



## Private pharmacare challenge

### Can private drug plans be protected to be sustained?

The key to success for your employee benefit plan is a strong drug benefit program, achieved through stable plan costs and happy employees who truly value your company's benefit offering. Because the majority of all health claims that run through your benefit plan are for prescription drugs (approximately 70 to 80 per cent), it is imperative that you and your management team plan and, more importantly, manage your approach to private pharmacare in order to ensure you achieve both success goals.

Here is the bad news. Managing your health benefit plan and balancing plan coverage with cost is definitely a challenge due to a few key causes.

First, the volume of prescriptions written is constantly increasing. The drugs Lipitor (Cholesterol), Synthroid (Hypothyroidism), Norvasc (Blood Pressure) and Crestor (Cholesterol) have been the top four drugs dispensed in Canada for the last three years and total approximately 40,000,000 annual prescriptions, or 10 per cent of all prescriptions written in Canada. Secondly, the well-documented aging workforce will continue to drive health claims. Finally, new technologies of medication come with a high price: the three most commonly prescribed biologic products nationally were Enbrel, Humira and Remicade, all of which average over \$1,800 per prescription. The result, insurance carriers have been budgeting for your drug plan to experience annual inflation of approximately 14 per cent to 17 per cent for the last number of years.

Here is the good news. There are many factors that may limit the inflation of private drug plans over the next few years.

In 2008, private drug spending increased by only five per cent over the previous year and total prescriptions dispensed increased 7.1 per cent. The increase in private drug spending in 2007 was 7.1 per cent, so we are seeing a slowdown in the pace of change of private drug spending. This lower drug trend/inflation factor is due to several factors, including generic drug rate of usage, the drug pipeline, changes in government programs and demographics.

The increase in generic drug usage will help to reduce the inflation trend as many high use drugs face generic competition, now or in the near future. Effexor (depression, anxiety), Altace (blood pressure) and Pantoloc (gastrointestinal/stom-

ach) recently lost patent protection. Generic drugs accounted for 39 per cent of prescriptions in 2005 and this increased to 51.6 per cent in 2008. This trend is not going to end soon. It is predicted that in 2011 generic drugs will have the largest percentage impact yet on reducing claims costs. Blockbuster usage drugs Lipitor and Norvasc will both lose patent protection in 2010 and generics could result in plan savings of eight per cent to 10 per cent assuming the generics will enter the market at approximately 60 per cent of brand price. This change alone could offset a private drug plan's inflation trend for 2011.

This cost savings could be further increased if provincial governments follow the lead of Alberta to limit the price of generic drugs. The Government of Alberta has announced the price of existing generics will be limited to 56 per cent of brand,

down from 75 per cent. In October of 2009, Alberta announced that new generics entering the market would be limited to 45 per cent of brand. It appears that the governments of Ontario and Saskatchewan are on the way to designing similar generic pricing rules. A change to generics with 45 per cent of brand pricing for Lipitor and Norvasc alone could potentially result in private drug plan savings of \$600 million per year.

Furthermore, with the baby boom generation beginning to reach retirement age, we are going to see the most costly group of employees, statistically speaking, leave the plan. The average 65-year-old has about four times the annual prescription drug expense of the average 30-year-old. As the next generation of employee replaces the baby boomers, the average age and usage of your benefit plan will be significantly reduced.

In properly managing your benefit plan, you need to have a conversation with your benefit provider and ask whether the assumptions being applied to your health benefit plan are accurate, especially with pressures slowing drug plan inflation and overall drug spending.

Properly managing your drug benefit plan and being aware of the pressures, both positive and negative, that affect your drug cost will materially impact the success of the balance of plan coverage against plan cost.

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