Minding the drug–price gap

The start of the year ushered in additional bulk-buying power for Canada’s publicly funded drug plans, giving them a greater ability to negotiate lower prices. But what about the private insurers that remain on the outside of the arrangement and would also like an opportunity to lower their costs?

In January, the federal government announced it was joining the pan-Canadian Pharmaceutical Alliance, which negotiates on behalf of publicly funded provincial and territorial drug plans for lower prices on brand-name and generic medications.

Established in 2010, the alliance considers all brand-name drugs coming forward for funding through the Canadian Agency for Drugs and Technologies in Health’s common drug review or pan-Canadian oncology drug review for negotiation.

As of the start of 2016, according to the alliance, it had completed 89 negotiations for brand-name drugs and achieved price reductions on 14 generic drugs with a combined annual savings of more than $490 million.

Initially, the federal plans’ addition to the alliance doesn’t mean that much for private insurers, says Stephen Frank, vice-president of policy development and health at the Canadian Life and Health Insurance Association. But the governments’ collaboration on lower pricing, he says, still leaves private payers on the periphery.

“As the provinces and the federal government now continue to add new drugs through the [alliance] and get better pricing on new drugs and the number of drugs covered continues to grow, then the gap between what we’re paying on the private side and what they’re paying on the public side will continue to expand,” he says.

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Lack of transparency

Indeed, the move will improve the ability of the federal plans to access the rebates negotiated by the provinces but it doesn’t represent a major change in either the power of the negotiations or the total amount governments will save, says Steve Morgan, a professor of health policy at the University of British Columbia.

“The feds are a very, very small payer for medicines in the Canadian marketplace,” he says, noting the federal government represents roughly two per cent of prescription drug expenditures.

Still, the industry is in the dark about the pricing the alliance is able to negotiate on brand-name drugs because the agreements are confidential.

As Morgan explains, the lack of transparency isn’t a uniquely Canadian dilemma but reflects a global phenomenon that will characterize the industry for the foreseeable future.

While the alliance has negotiated the price of several generic drugs down to 18 per cent of their brand-name equivalents, by not being at the table, private insurers aren’t privy to specific rebates or risk-sharing arrangements on brand-name drugs, says Christine Than, a senior consultant and pharmacist and drug solutions specialist at Aon Hewitt.

Theresa Rose, director for drug management solutions at Medavie Blue Cross, says a key part of the private insurance industry’s role is to collectively promote a better pricing policy. “I think there’s an opportunity for members of private industry to work together to continue to promote for a better pricing framework, inclusive of public and private and, in particular, orphan drugs is an area that is a priority to be addressed,” she says.

“If we could address policy regardless of payers, that is the ultimate approach . . . to have transparent pricing that offers value at the best cost for all.”

Private payers want in

According to Frank, the association believes that broadening the alliance to include others, such as
private insurers, is the right way to go. “And now that the federal plans and Quebec have joined . . . the next logical move to consider would be the private payers. We’re still interested in having that discussion and potentially joining with the provinces to negotiate better pricing.”

But in order to fit into the alliance’s process, Frank acknowledges there would have to be some plan design and operational changes by private insurers. “Those are things we’re aware of and are prepared to address, so we just need an opportunity to have that discussion and be asked to join,” he says.

A senior negotiator with the alliance’s office said the organization was unable to provide comment as the issue matter is outside of its scope.

Morgan, however, says the question of whether private plans should be part of the negotiations raises a number of issues. “If . . . private sector payers want to be at that table, they’ve got to be willing and ready to embrace the full scope of regulations that would have to come with that,” he says.

For example, private insurers would likely have to accept strict regulation of the insurance market for pharmaceuticals in Canada, including rules around medical-loss ratios, profits, advertising and guaranteed issue of community-based premiums.

Helen Stevenson, founder, president and chief executive officer of the Reformulary Group, says that while private insurer involvement in the alliance may be a possibility at some point, plans need to get their formularies in order.

For example, some private sector plans include wide-open formularies where plan members can have whichever drug they want no matter how much it costs.

