NEWS RELEASE: Cost control rationale for pharmacare does not stand up to scrutiny

Description

TORONTO, March 14, 2024 (GLOBE NEWSWIRE) — The latest edition of an annual study from the **Canadian Health Policy Institute** concludes that the cost control rationale for national pharmacare is not supported by the facts.

The Liberal–NDP coalition recently announced that Ottawa would work with the provinces to publicly fund universal prescription drug benefits for contraceptives and diabetes medications. It is a symbolic step toward a national pharmacare program that will replace existing public and private drug plans.

NDP leader Jagmeet Singh told media that a single payer system is needed to control the cost of new drugs, which are also known as innovative or patented medicines, and that a pharmacare monopsony could negotiate lower prices through “bulk buying”.

The founder and CEO of the Institute and author of the study, Brett Skinner said, “It is doubtful that a single payer would have substantially more bargaining power because each province already has a monopsony for public reimbursement, and Canada already has a national bureaucracy devoted entirely to controlling the cost of patented medicines.”

Several quasi-governmental agencies are engaged in price regulation (Patented Medicine Prices Review Board or PMPRB), health technology assessment (Canadian Agency for Drugs and Technology in Health), monopsony bargaining (Pan-Canadian Pharmaceutical Alliance), and centralized vaccine procurement (Public Health Agency of Canada). Plus, there are initiatives underway for a federal super bureaucracy (Canada Drug Agency).

Skinner argues, “Bulk buying is a nonstarter because it would require government to directly purchase, store and distribute products. Drug plans just reimburse pharmacies for the prescription expense claims of eligible beneficiaries.”

“To achieve savings from scale, a single payer would exploit its monopsony on public reimbursement, to extract rebates from manufacturers. It would essentially delay or deny our access to new medicines as leverage to squeeze the pharmaceutical companies on prices.”

A 2017 report from Ontario’s Auditor General, found the province’s drug plan negotiated rebates averaging 36% off list prices for patented drugs. Pharmacare advocates are betting a single payer can demand deeper discounts without jeopardizing the availability of new medicines in Canada.

According to Skinner, “It’s a risky gamble, because research confirms that excessive price regulation or abusive monopsony bargaining can destroy the commercial viability of introducing new drugs to markets.”

His analysis suggests single payer pharmacare is unlikely to produce significant savings on patented

drug costs because prices and total expenditure are not out of control. Skinner examined data from CIHI and PMPRB over the 33 years from 1990 to 2022.

He found that Canadian prices for patented drugs are moderate compared to other countries.

According to the PMPRB 2022 Annual Report, bilateral foreign-to-Canadian comparisons of patented medicines using matched products at purchasing power parity, showed average prices were higher in seven of the 11 other reference countries. The average price ratio across the seven countries was 22.3% higher than Canada.

The PMPRB no longer compares prices from the United States and Switzerland because they are deemed to be “high cost” jurisdictions, but it is expected they would exceed Canada. Which means that Canada ranked 10th of 14 current and former high-income PMPRB reference countries.

Skinner’s analysis also showed that the direct cost of patented drugs is much less than commonly believed.

The Canadian Institute for Health Information (CIHI) reported national (public and private) spending on drugs totaled $49.4 billion in 2022, including retail and hospital expenditure. However, the numbers include direct and indirect costs like non-patented drugs, non-prescribed drugs, pharmacist fees, public drug plan administration, and even R&D spending by pharmaceutical companies. CIHI also excludes rebates negotiated between manufacturers and public drug plans.

Precise data from the PMPRB annual report, show gross national sales of all patented drugs at manufacturers list prices were $18.4 billion in 2022, which represents only 37% of the total drugs and related expenditures reported by CIHI.

Skinner’s analysis indicated that the total cost of patented drugs is only a small fraction of total public and private health spending in Canada. After accounting for rebates, net national expenditure on patented medicines totaled $15.6 billion, or only 4.7% of $334.4 billion in overall national health expenditure in 2022.

In the same year, net public (provincial/territorial/federal drug plans, workers compensation boards, and mandatory social insurance and health premiums) spending on patented medicines was $5 billion, or only 2.1% of $239.9 billion in total public health expenditure.

Skinner also said, “Considering the benefits of pharmaceutical innovation, we should probably be spending a bigger share of health expenditures on new medicines. Pharmaceuticals are often the most efficient, and sometimes the only means for treating patients. It is hard to imagine how physicians and hospitals would deliver modern medical care without pharmaceuticals.”

“Patented medicines represent the latest therapeutic advancements produced by an expensive, time-consuming, continuous process of incremental pharmaceutical innovation. Excessive cost controls for patented medicines are counterproductive.”

“It appears unlikely that the current government will rethink its pharmacare policy. However, if a future government wishes to consider it, there are alternative ways of closing drug coverage gaps without disrupting existing public or private drug plans, and at a fraction of the cost estimated for national

pharmacare.”

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