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 resulting in 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%), 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% of all prescriptions written in Canada. Second, the well-documented aging workforce will continue to drive up health claims. Finally, new medication technology comes with a high price: the three most commonly prescribed biologic products nationally were Enbrel (patient average $20,000/yr.), Humira (patient average $18,500/yr.) and Remicade (patient average $27,800/yr.), all of which average over $1,800 per prescription. The result, due to this volume of claiming and to the fact that conditions are ongoing, is that insurance carriers have been budgeting for your drug plan to experience annual inflation of approximately 14% - 17% for the last few 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 5% over the previous year and total prescriptions dispensed increased 7.1%. The increase in private drug spending in 2007 was 7.1%, so we are seeing a slowdown in the pace of change of private drug spending. This lower drug trend/inflation trend is due to a number of factors, including generic drug usage, new drugs under development, changes in government programs and demographics.

The increase in generic drug usage will also 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/stomach) recently lost patent protection. Generic drugs accounted for 39% of prescriptions in 2005 and this increased to 51.6% 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 8% to 10% assuming the generics will enter the market at approximately 60% 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 and Ontario to limit the price of generic drugs. The Government of Alberta has announced that effective April 1, 2010, the price of existing generic drugs will be limited to 56% of the brand name drug, down from 75%. Alberta also announced that any new generic drugs entering the market would be limited to 45% of the brand name drug. A change (if implemented Canada-wide) to generics with a limit to 45% of brand name pricing for Lipitor and Norvasc alone could potentially result in private drug plan savings of $600 million per year!

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For employers with some or all of their employees in Ontario, these groups should experience a greater savings than Alberta due to the recently announced generic pricing rules. Currently generic pricing is unregulated and averages around 70% to 75% of the brand name drug. Ontario has announced that effective May 15, 2010, generic drug pricing will become regulated for both public and private benefit plans (and individuals with no benefit coverage) and the percentage limit will be lowered three times, with the final reduction in 2012.

Plan sponsors in Saskatchewan could see private drug plan savings of $25 to $30 million per year once these drugs move into an environment of generic competition, even if we assume the generics will enter at 60% of brand price.

On May 15, 2010, generic pricing in Ontario will be restricted to 50% of brand name. The next reduction will be on April 1, 2011, and will reduce the pricing limit to 35% of brand name. The final reduction will be effective April 1, 2012, and will reduce the pricing limit of generics to 25% of brand name.

It appears that the government of Saskatchewan as well as other provinces are on the way to designing similar generic pricing rules.

For Saskatchewan employers, if we address this issue only looking at private plans, specifically at one manufacturer, Pfizer, and analyze their list of drugs that either have or may lose patent protection between now and the end of 2011, we see that there are five brand name drugs in this category: Lipitor, Norvasc, Zithromax, Zoloft and Viagra. These five drugs account for approximately 10% of prescriptions filled and claimed against private benefits plans in Canada. Plan sponsors in Saskatchewan could see private drug plan savings of $25 to $30 million per year once these drugs move into an environment of generic competition, even if we assume the generics will enter at 60% of brand price.

There are nine name-brand drug manufacturers with 42 drugs that either have or may be losing patent protection before the end of 2011. These 42 drugs account for approximately 30% of drug claims against private benefit plans. Generic competition should play a significant role in reducing cost against our private benefit plans.

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. The claims for these retirees should be addressed with the offer of a guaranteed benefit conversion plan. From the plan sponsor perspective, the insurance provider will take on the risk of these retirees as the individual benefit plans are fully pooled. Plan sponsors can feel good because the group plan claims will be reduced but also because you have assured the retiring employee that they are able to continue benefits at their discretion, without medical questions.

In properly managing your benefit plan, a conversation with your benefit provider needs to be had. Ask your provider: considering the pressures slowing drug plan inflation and overall drug spending, whether the assumptions being applied to your health benefit plan are accurate.

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

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