provinces except Quebec, where employers are required to provide private drug insurance for eligible employees. Most private insurance is obtained through work-related extended health benefits, which are typically available only to full-time employees working for large organizations.[6]

Many Canadians do not have any drug insurance, and those who are insured must pay insurance plan deductibles and co-payments out-of-pocket. As a consequence, Canadian patients pay out-of-pocket for $6 billion in prescriptions, or 22% of all prescription drug costs in Canada.

In addition to being incomplete, our patchwork of drug plans in Canada is uncoordinated. Canada's private and public drug plans are not consistent within provinces or across the country. They are also not well coordinated with broader health care policies in Canada. Private drug plans, in particular, are designed not in accordance with good health care policy but as part of complex labour negotiations that focus on the cost and perceived generosity of compensation packages.[7]

Coverage of medicines in Canada therefore depends on a patient's age, income, workplace, and province of residence, but not necessarily on her or his medical needs. This creates inequities and inconsistencies in care and places undue strain on Canadian citizens and businesses.

It doesn't have to be that way.

The notion of Pharmacare for Canada has been identified by royal commissions dating as far back as the 1960s (see story / Page 3). The evidence for their recommendations – for drug coverage that is universal, comprehensive, publicly managed, and evidence-based – remains as solid today as it has ever been.

Indeed, based on core values and sound evidence, vast and growing numbers of citizens, public interest groups, health professionals, health charities, businesses, labour groups, municipalities, news media, health system managers, and health policy experts are calling once again for an improved system of prescription drug coverage in Canada. Like the royal commissions, the vast majority of these groups advocate for a system that works in conjunction with Canadian Medicare.

In short, Canadians are calling for Pharmacare in Canada.

Indeed, a July 2015 poll by the Angus Reid Institute found that 91% of Canadians support the concept of having "Pharmacare" to provide universal access to necessary medicines; 88% believe that medicines should be part of Medicare; 80% believe that a single-payer system would be more efficient; and 89% believe Pharmacare should be a joint effort involving provinces and the federal government.[8]

[5] Drug Spending in 2014. Canadian Institute for Health Information. 2014. http://www.cihi.ca/web/resource/en/nhex_2014_infosheet_en.pdf

[6] *Workplace and Employee Survey Compendium.* Statistics Canada. 2008. http://www.statcan.gc.ca/pub/71-585-x/71-585-x2008001-eng.pdf. *Low Earnings, Unfilled Prescriptions: Employer-Provided Health Benefit Coverage in Canada.* Wellesley Institute. 2015. http://www.wellesleyinstitute.com/

[7] "Reforming private drug coverage in Canada: Inefficient drug benefit design and the barriers to change in unionized settings." *Health Policy.* 2015. http://www.ncbi.nlm.nih.gov/pubmed/25498311

[8] *Prescription drug access and affordability an issue for nearly a quarter of all Canadian households.* Angus Reid Institute. 2015 http://angusreid.org/

Introduction

Pharmacare is a natural, long-planned but as yet undelivered component of Canadian Medicare. It would make Medicare better. And, while doing so, it would lower costs, as demonstrated by the significantly lower cost of pharmaceuticals in all comparable countries with universal, comprehensive public coverage of necessary medicines (see Figure 1).

Based on extensive research and consultations, this report provides a clear vision of what Pharmacare is – or should be – for Canada: a public drug plan that is universal, comprehensive, evidence-based, and sustainable.

The four sections that follow explain why Pharmacare is the best option for Canada to achieve the four core goals of prescription drug financing policy:

- **Access:** universal access to necessary medicines
- **Fairness:** fair distribution of prescription drug costs
- **Safety:** safe and appropriate prescribing, and
- **Value for money:** maximum health benefits per dollar spent.

The concluding section outlines the case for Canada's federal, provincial, and territorial governments to act now – together – to see full implementation of Pharmacare by 2020.

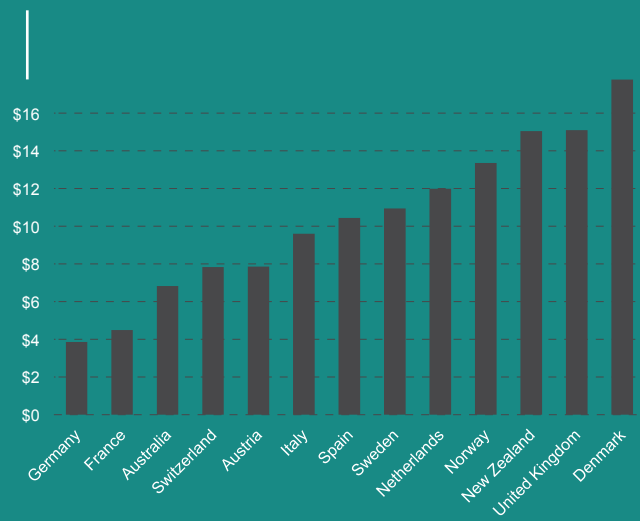


Figure 1: Canada would save billions of dollars if we spent the same on pharmaceuticals as these countries with universal, comprehensive prescription drug coverage.

