Intelligence MEMOS

From: Rosalie Wyonch

To: Canadians concerned about healthcare

Date: May 14, 2019

Re: THE FALLACY OF FEDERAL ADVANTAGE IN DELIVERING PHARMACARE

One popular argument in favour of a national approach to pharmacare is that a strong federal role could lower total expenditures on drugs in Canada. The savings could occur through two channels. First, the national plan would displace all other drug insurance, and in particular employment-related insurance. Second, the national formulary would create purchasing power that would make the drugs it covered – largely the only drugs Canadians would buy – cheaper.

A number of factors blunt the strength of these arguments for a federally administered universal prescription drug insurance program.

First, it is highly unlikely that a national prescription drug insurance program would eliminate private prescription drug insurance. In many countries with universal prescription drug insurance, there is still a significant role for private insurance. The federal government itself spent about $658 million on employees' private drug insurance plans in 2015-16 – More than the estimated $645 million it spent on pharmaceuticals for First Nations, veterans, members of the military and RCMP, refugees and inmates of federal penitentiaries. Moreover, the likelihood that workers with drug plans – about a third of whom are in the public sector – would trade for a narrower government plan with no compensation is vanishingly small, as previously argued here.

Second, Ottawa already has important powers to affect drug prices. The Patented Medicine Prices Review Board regulates maximum prices of the drugs it covers. Proposed changes to PMPRB regulations indicate increased use of value-based price regulation. The fact that it has not already mandated lower prices reflects concerns about adverse consequences, notably the possibility that the use of external reference pricing in other countries would result in pharmaceutical companies strategically delaying launch of new medications in Canada to maximize total global profits. Ottawa also already collaborates with the provinces and territories through the pan-Canadian Pharmaceutical Alliance to leverage their joint purchasing power.

In addition, the 2019 federal budget proposed the creation of a new Canadian Drug Agency to conduct health technology assessments, negotiate prices and listing terms, monitor the real-world effectiveness of prescription drugs and develop and manage a national formulary. If the new agency gets authority to negotiate prices on behalf of all Canadian buyers, public or private, its bargaining power would be as strong as that of a single-payer plan, meaning that it could create similar savings in nation-wide drug costs. That is, the new agency could substantially lower the national drug budget even if the federal and provincial/territorial governments are not able to agree on a single-payer government plan.

Prescription drugs are an increasingly large component of total healthcare costs, and should be integrated with other areas of health spending and policies to control it. As Blomqvist and Busby (2015) point out, for example, the federal government cannot directly influence doctors' prescribing behavior – and thus cannot manage for cost-effective combinations of drugs and other inputs. These inefficiencies outweigh the potential savings from reduced spending on employee health benefits.

The unlikelihood that private drug insurance will disappear, the fact that there are already mechanisms to lower drug prices, that those mechanisms will likely be strengthened by the Canadian Drug Agency, and the federal government's inability to better align doctors' prescribing incentives with the needs of a national pharmacare program, all limit the potential for generating further expenditure savings on drugs in Canada through a national federal program.

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