

Understanding Escalating Drug Costs

Why & How in today's economic environment

Why Contemplate Cost Containment Options?

- CIHI estimates that total annual drug expenditure in Canada to exceed \$20 billion in 2005.
- CIHI estimated that for 2003, the annual per capita drug expenditure in Ontario was expected to reach \$675, up from \$160 in 1985.
- According to Statistics Canada, half the Canadian population will be 43.6 years and over by 2026.
- IMS Health reports that the average cost per prescription dispensed has increased 33.3% from 1998 to 2003 (\$33.04 to \$44.04)
- ESI estimates that utilization is up over 22% from 2000 to 2003.
- ESI estimates that total annual prescription drug costs are up more than 60%, from 2000 to 2003.
- Ingredient costs are up over 35% from 2000 to 2003.
- The 2002 Final Report on the Future of Health Care in Canada states that a Canadian family spends an average of \$1,210 a year on prescription drugs.

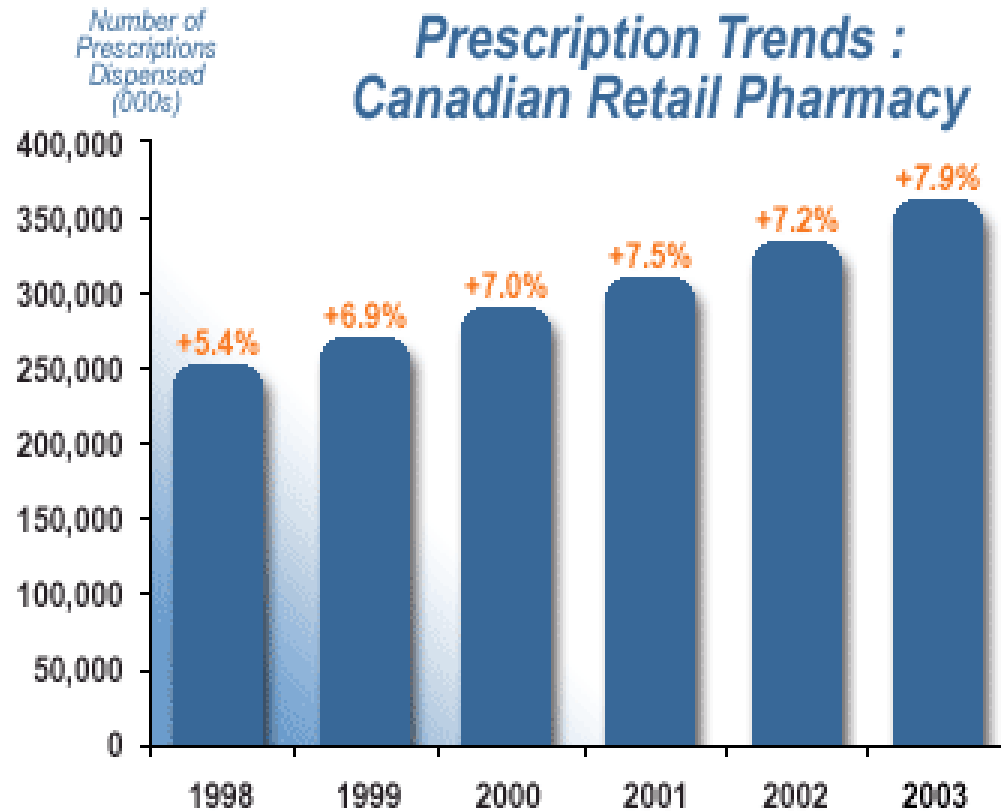
DRUG MONITOR
Leading Diagnoses*, 2003

	1 HYPERTENSION	2 DEPRESSION	3 DIABETES	4 ROUTINE MEDICAL EXAMS	5 ACUTE RESPIRATORY TRACT INFECTION
Patient Visits*	20,274,000	9,324,000	8,739,000	7,839,000	5,558,000
% Male	46%	33%	52%	47%	45%
% Female	54%	67%	48%	53%	55%
By Age Group					
Under 10	0%	<1%	<1%	42%	38%
10-19	<1%	4%	1%	7%	16%
20-39	4%	28%	7%	16%	23%
40-59	47%	57%	49%	27%	18%
60+	47%	10%	42%	9%	6%

Source: IMS Health, Canadian Disease and Therapeutic Index (CDTI)