Overarching recommendation: Canada should implement a public drug plan that is universal, comprehensive, evidence-based, and sustainable. This is Pharmacare for Canada. It is a system that should work in conjunction with Canadian Medicare to promote the health and well-being of Canadians.

Access

Universal, Comprehensive Coverage to Ensure Access

Principle: All Canadians should have equitable access to medically necessary prescription drugs.

Ensuring that all Canadians have access to the medicines they need is the central goal of drug coverage policy. Unfortunately, despite our universal system for covering the costs of medical and hospital care, many Canadians cannot afford needed medicines.

Surveys have shown that 1 in 10 Canadians do not take their medicines as prescribed because of costs.[9] This affects nearly 1 in 4 Canadian households.[10]

In some cases, Canadians cannot afford their prescriptions because they have no drug coverage. But even patients with insurance can experience financial barriers when they must pay deductibles and co-payments.

Research has shown that user-charges of as little as $2 per prescription can prevent low-income patients from filling needed prescriptions, and that even higher-income patients may choose not to fill prescriptions when faced with modest charges. [11]

Research also shows that income-based drug plans – which only cover costs above income-based deductibles – fail to promote access to needed medicines.[12] This is because the deductibles under such programs make patients pay out-of-pocket for routine but perhaps essential drug therapies.

When patients face financial barriers to necessary prescription drugs, it costs all Canadians.

Because patients often do not directly and immediately feel the benefits of preventive therapies – such as medicines to reduce the risk of heart attacks and strokes – they often choose to stop taking these medicines when faced with associated costs. This results in predictable increases in the use of other health care services, which are often more expensive than the medicines would have cost in the first place. Indeed, preventable underuse of medicines in Canada has been estimated to cost the country between $1 billion and $9 billion annually.[13]

Effective prescription drug coverage policy is therefore not about just making sure everyone has some form of insurance coverage. It is about ensuring that every Canadian has effective drug coverage – coverage that provides equitable access to necessary care without financial barriers.

1 in 10 Canadians do not take their medicines as prescribed because of costs. This affects nearly 1 in 4 Canadian households.

9 in 10 Canadians believe it is simply not right that some Canadians have to struggle to pay for medicine they need.

[9] "The effect of cost on adherence to prescription medications in Canada." *Canadian Medical Association Journal.* 2012. http://www.cmaj.ca/content/184/3/297. "Cost-related prescription nonadherence in the United States and Canada." *Clinical Therapeutics.* 2009. http://www.ncbi.nlm.nih.gov/pubmed/19243719

[10] *Prescription drug access and affordability an issue for nearly a quarter of all Canadian households.* Angus Reid Institute. 2015 http://angusreid.org/

[11] "Prescription drug cost sharing: Associations with medication and medical utilization and spending and health." *Journal of the American Medical Association.* 2007. http://jama.jamanetwork.com/article.aspx?articleid=207805

[12] *Are Income-Based Public Drug Benefit Programs Fit for an Aging Population?* Institute for Research on Public Policy. 2014. http://irpp.org/research-studies/study-no50/

[13] *Clinical Service Proposal: Medication Adherence Services.* British Columbia Pharmacy Association. 2013. http://www.bcpharmacy.ca/uploads/Medication_Adherence.pdf

Access

Equitable access to medically necessary prescription drugs does not require that every drug be covered for every use. It requires that all patients have access, without barriers, to medicines selected with due regard to public health relevance, evidence on efficacy and safety, and comparative cost-effectiveness. This is not achieved through drug programs for select populations or the protection of all people against only "catastrophic" costs.

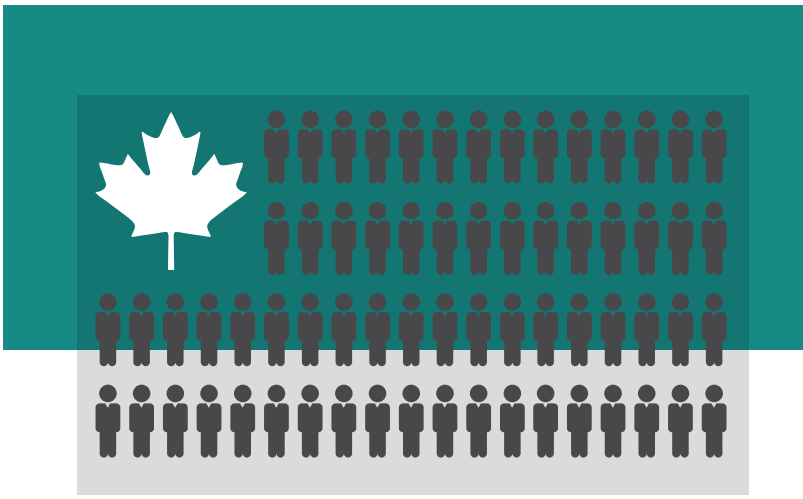
Pharmacare would provide universal and comprehensive coverage of medicines chosen based on the best evidence of their value in treating the health needs of Canadians. Pharmacare would limit or eliminate any direct charges to patients for covered medicines, particularly for vulnerable populations and persons managing chronic disease, thereby eliminating known barriers to access.

