Intelligence MEMOS

From: Chris Bonnett

To: Pharmacare Watchers

Date: November 15, 2023

Re: National Pharmacare: Get Practical, or Fail Again

Two truths: All Canadians need access to prescription drugs, and drug insurance is expensive.

Can we manage both realities? Imminent federal legislation requires us to find a way, but it cannot be the public model recently costed by the Parliamentary Budget Officer (PBO). Our two truths can still be addressed, but we must first dispense with this notion of a fully public drug plan.

There are several reasons drugs are not part of the *Canada Health Act*. Chief among them are cost, weak political will and, since the vast majority already have drug insurance, limited public attention. Provinces and territories control health services, so Ottawa should work with them. Private drug insurance covers more than 25 million Canadians, so the federal government should also bring insurers and employers on board.

A fully public drug plan has supporters, including many academics, organized labour, nursing unions and certainly some in the Liberal Party. Reports from both the House of Commons health committee and the Advisory Council on the Implementation of National Pharmacare recommended a fully public plan. Despite all that advocacy, the government has chosen not to act. I've previously suggested four reasons for this outcome.

The 2022 Liberal-NDP Supply and Confidence Agreement promises to ensure "continuing progress towards a universal national pharmacare program by passing a Canada Pharmacare Act by the end of 2023…." This is a good thing. However, delegates at the NDP's 2023 convention resolved that pharmacare must be "universal, comprehensive and entirely public." With the insertion of two words – entirely public – pharmacare falls further from reality.

Lately, the Deputy Prime Minister has touted a "responsible fiscal footing" alongside the social safety net, and she is not alone. The economy is slowing and there is recognition that governments have already invested billions to arrest climate change, expand childcare, introduce a new dental plan and even subsidize battery plants. Universal drug insurance is no less worthy a goal, but we can't ignore fiscal realities.

The PBO's updated cost estimate uses the same, fully public pharmacare model first developed in 2017. PBO projects net new government spending of $11.2 billion in 2024-25 and $13.4 billion three years later. Since current private spending is about $22 billion, very large price and access cuts are needed to hit those estimates. That also needs explaining.

First, PBO assumes that the total cost of patented drugs will instantly drop to the lowest provincial price, and then brand-name drug manufacturers will immediately volunteer "an additional discount" of 20 per cent on all products now paid by employer plans and out of pocket.

This discount assumption has a vanishingly small chance of success in the real world. Even a small erosion of those savings will eliminate the purported societal benefit of about 5 percent of costs. The PBO model means a national pharmacare plan is very, very unlikely to save us any money.

Worse, many patients will be affected. Private drug plan members would immediately lose access to several thousand drugs. A typical private plan lists 13,000 drugs. PBO uses the Quebec provincial formulary, which includes about 8,000 drugs.

Out-of-pocket cost estimates are also incomplete. The PBO report estimates copayment costs of just $300 million, which sounds great relative to $7.6 billion in out-of-pocket spending forecast by the Canadian Institute for Health Information. But PBO also reported that $1.2 billion in drugs now covered by provincial drug plans would shift to patients. It provided no estimate for coverage lost by private drug plan members. This could add billions more in out-of-pocket costs even if some drugs could be replaced using the pharmacare formulary.

To recap, the PBO report uses a fully public drug plan and a provincial formulary that will cost governments billions, while shifting billions in new costs to patients. None of this makes sense from a fiscal, policy or human perspective. Unrealistic assumptions and incomplete costs mean limited to no savings.

National pharmacare has devolved to a political issue, recklessly driven by an agreement that vastly overshoots the problem. Ideology will fail us again. A fully public plan is too expensive, politically unwise and unnecessarily complex. Those in need of drug insurance will continue to wait.

Politicians must refocus on delivering drug insurance in a more feasible, affordable and sustainable way.

Let's coordinate public and private drug insurance so that everyone has enough coverage. New spending should target only those without any or enough drug insurance. Just as it did in Prince Edward Island, Ottawa could lead with accountable, dedicated, long-term top-up funding. Willing jurisdictions would provide a defined national formulary and ensure reasonable and consistent limits to out-of-pocket funding. That's a big improvement for many, many Canadians.

Not really so hard, but impossible so far.

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