



GMS INSURANCE

Employee Benefits
Group Retirement Plans
Pension Plans
Life Insurance
Corporate Buy-Sell
Funding Arrangements

July 2010
Volume 12 Issue 4

In This Issue

1. *Ontario Drug Benefit Plan Reforms*
2. *Quiz Corner*



Ontario Drug Plan Reform

You have no doubt heard or read in the news about the Ontario government's intentions to make changes to the Ontario Drug Benefit (ODB) and the subsequent backlash from pharmacists. While the war between the two sides rages on, many people are confused as to what it means.

Background

The ODB is a publicly funded plan available to seniors and low income families such as those on social assistance. The plan covers the costs of approximately 3,200 drug products. The government pays pharmacists a dispensing fee and allows a mark up on the manufacturer's cost of the drug. Under the Transparent Drug System for Patients Act (TDSPA) passed in 2006, the dispensing fee was increased from \$6.54 to \$7.00 per prescription and the mark up was limited to 8% from 10%. Additionally the TDSPA set the generic pricing to be no more than 50% of the cost of a brand name equivalent. Pharmaceutical manufacturers have long provided rebates to pharmacies. Through the TDSPA, the government set out areas to which pharmacies could allocate these funds including extending patient services such as free home delivery and blood pressure monitoring stations.

The Government's Position

The ODB is one of the world's largest drug purchasers but has been paying some of the highest prices for generic drugs. The government cites the example of Enalapril (a

generic blood pressure medication) that costs \$0.02 in New Zealand and \$0.10 in the U.S., but \$0.50 in Ontario.

A major contributor to inflated costs is the professional allowance made by drug manufacturers to pharmacies. An audit revealed that 70% of the \$750 million paid out in professional allowances last year were used for rebates instead of patient care as the TDSPA calls for. Proposed reforms will eliminate the abuse by doing away with professional allowances. Instead, the government will provide \$150 million a year to allow pharmacists to continue providing the services the public has come to expect.

The elimination of the professional allowances will allow the pricing of generic drugs to fall by 50%. Consequently, generic pricing for ODB drugs will be set at no more than 25% of the brand name equivalent. There was a concern that the reduction in cost of the ODB plan will come at the expense of private plans such as employer sponsored plans. The industry petitioned the government to have the same pricing standards apply and the government has agreed to a three-year phase in plan. Generic drug pricing for the private sector will reduce to 50% of the brand name cost when legislation passes and to 35% in 2011 and to 25% in 2012.

Dispensing fees paid by the ODB plan will increase by at least \$1 when legislation passes and will be increased 2.5% over the next five years. Rural and underserved regions will see the dispensing fee

1550 Enterprise Road, Suite 215, Mississauga, ON L4W 4P4

Toll Free: 1-877-685-2515

25 Irvin Street, Kitchener, ON N2H 1K6

Toll Free: 1-866-536-0389

www.gmsinsurance.com

rise by up to \$4 per prescription.

Providing fair drug pricing will lower the cost of the ODB program and will allow that money to be reinvested into other areas of health care such as improving hospital services, adding more nursing staff, providing a broader spectrum of drug coverage, etc.

The Pharmacists Position

Pharmacists are highly trained professionals providing front line patient care. Like any other business, pharmacies incur costs such as overhead, payroll, and training expenses. Dispensing fees provide revenue to cover these expenses. The Ontario government pays \$7 per prescription for ODB plan drugs. This is the lowest in Canada and has only increased \$0.56 in the past 20 years. The actual cost of dispensing these drugs is \$14. Ontario's payment policy has created a funding shortfall. Pharmacies rely on professional allowances received from drug manufacturers to cover the funding gap and to provide extra services such as home delivery, consultations, extended hours, etc. This practice has been long standing and was specifically allowed in the TDSPA. The government has proposed a slight increase to dispensing fees but it still leaves a significant shortfall. Furthermore, they want to eliminate the professional allowance. Without this private sector funding, pharmacies will not be able to provide any additional free services. The government appears to be taking aim at large pharmacies but have neglected to mention that 51% of all pharmacies in Ontario are actually small independents. Professional allowances are vital to the survival of these pharmacies.

As pharmacies disappear and services are cut, a greater strain will be placed on doctors' offices, hospitals, and Telehealth Ontario. The savings of \$500 million per year that the government predicts from their reform package will quickly disappear.

There is no disputing that the current system is unsustainable and that reforms are necessary. However, the course the government is following will lead to reduced patient care and potentially even higher costs. Pharmacists have held consultations with the government over the past few months and have made recommendations to improve the system that would not jeopardize patient care. For instance, 75% of the ODB plan drug costs are from brand name drugs. The government has chosen these drugs over their lower cost generic equivalents. It has been suggested that the focus of reform should shift away from professional allowances and focus on the largest source of expenses for the plan – brand name drugs. All such proposals have either been

rejected or ignored.

Summary

All parties agree that reforms are necessary to make the public plan sustainable. However there is disagreement as to the best route to take. Whatever changes are made in the public realm will inevitably impact non ODB plan patients and private plans. Exactly how and to what degree depends on the terms of the final legislation. Legislation was expected in late spring but with the resignation of Helen Stevenson, the assistant deputy minister of health who has been spearheading the reforms, we could see a delay. What we do know is that the rest of Canada is watching to see how this all plays out and it would not be surprising to see other provinces follow Ontario's path.

Sources:

www.ipoassociation.com
www.health.gov.on.ca
www.stopcuts.ca

Quiz Corner

Put your mental mettle to the test and a \$50 prize in your pocket!

Suppose it takes 6 monkeys 6 minutes to eat 6 bananas. How many minutes would it take 3 monkeys to eat 3 bananas?

Answers can be sent to: info@gmsinsurance.com or by fax to 905-670-4146. We will draw a winner from the correct answers.