Designed in this way, Pharmacare would ensure equitable access to covered medicines regardless of patient age, income, or occupation. This would increase adherence to therapy, improve patient health, and reduce costs elsewhere in the health care system.[14]

Pharmacare by 2020 would mean that more than 2 million Canadians will fill prescriptions that they would not otherwise be able to afford.[15] Among those who would have better access to needed care are over 500,000 older Canadians who, despite having some public drug coverage, face much higher prescription costs than older people in comparable countries. ■

Recommendation: Provide universal coverage of medically necessary prescription drugs at little or no direct cost to patients through Pharmacare.

Pharmacare by 2020 would mean that more than 2 million Canadians will fill prescriptions that they would not otherwise be able to afford.



[14] "Prescription drug insurance coverage and patient health outcomes: A systematic review." *American Journal of Public Health.* 2015. http://ajph.aphapublications.org/doi/abs/10.2105/AJPH.2014.302240. "Full coverage for preventive medications after myocardial infarction." *New England Journal of Medicine*. 2011. http://www.nejm.org/doi/full/10.1056/NEJMsa1107913

[15] Authors' analysis based on the Commonwealth Fund 2007 and 2014 International Health Policy Surveys: http://www.commonwealthfund.org/publications/surveys

Fairness

Fairly Distributing the Cost of Needed Care Across the Population

Principle: No individual or group should be financially disadvantaged by their health needs.

Once the medicines that all Canadians should have access to are identified – with due regard to cost-effectiveness and public health priorities – society will need to determine how best to pay for them.

The goal of ensuring equitable access requires that direct charges not be a barrier to using needed medicines. The core values of Canadian Medicare – as well as a vast body of health system literature – suggest that the costs of necessary care should not put patients or families at a financial disadvantage. Currently, Canada does poorly in this regard.

The use of prescription drugs in Canada can impose a considerable financial burden on patients. One in five Canadian households spends $500 or more on prescriptions, and almost one in 10 (8%) spends $1,000 or more for their prescriptions.[16] This occurs because many patients are uninsured for medicines, and many who are insured still face various direct charges, such as deductibles, co-insurance, or prescription co-payments.

These direct costs can add up to considerable sums, even for relatively common treatments, because medicines are often needed daily for many years. Therefore, people with chronic illnesses need assistance with predictable, ongoing drug costs – not just insurance against unexpected costs.

"Catastrophic" drug coverage will not do. If patients fill their prescriptions as needed, the deductibles under catastrophic public drug plans are tantamount to a tax on the sick, including elderly Canadians, virtually all of whom have predictable needs for prescription drugs.[17]

All needs-based means of paying for prescription drug costs – including deductibles, co-payments, and risk-rated premiums – are borne disproportionately by those with significant and/or ongoing health needs. This limits the financial protection provided to patients and families. Protecting individuals from the cost of necessary prescription drugs requires that the costs be shared fairly across the entire population.

Consideration should also be given to the burden placed on Canadian businesses that sponsor a significant share of drug costs through private, work-related drug plans. In Quebec, such plans are legally required for all eligible employees.

Employment-related drug plans place a burden on employers and create inefficiencies in our workforce. This is becoming a greater problem as the number and cost of specialized medicines increases in Canada.

Specialized medicines are those used to treat serious medical conditions, often at considerable cost. A growing number of speciality drugs – which can cost $50,000 or even $500,000 per patient per year – are now available in Canada. Whereas these types of drugs accounted for negligible expenses a decade ago, they now account for more than 25% of private drug spending in Canada.[18]

These costs place considerable financial burdens on employers because they can quickly render a company's drug plan unaffordable. Small businesses are especially at risk. With private drug coverage decisions made as part of labour contract negotiations, employers and unions are put in the impossible position of deciding who gets access to what treatments. They shouldn't have to make these decisions.

[16] *Rethinking Pharmacare in Canada.* C.D. Howe Institute. 2013. https://www.cdhowe.org/rethinking-pharmacare-in-canada/22009; and *Prescription drug access and affordability an issue for nearly a quarter of all Canadian households.* Angus Reid Institute. 2015 http://angusreid.org/

[17] *Are Income-Based Public Drug Benefit Programs Fit for an Aging Population? Institute for Research on Public Policy. 2014.* http://irpp.org/research-studies/study-no50/

[18] "Businesses warned: High-cost prescription drugs put employees' pharmacy benefit at high risk." *Canada News Wire.* 2015. http://www.newswire.ca/en/story/1536753/businesses-warned-high-cost-prescription-drugs-put-employees-pharmacy-benefit-at-high-risk