“And so, there’s no incentive for a pharmaceutical company to negotiate any kind of agreement because the plan already pays for everything,” she says.

Going their own way

Working collaboratively with governments is only one possibility for the private insurance industry when it comes to negotiating drug prices. In the absence of

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CONDITIONS CONTRIBUTING TO DRUG USAGE

196,000
Estimated number of Canadians diagnosed with cancer in 2015

93,535
Number of Canadians living with multiple sclerosis

250,000
Estimated number of Canadians living with hepatitis C

Sources:
1 Canadian Cancer Society
2 Statistics Canada 2010-11 report on neurological conditions
3 Canadian AIDS Treatment Information Exchange
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DEADLINE FOR ENTRIES: JUNE 30, 2016

HOW THE PAN-CANADIAN PHARMACEUTICAL ALLIANCE WORKS

Established in 2010, the pan-Canadian Pharmaceutical Alliance includes all 13 provinces and territories and, since January 2016, the federal government. While the alliance has touted annual savings of $490 million from its negotiations, a deal on a particular drug takes time.

The process begins with a review by Health Canada of the drug’s safety and clinical effectiveness, as well as the quality of the manufacturing process. If Health Canada approves it, the various public drug programs decide whether it’ll be eligible for public reimbursement on the basis of recommendations stemming from the Canadian Agency for Drugs and Technologies in Health’s common drug or pan-Canadian oncology drug review. Among the considerations, the common drug review looks at the drug’s clinical effectiveness and value for money in comparison to other treatments.

Following the review, the alliance decides whether to negotiate jointly for the drug. If it decides to do so, one jurisdiction assumes the lead on the negotiations with the manufacturer. If they reach an agreement, the manufacturer and lead jurisdiction will sign a letter of intent. It’s then up to each participating jurisdiction to decide whether to fund the drug through its public drug plan and enter into a product-listing agreement with the manufacturer.

Source: Council of the Federation Secretariat website

that option, Frank says private insurers are increasingly looking at negotiating agreements on their own.

Since more than half of the new therapies that came to market last year were more costly specialty medications, insurers such as Medavie Blue Cross are focusing on strategies to help ensure the sustainability of employer drug plans, says Rose. Plan design is one solution, she notes, as is looking for opportunities to collaborate with pharmacies and drug manufacturers on different types of agreements to address drug costs.

For example, Medavie Blue Cross is seeing a growing interest in plans that follow a managed formulary that allows them to customize their offering. The options include separating drugs into two tiers with a varied co-payment that provides an incentive for plan members to consider treatments with fewer out-of-pocket expenses. A managed formulary also allows plans to decide whether to cover new and expensive drugs based on a cost-benefit review by a medication advisory panel.

“I think there’s a real shift from the era of saying, ‘I need to cover all drugs and be all things as an employer,’ to one of saying, ‘I want to offer comprehensive coverage and protect the sustainability,’” says Rose.

Nevertheless, the use of tiered formularies remains low, according to a recent Accompass survey of insurance companies. The majority of respondents reported less than five per cent of their clients had adopted a two-tiered formulary.

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Stevenson says opportunities already exist in the private sector for plans to benefit from a centralized negotiating process. That option would likely require the involvement of third parties given the potential competition issues among private payers, as well as the limited expertise and capacity on the part of insurers when it comes to negotiating with pharmaceutical companies.

“I think it would be difficult for the private sector then to turn around and say, ‘Well, because we can’t be part of [the alliance], we can’t do it,’ because there are organizations out there that are doing it,” says Stevenson.

“Yes, it means then contracting a third party, but some of the carriers do that already.”

As part of building its formulary, the Reformulary Group negotiates and has agreements in place with pharmaceutical companies. It works with insurers that provide the formulary to their clients that then benefit from the negotiated agreements.

Stevenson notes, however, that private payers may not be seeing the same level of discounts the alliance is getting because they have less scale.

“But on the other hand, to the extent you are securing discounts and you’re moving forward and you’re generating value for employers, I think that’s really important given the drug plan landscape today,” she says.

Helen Burnett-Nichols is a freelance writer based in Toronto.