* Visits made to canadian office-based physicians

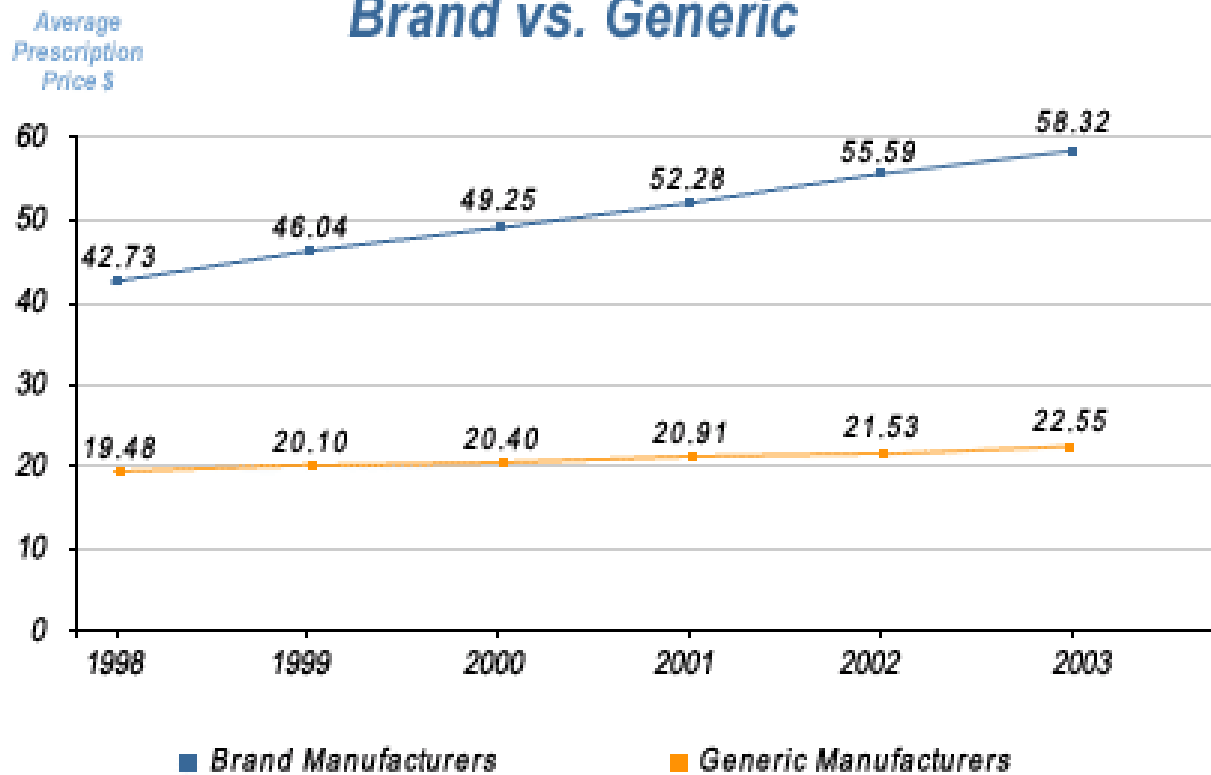
Prescription Trends : Canadian Retail Pharmacy



SOURCE: IMS HEALTH, COMPUSCRIPT, 2003

*Percentage growth calculated on the estimated total number of prescriptions dispensed by Canadian retail pharmacies.

Average Cost of a Prescription: Brand vs. Generic



SOURCE: IMS HEALTH, COMPUSCRIPT, 2003

Why Are we at this Impasse?

- Demographics (Aging workforce)
- Utilization & Inflation (People using more and more often)
- Advertising, Marketing & Distribution (Direct to Consumer Advertising)
- Ingredient Pricing (Patent Laws)
- New Drugs (Betaseron, Remicade, Gleevec)
- Designer Drugs (Human Genome Project)

Canada's Drug Patent Laws

- Brand-name drugs are granted 20-year patent protection in Canada, which meets all international standards.
- Under special patent rules applying only to the pharmaceutical industry, brand companies can stop Health Canada's approval of generic drugs simply by alleging, not proving, patent infringement - often for years after the expiry of the original patent.
- Brand companies allege patent infringement, regardless of the validity of their case, in order to keep generic competition off the market.
- This results in long and costly litigation that forces Canadians to pay monopoly prices for longer.
- The delays caused by litigation under these special patent rules have already cost Canadians more than \$1 billion in higher drug costs.

Source: Canadian Generic Pharmaceutical Association

What do we do?

- Increase efficacy of treatment.
- Improve the adjudication of the plan.
- Manage participation.
- Change plan design.
- Alter dispensing and prescribing habits.