Fairness

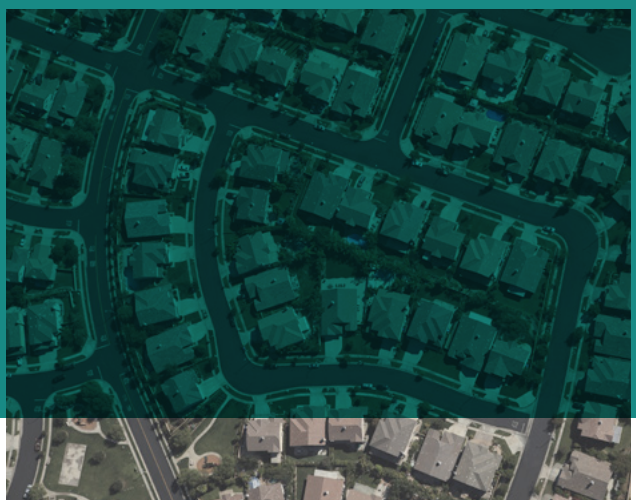
Similarly, Canadians shouldn't have to make decisions about where to work and when to retire based on availability of drug coverage rather than on life and career ambitions. This hurts workers, employers, and our economy.

As a universal, comprehensive public plan, Pharmacare is the most efficient means of providing equitable assistance with ongoing medical needs – achieving this goal at far less cost than a regulated system of mandatory private drug coverage, such as Quebec's system.[19] Pharmacare would also create the largest possible risk pool for the costs of specialized medicines in Canada, which is the best way to protect both patients and employers from the cost of rare but expensive medical needs.[20]

Pharmacare would provide all Canadians with protection against the financial burden associated with prescription drug needs. Millions of households would no longer have to endure ongoing financial strain owing to their health needs.

Pharmacare would also improve the competitiveness of Canada's labour market. Prescription drug benefits would no longer be a major consideration in labour negotiations or job seeking. An efficiently run system would actually bring down the total cost of labour in the Canadian economy. ■

Millions of households would no longer have to endure ongoing financial strain owing to their health needs.



Recommendation 2: Select and finance medically necessary prescription drugs at a population level without needs-based charges on individuals or other plan sponsors (e.g., businesses).

[19] "Quebec should not be the model for national pharmacare." *Globe and Mail.* 2015. http://www.theglobeandmail.com/globe-debate/quebec-should-not-be-the-model-for-national-pharmacare/article25135678/

[20] "Health care in the age of genetic medicine." *Journal of the American Medical Association.* 2007. http://jama.jamanetwork.com/article.aspx?articleid=209692

Safety

Smarter Coverage for Safer, More Appropriate Prescribing

Principle: Prescription drugs should only be funded, prescribed, and used in accordance with the best available evidence concerning risks and benefits.

The safety of medicines used by Canadians is of primary importance. Expanded drug coverage is expected to address problems of underuse of needed therapies. But coverage may also exacerbate existing problems of overuse and misuse of prescription drugs in Canada if these drugs are not offered in ways that promote safe and appropriate use.

Our fragmented patchwork of private and public drug coverage in Canada isolates the management of medicines from the management of health care. This has particularly negative consequences in terms of under-investment in, and divided responsibility for, safe and appropriate use of medicines. Although efforts have been made to reduce inappropriate prescribing and encourage safer use of medicines, we lag behind other countries in many respects.

For example, fewer than 1 in 3 doctors in Canada use electronic prescribing tools to help identify problems with drug doses or interactions. In contrast, about 9 in 10 doctors use such systems in New Zealand and the United Kingdom – countries where public coverage of pharmaceuticals and health care are integrated.[21]

There is also inadequate monitoring of prescribing practices and related health outcomes in Canada. A key reason for this is that databases concerning drug prescribing, use, and outcomes are fragmented and uncoordinated, as they are held independently by governments, private insurance companies, and pharmacy retailers.

The multiplicity of drug plans in Canada can also create a burden on prescribing doctors and inhibit safe and appropriate prescribing practices. This is because the lists of drugs covered by private and public drug plans are not coordinated. Many private drug plans cover all medicines for any given medical condition, despite the lack of evidence showing that widespread use of each medicine would be safe and cost-effective.

Despite repeated recommendations that one be established, Canada has no national strategy to make safe and appropriate prescription drug use part of Canadian health care culture. Canada needs such a strategy to ensure that patients, professionals, and the public have access to the best unbiased information on the safe use of medicines.[22]

Without a strategy to ensure safe use of medicines, Canadians are left vulnerable. An estimated 1 in 3 elderly Canadians receives prescriptions for drugs known to pose health risks for older patients.[23] And an estimated 1 in 6 hospitalizations in Canada could be prevented if prescription drugs were used more appropriately.[24]

Pharmaceutical coverage needs to be based on the best available evidence and integrated into the health care system in ways that increase the appropriateness of prescribing. By applying a single evidence-based formulary – the list of medicines that would be covered for all Canadians – Pharmacare would reduce disparities and confusion created when different patients are covered

Fewer than 1 in 3 doctors in Canada use electronic prescribing tools to help identify problems with drug doses or interactions.

[21] *2012 Commonwealth Fund International Survey of Primary Care Doctors.* http://www.commonwealthfund.org/publications/surveys/2012/nov/2012-international-survey

[22] *Optimal Prescribing and Medication Use in Canada: Challenges and Opportunities.* Health Council of Canada. 2007. http://healthcouncilcanada.ca/tree/2.37-HCC_Symposium_Paper_FA.pdf

[23] *Drug Use Among Seniors on Public Drug Programs in Canada, 2012.* Canadian Institute for Health Information. 2014. https://secure.cihi.ca/estore/productFamily.htm?locale=en&pf=PFC2594

[24] "Drug-related hospitalizations in a tertiary care internal medicine service of a Canadian hospital: A prospective study" *Pharmacotherapy.* 2006. http://www.ncbi.nlm.nih.gov/pubmed/17064202

Safety

for different medicines. A single, universal formulary would also better guide prescribing than professional education alone and would likely improve the quality and safety of care received by patients.[25]

As a universal and publicly managed system, Pharmacare would logically integrate with the management of medical and hospital care in Canada. This integration would create more opportunities for health care professionals and health system managers to encourage appropriate use of medicines. This approach would be far superior to our current system, which involves private insurers that are not responsible for other aspects of Canadian health care.

Pharmacare could also foster the routine use of electronic prescribing systems and the secure and systematic capture of data concerning drug use and outcomes. When linked with available health information systems in Canada, this could be used for ongoing monitoring and surveillance of prescribing practices and drug safety.

By consistently using evidence and information systems to guide drug coverage and prescribing for all Canadians, a Pharmacare program could realistically reduce by 50% the existing problems of medicine underuse, overuse, and misuse. This would dramatically improve patient health while reducing costs of medical and hospital care by up to $5 billion per year.[26] ■

Recommendation 3: Establish a publicly accountable body to manage Pharmacare, one that integrates the best available data and evidence into decisions concerning drug coverage, drug prescribing, and patient follow-up.

By helping to reduce problems of medicine underuse, overuse, and misuse, Pharmacare would dramatically improve patient health while saving the health care system up to $5 billion per year.

[25] "Sharing resources to create a district drug formulary: A countywide controlled trial." *British Journal of General Practice.* 1996. http://www.ncbi.nlm.nih.gov/pubmed/8762741. "Do prescribing formularies help GPs prescribe from a narrower range of drugs? A controlled trial of the introduction of prescribing formularies for NSAIDs." *British Journal of General Practice.* 1997. http://www.ncbi.nlm.nih.gov/pubmed/9463982

[26] Authors' calculations based on: "Drug-related hospitalizations in a tertiary care internal medicine service of a Canadian hospital: A prospective study." *Pharmacotherapy.* 2006. http://www.ncbi.nlm.nih.gov/pubmed/17064202 "Potentially inappropriate medication use and healthcare expenditures in the US community-dwelling elderly." *Medical Care.* 2007. http://www.ncbi.nlm.nih.gov/pubmed/17446834

Value for Money

Streamlined and Strengthened Systems to Achieve Better Health Outcomes for Every Dollar Spent

Principle: The cost of medicines should be managed to achieve maximum value for money from the perspective of for Canadian society.

A system to provide equitable access to medicines must be designed to be efficient and sustainable. This requires attention to administrative costs, drug prices, and treatments selected to meet health needs. It also requires attention to the fact that money spent on pharmaceuticals cannot be spent on other things – including other investments in health and health care. Canada's current patchwork drug coverage system does poorly in all of these respects.

In terms of administrative costs, every private and public drug plan operating in every province must spend money on beneficiary enrolment, revenue collection, coverage decision-making, price negotiations, claims administration, and, for private companies, paying shareholders. Many of these costs are unnecessarily duplicative, diverting resources away from the task of purchasing health care for Canadians.

In terms of drug prices, Canada's multi-payer system is among the most expensive systems in the world, because it diminishes our purchasing power. The prices of generic drugs in Canada are nearly double (79% higher than) the median of prices found in other OECD countries and more than four times (445%) higher than the best available prices in the OECD.[27] Similarly, the prices of brand-name drugs in Canada are 30% higher than in comparable countries like the United Kingdom.[28]

Comparable health care systems around the world achieve lower prices by using the purchasing power of a single payer for pharmaceuticals. Manufacturers who price competitively get the reward of their drugs being covered for 100% of the population. The savings can be remarkable.

Take the blockbuster drug Lipitor, for example. A year's supply of the brand-name drug in Canada costs at least $811; in New Zealand, where a public authority negotiates prices on behalf of the entire country, a year's supply of the brand costs just $15. Even the generic version of Lipitor costs at least $140 in Canada, more than nine times more expensive than in New Zealand.

Canada's provincial governments wield some purchasing power when negotiating confidential price rebates for prescription drugs subsidized under existing public drug plans.[29]

But these negotiations only apply to drugs used by the minority of Canadians who are beneficiaries of public drug plans. Uninsured patients and employers who insure their workers through private drug plans still face unnecessarily high prices.