Adjudication

- DIN Pricing
 - Tracks usual and customary charges
- Drug Utilization Reviews. (3-4% savings)
 - Checks are conducted at the point-of-sale, allowing the pharmacist to react prior to the drug being dispensed, thereby avoiding potential drug interaction problems
 - Checks include: Interactions, Therapeutic Duplication, Refill Too Soon/Too Late, Maximum/Minimum Dosage, Drug Gender, and Drug Age.
- Audits
 - Considers objectives, rationale, analysis, and outcomes.
- Days Supplied

Participation/Administration

- Positive Enrolment
 - Strict control of eligibility for employees and dependants.
 - Identification number, date of birth, and relationship to the principal cardholder constitute the validation key.
- Coordination of Benefits
 - A process through which individuals/families with access to more than one insurance plan and/or drug benefit program sequentially submit their claims to their insurers.
 - Ensures that drugs covered by another plan are first payor, regardless of whether they are public or private.

Plan Design

- Fee Restrictions (3-4% savings) (caps, deductibles, preferred provider arrangements).
 - Dispensing fees have only risen 14.5% from 1998 to 2002, they are legitimately flat.
 - Flagging maintenance drugs to be dispensed for a longer period (where wastage is not in play).
 - Mail-order pharmacies come into play for maintenance drugs.
- Generic Substitution (2-3% savings)
 - 70-80% of drugs consumed are single source (no generic equivalent).
 - No-substitution often requested.

Plan Design

- Deductibles and Co-pays (% dependent on level)
 - Deductibles become leveraged due to static nature.
 - Co-pays remove a percentage of costs but does not limit the total cost.
- Contributory Plans (employee premium sharing)
 - Partner in decision making.
 - Fails to impact the root cause of the cost, claims.
- Annual or Lifetime Maximums (↑ expected savings)
 - Uploads costs to government plans.
 - In conflict with the traditional purpose of “group benefit” plans.
 - Stop-Loss rates are escalating.

Plan Design

- Tiered Plans
 - Reimbursement levels change with cumulative prescription drug costs.
- Deferred Payment Plans (4-8% savings)
 - Claim submitted electronically but reimbursement by cheque direct to plan member.
- Health Spending Accounts
 - Plan member draws down the account to cover claims up to the deposit amount.

Interventions

- Reference Based Pricing.
 - Looks at chemically different drugs that are intended to treat the same condition.
 - Least expensive drug in a particular therapeutic class is what the plan will pay for unless a medical reason can be given for paying for a more expensive alternative.
- Formularies (5-10% for Managed)
 - Managed requires that new drugs satisfy effectiveness and cost criteria before being eligible.
 - Tiered establishes reimbursement level based on effectiveness and cost.

Interventions

- Prior Authorization (3-10%)
 - Limits the use of a specific drug by requiring that patients obtain a prior authorization before the drug is covered.
 - Reduces prescribing beyond where cost-effectiveness has been established.
- Trial Scripts
 - Small amounts of medication is dispensed, once the initial treatment is successful, the remained is dispensed.
 - Reduces waste but increases dispensing costs.

Interventions

- Step Therapy
 - Limits access to medication based on a progression through standard treatment protocols.
 - Requires education of the physician.
- Compliance
 - Education required in exchange for continued coverage.
 - Partnership with drug companies on information associated with compliance and disease management.
- Wellness
 - Seminars, newsletters, lunch & learn, and EAPs.

Communication

- More than informing employees.
- Employee are intermediaries between the sponsor and health practitioner.
- Direct communication to practitioners enables a team approach to effective delivery.
- Sponsor strategy must be understood to be supported.
- Communication includes listening (benchmark and drill down to understand rationale for satisfaction level).
- Communicate frequently, in small doses.
- Tell the whole story (cost, objectives, progress).

Going Forward

- Philosophy: Why have a drug plan?
- Information: What is the plan design and how effective are the design features?
- Impact: What are member values and expectations?
- Finances: What is the financial impact of status quo?
- Responsibility: What obligations are required of the plan?
- Integration: What are the private-public linkages?

The right solution or combination of solutions will depend on the overall benefits strategy.

Important findings from *The Aventis Healthcare Survey* – 2003 edition

- Half of plan members say they would pay higher premiums to maintain their benefit coverage if their employer was unwilling or unable to cover rising health costs.
- Fifty-three per cent of plan members say their benefit plan is an incentive to stay with their employer.
- A significant majority (83%) of plan members say they have an obligation to help their employer manage benefit plan costs. This creates an opportunity for plan sponsors to move forward in implementing more specific cost-management strategies.
- Most plan members say they wouldn't trade their benefit plan for other types of compensation, such as an extra week of vacation or extra cash, indicating that employers' efforts to communicate the value of the plan are paying off.
- Plan members most frequently cite their work environment, their health and the health of their family members as factors that reduce their productivity in the workplace.
- Plan members see physicians, pharmacists and nurses as the most trusted sources for health information. Employers rank fourth as a trusted source, ahead of friends and family, insurance companies and government.



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