> "Someone at the end of the day has to pay for [medicines], and currently employers and unions are bearing that cost. But I don't know how long it can be sustained."
>
> – Arthur Fabbro Jr. (Magna International)

[27] *Generic Drugs in Canada,* 2013. Patented Medicine Prices Review Board. 2014. http://www.pmprb-cepmb.gc.ca/view.asp?ccid=1122

[28] "Comparison of Canadian prices to foreign prices," in *Annual Report* 2013. Patented Medicine Prices Review Board. 2014. http://www.pmprb-cepmb.gc.ca/view.asp?ccid=938#1765

[29] "The pan-Canadian Pharmaceutical Alliance." Council of the Federation. 2015 http://www.pmprovincesterritoires.ca/en/initiatives/358-pan-canadian-pricing-alliance

Value for Money

In terms of treatments selected to meet health needs, Canada's system does poorly because it isolates pharmaceutical management from the management of medical care. It is estimated, for example, that approximately $5 billion spent by employers on private drug benefits is wasted because private drug plans are not well positioned to manage prescribing and dispensing decisions of Canadian health professionals.[30]

In terms of the opportunity cost of money spent on pharmaceuticals, Canada's inefficient system of private and public plans makes it easier for managers to pass cost increases on to employers, patients, and taxpayers than it is for them to manage costs from a system perspective.

Countries comparable to Canada, but with universal pharmaceutical coverage integrated into their health care systems, use various techniques to encourage clinically appropriate, cost-conscious prescribing and product selection decisions. These include, for example, evidence-based formularies and prescribing protocols as well as appropriate financial incentives targeting prescribers – not patients – to encourage them to consider the full benefits and costs of prescribing decisions.[31]

As a single-payer drug plan, Pharmacare would have the maximum purchasing power – and give maximum rewards for manufacturers providing competitively priced products. Having a transparent, pre-defined budget is set with due consideration of health system priorities and resources would ensure program sustainability and health system efficiency.

A publicly accountable body – led with representation from the public, prescribers, and governments – would establish the national formulary of medicines selected for coverage. It would do so in a fair and transparent fashion and on the basis of the best available evidence.

Additionally, as a coordinated system for securing medicines in Canada, Pharmacare would be able to use best practices in procurement to ensure a safe and secure supply of needed medicines.[32]

Pharmacare would use the combined purchasing power of all provinces and the federal government to ensure that Canadians receive the best possible drug prices and thereby coverage of the widest possible range of treatments at the lowest cost.

The administrative costs of the single-payer Pharmacare system would be $1 billion to $2 billion less than the cost of a mixed, private-public system of drug coverage.[33] Private firms could nevertheless provide efficient claims administration for the Pharmacare plan and offer supplementary insurance for those who would value it.

Independent studies confirm this, estimating that Pharmacare would save Canadians between $4 billion and $11 billion per year under reasonable assumptions.[34] Thus, when it comes to a prescription drug plan for Canada, the best system for patients and population health just happens to also be the most economical.

A universal prescription drug plan would mean reduced revenues for some businesses that are currently selling medicines in Canada at prices higher than are charged in comparable countries. However, it would be a significant gain for the Canadian economy. Our universal public health care systems already provide Canadian employers with a competitive advantage of approximately $4/hour.[35] Since pharmaceuticals are the second largest component of health care spending in Canada, the cost control enabled by a universal, public Pharmacare program would add considerably to this advantage.

[30] 2014 *Drug Trend Report.* Express Scripts Canada. 2015. http://www.express-scripts.ca/research/drug-trend-reports

[31] *Rethinking Pharmacare in Canada.* C.D. Howe Institute. 2013. https://www.cdhowe.org/rethinking-pharmacare-in-canada/22009

[32] "Canadian Blood Services as a model for national pharmacare." *National Post.* 2015. http://news.nationalpost.com/full-comment/graham-sher-canadian-blood-services-as-a-model-for-national-pharmacare. International best practices for negotiating 'reimbursement contracts' with pharmaceutical companies." *Health Affairs.* 2012. http://content.healthaffairs.org/content/32/4/771.abstract

[33] *Administrative Costs of Health Insurance Schemes: Exploring the Reasons for their Variability.* World Health Organization. 2010. http://www.who.int/health_financing/documents/cov-dp_e_10_08-admin_cost_hi/en/

[34] *A Roadmap to a Rational Pharmacare Policy in Canada.* 2014. Canadian Federation of Nurses Unions. https://nursesunions.ca/sites/default/files/pharmacare_report.pdf. "Estimated cost of universal public coverage of prescription drugs in Canada." *Canadian Medical Association Journal.* 2015. http://www.cmaj.ca/content/early/2015/03/16/cmaj.141564

[35] *A Call for Action: II.* Canadian Automotive Partnership Council. 2013. http://capcinfo.ca/en/mcwgreport.html

Value for Money

Finally, it is important to note that achieving financial savings through Pharmacare is not a deterrent to other key policy goals, including attracting investment in pharmaceutical research and development. Canada has the highest drug prices and highest levels of total spending on pharmaceuticals among comparable countries with universal health care systems. Despite this, we also have the lowest level of drug coverage, the lowest level of medicine access, and the lowest level of pharmaceutical research and development (see Figure 2).

The United Kingdom, for example, has better access to medicines than Canada does, lower burdens on patients, more frequent use of electronic prescribing assistance tools, about 45% lower total cost of pharmaceuticals, and five times as much pharmaceutical research and development on a per capita basis.[36] ■

Recommendation 4: Establish Pharmacare as a single-payer system with a publicly accountable management agency to secure the best health outcomes for Canadians from a transparent drug budget.

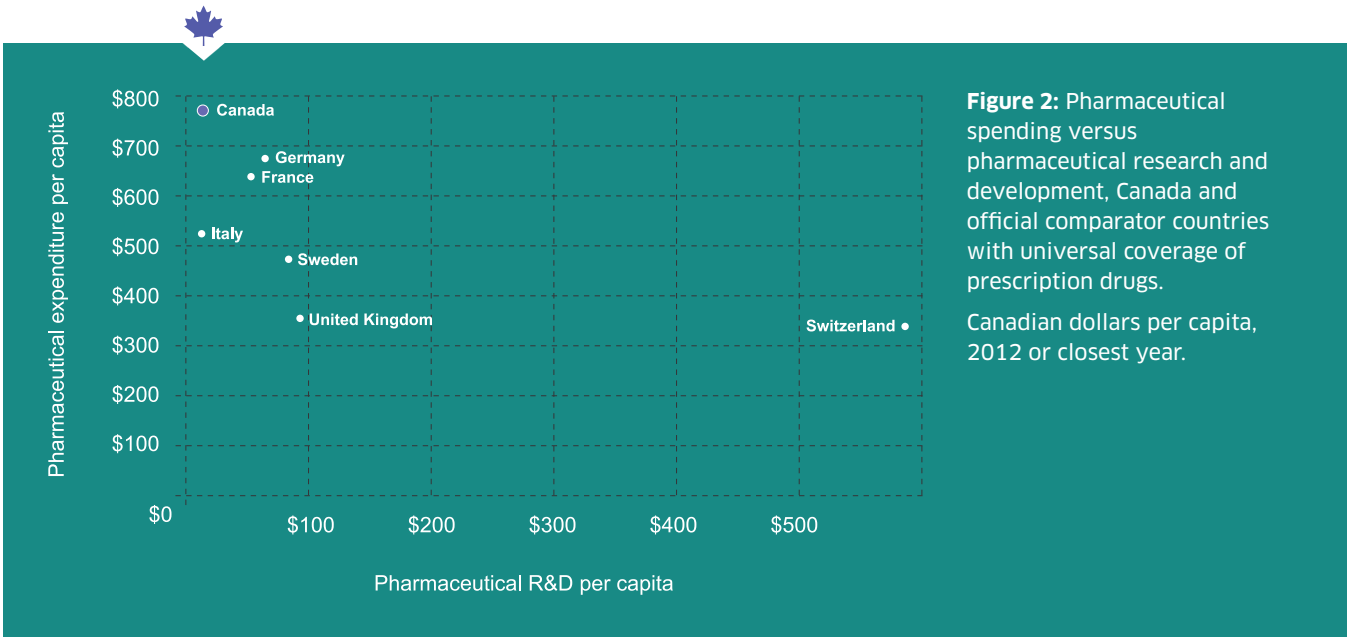


Figure 2: Pharmaceutical spending versus pharmaceutical research and development, Canada and official comparator countries with universal coverage of prescription drugs.

Canadian dollars per capita, 2012 or closest year.

[36] *Rethinking Pharmacare in Canada*. C.D. Howe Institute. 2013. https://www.cdhowe.org/rethinking-pharmacare-in-canada/22009

The Importance of a Program Budget

To ensure that a drug plan remains financially viable, it is important that it be operated at national and provincial levels with a transparently defined, pre-determined annual budget.

A program budget will ensure that Pharmacare is not perceived as a blank cheque for manufacturers, prescribers, and patients, but as a rational system maximizing health benefits for every dollar spent on medicines and on other investments in Canadians' health and health care.

Several countries – and virtually every hospital in Canada – use prescription budget targets to give health care providers and managers an incentive to consider the cost of prescribing decisions. Setting budgets for pharmaceutical spending in ways that are tied to the broader provision of care enables greater clinical engagement in pharmaceutical expenditure management. When applied judiciously, this approach can be effective at reducing overall prescribing and increasing the use of generic medicines without impeding patient access to cost-effective treatments.

At a system level, a budget makes trade-offs between pharmaceutical and non-pharmaceutical forms of health care for Canadians clear and negotiable at a population level. It also gives program managers transparent authority to require pharmaceutical manufacturers to price their medicine at levels that reflect comparative value for money in the Canadian health systems context. ■

Conclusion

Now is the Time to Act

If Canada continues to leave prescription drugs outside its universal public health care system, we will continue to see negative impacts on patient health, our healthcare system, and the economy as a whole. There is another option.

Pharmacare is achievable and financially sustainable. Every comparable universal health care system in the world proves that this is the case, because they all provide better access to medicines for less than Canada now pays.

Given the recommendations for Pharmacare from multiple national commissions in the past, and with the mounting evidence and growing calls from a broad range of stakeholders and public interest groups, delaying implementation is no longer defensible.

Provinces can start right away by building on the successes to date with the Pan-Canadian Pharmaceutical Alliance, which jointly negotiates prices of patented drugs and works to set limits on generic prices. They could identify priority stages of Pharmacare development based on the priorities of the public health system – for example, increased access to and appropriate use of the medicines that would generate the greatest benefit to provincial health care systems.

A newly elected federal government should commit to supporting the nation-wide implementation of a comprehensive public Pharmacare system within the timeframe of a four-year mandate. This would allow the vision and objectives to be articulated at the outset, while allowing for careful implementation of this important, long-term program. ■

Recommendation 5: Fully implement Pharmacare – a public drug plan that is universal, comprehensive, evidence-based, and sustainable – by 2020.

Building on Medicare

The recommendations outlined in this report are consistent with recommendations of past national commissions in Canada.

They are also consistent with the core principles of Canadian Medicare. And, although the Canadian health care system can and should perform better, Canadians still strongly support the core principles of Medicare for sound moral and economic reasons.

Applied to Pharmacare, these principles would be as follows:

- **Universality:** No resident is denied coverage because of age, income, or any other factor unrelated to his or her medical need for covered medicines.
- **Accessibility:** All residents are able to access covered medicines without financial barriers.
- **Comprehensiveness:** The program covers as many medicines as can be afforded and justified by available evidence concerning health and economic impacts of coverage.
- **Public administration:** The organization responsible for managing the national formulary and related pricing and supply contracts is a publicly accountable not-for-profit body.
- **Portability:** The formulary of covered drugs is national in scope and provisions are made to ensure continuous coverage for residents who move within Canada.

Pharmacare would simply add a principle related to appropriate use of medicines, which is central to the goals and objectives of encouraging access to medically necessary prescription drugs:

- **Appropriateness:** Safety and appropriate medicine use must be encouraged and monitored.

Conclusion

Responsibilities of Governments

Pharmacare would build on public insurance programs run by provinces, with provinces and territories continuing to finance purchases made in their jurisdictions.

However, as with Medicare, to ensure participation of and consistency between all provinces and territories, the federal government should fund a portion of the budget for program and operational expenses. Because the federal government pays for 25% of Medicare costs, including 25% of the cost of drugs used in hospitals, the federal share of Pharmacare costs should be set at 25% of the program budget.

The federal and provincial governments currently make substantial investments in price regulation, health technology assessment, and the management of existing drug plans. These investments should be coordinated and the savings redeployed to manage Pharmacare on a co-operative, pan-Canadian basis.

A national committee with representation from the public, patients, prescribers, and governments across Canada would establish the national formulary of medicines selected for coverage on the basis of clinical evidence and value for money. This too would build upon and enhance processes established in Canada, such as the Common Drug Review, the Pan-Canadian Oncology Drug Review, and the Pan-Canadian Pharmaceutical Alliance.

Although the program would be a publicly managed, single-payer system for covered medicines, private firms could provide claims administration or offer supplementary insurance for medicines not covered. ■

...the federal share of Pharmacare costs should be set at 25% of the program budget.

Conclusion

Budget

Pharmacare will save Canadians money, but it should also be designed and budgeted to succeed. This might mean an incremental start to program implementation, but it must also involve a quick progression to a comprehensive program that is sufficiently well-resourced and comprehensive to ensure that no Canadian is left behind.

If governments began with a fixed budget and reinvested savings from price negotiations and generic substitutions, it would be possible to design a program that is cost-neutral to the public sector – and a significant net savings to the private sector.

However, since Pharmacare will save the private sector up to $10 billion, governments should be able to repurpose some of those savings to ensure program success. The federal government could raise its share of program costs through a variety of mechanisms – corporate taxes, income taxes, GST, and/or premiums – with a goal of generating 25% of the total program costs. These should be new funds for the program and not funds taken from the existing transfers for hospital and medical care.

A 25% contribution from the federal government would enable the implementation of Pharmacare at no greater cost to provincial governments than the current patchwork of public drug plans costs them. The net savings to taxpayers and businesses in Canada would be significant – including approximately $3 billion in savings to local, provincial, territorial, and federal governments that currently finance private drug coverage for public sector employees.

The administrative costs of Pharmacare will be lower than the current system of financing in Canada. This is partly because federal and provincial governments currently make substantial investments in price regulation, health technology assessment, and the management of existing drug plans. These investments would be coordinated under Pharmacare and the savings redeployed to run the system on a co-operative, pan-Canadian basis. ■

Conclusion

Medicare made better

Although the proposed reforms will not go unopposed by interests that benefit from the status quo, both evidence and international experiences with similar policies clearly indicate that these reforms are an economically viable way to significantly improve Canadian Medicare.

For patients, Pharmacare designed to be consistent with these goals, principles, and recommendations above will be a natural extension of their cherished Medicare system.

For Canadian society, Pharmacare will improve patient health, reduce demands elsewhere in the health care system, and produce substantial net savings for Canadian patients, businesses, and taxpayers. ■

Conclusion: Public "Pharmacare" – working in conjunction with our "Medicare" system – is the best way to give all Canadians equitable access to necessary medicines at a fair and affordable cost to patients and society as a whole.