A Prescription for Better Medicine: How universal pharmacare would give Canada an economic advantage
Acknowledgements

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# Table of Contents

- **Introduction** ........................................................................................................................................... 4
- **Canada Needs Universal Pharmacare** ........................................................................................................ 5
  - Why faulty models don’t work..................................................................................................................... 7
  - Many voices call for universal pharmacare ............................................................................................... 7
- **The Changing Landscape of Health Care Expenditures** ............................................................................. 9
  - Drug costs skyrocket in Canada and abroad ............................................................................................... 10
  - The impact of drug costs on the health of Canadians ................................................................................. 11
- **Unsustainable and Inefficient Private Plans** ............................................................................................. 12
  - The rising costs of private drug plans .......................................................................................................... 13
  - Future cost trends make private plans unsustainable .................................................................................. 15
- **Impacts in the Workplace** ........................................................................................................................ 17
  - The end of the passive benefits cost containment era ................................................................................ 20
  - The solution isn’t at the bargaining table .................................................................................................. 21
- **Universal Pharmacare Adds Value** ............................................................................................................ 22
  - The value of quality employer benefits ...................................................................................................... 23
  - A boost for small businesses ....................................................................................................................... 23
- **Universal Pharmacare’s Competitive Advantage** .................................................................................... 25
  - Universal pharmacare would give Canada a significant competitive advantage over the U.S. .................. 26
- **There is No Better Time than now for Universal Pharmacare** .................................................................. 28
  - The voices of the public, labour and business must come together for universal pharmacare .................. 28
- **Endnotes** .................................................................................................................................................... 29
Introduction

Canadians across the country know that a universal, national drug coverage plan – also known as pharmacare – is long overdue. In our previous report *A Prescription for Better Medicine: Why Canadians Need a National Pharmacare Program*, we examined why there is no better time for a universal pharmacare than now.¹

Among the many topics examined in, *A Prescription for Better Medicine*, we explored the history of medicare and explained how universal pharmacare is the missing piece of the puzzle – Canada has the unique distinction of being the only country with a universal national public health care plan not to include prescription drug coverage. The fact that health policy reformers at multiple levels of government, labour groups, the business community, health care advocates and the public continue to put forward the idea of universal pharmacare shows there is strong passion for better and more equitable medicare in Canada. It shows that we will not give up on a good idea.²

*A Prescription for Better Medicine* showed how universal pharmacare can be truly transformative as a tool to ensure an evidence-based approach is used to achieve the best therapeutic benefits for patients. We need better medicine, not more medicine. This can be achieved through a national drug formulary that evaluates the evidence, safety, appropriateness, and value for money of prescription drugs. Further, the report examined how our fragmented system of drug coverage is failing to meet Canadians’ health needs while wasting billions of dollars annually. The gaps in our current system exacerbate inequalities rather than prevent them. As *The Toronto Star* noted, “Canada’s health care system is not the universal equalizer we like to think it is.”³

No other policy change and program can have the same kind of positive impact on the well-being of Canadians while saving $11 billion or more annually than universal pharmacare. The evidence shows that our current system is untenable in the long term since it cannot control rising drug costs. But there are other viable options. Bringing Canada’s drug coverage into the 21st Century is long overdue.

Prescription drugs generally represent the largest portion of the cost for employer-provided benefits plans and are a contentious bargaining issue.⁴ This report will show how universal pharmacare would save businesses money, improve the competitiveness of Canada’s labour market, and bring down labour costs in Canada as drug benefits would no longer be a part of labour negotiations. Medicare already provides Canadian employers with an economic advantage. Since pharmaceuticals are the second largest component of health care spending in Canada, a universal, public pharmacare program would add considerably to this advantage.⁵
• A universal pharmacare program could lower total spending on prescription drugs by approximately 30 per cent.

• “The [hybrid] system is now outdated and we needed to move on […]”

• 91 per cent of Canadians support a universal pharmacare plan.
Under our fragmented system, Canadians are not getting the medicine they need. As we will explore later in this report, private drug plans remain expensive, inefficient and unsustainable in the long term. While there are competing models of pharmacare programs that policymakers regularly discuss, a universal pharmacare system with “first dollar coverage” (coverage with no co-payments, co-insurance or deductibles for individuals) is politically and fiscally sensible and would create the highest quality health outcomes. This would create a quality, universal, public, national pharmacare program that adheres to the principles of the Canada Health Act and is integrated with our medicare system. It needs to be highlighted that an “effective prescription drug coverage policy is therefore not about just making sure everyone has some form of insurance coverage. It is about ensuring that every Canadian has effective drug coverage – coverage that provides equitable access to necessary care without financial barriers."

Analysis shows that a pharmacare program would likely cost an additional $1 billion annually. While this cost may seem high, when it is compared to the approximately $11.4 billion that could be saved annually with pharmacare in place, a universal program with first dollar coverage is the best option. This means drug coverage – the medications prescribed to you by a doctor – would be paid by a public plan without you having to pay an upfront cost. It is estimated that a universal pharmacare program could lower total spending on prescription drugs by approximately 30 per cent in Canada. If Canada had a program as strong as New Zealand’s this figure would rise to $18 billion. Without competitive pricing and a system of population-wide bargaining to lower the cost of drugs – which we would have with pharmacare – we pay close to $10 billion more every year for medications. Further, “since subsidies to private plans are rendered unnecessary under pharmacare, its implementation is essentially free.”

Seventy per cent of Canadian businesses would support a national pharmacare program to replace private drug coverage even if it meant a specific pharmacare fee or charge on all businesses.

There are many ways to quickly cover the start up costs for universal pharmacare. Seventy per cent of Canadian businesses would support a national pharmacare program to replace private drug coverage even if it meant a specific pharmacare fee or charge on all businesses. Other examples could include changes to the corporate income tax rate. The federal government collects $39.4 billion in corporate income tax at a rate of 15 per cent. This is the lowest corporate tax rate among comparable countries. Removing private drug plans and replacing them with a universal pharmacare program would save Canadian companies an estimated $8 billion annually if administration costs are included. If the federal government then increased the corporate income tax rate by only 1.9 per cent, it would collect approximately $5 billion a year, which would cover program costs. Canadian businesses would still save $3 billion a year while having improved benefits for their workers. While this is only one loosely estimated example, it highlights that initial cost hurdles can be overcome while providing large savings to the Canadian economy.

In our previous report, A Prescription for Better Medicine, we explored the need for an evidence-based, national formulary to provide the best therapeutic benefits for patients. Universal pharmacare does not mean that every drug should be covered under the program. We also highlighted that universal pharmacare can be a transformative tool to improve Health Canada and the Patented Medicine Prices Review Board. Finally, we called for the creation of a new national agency to provide transparency and accountability in the process of determining which drugs are covered based on their appropriateness, safety, value for money, and objective evidence-based medical reviews. A single, evidence-based formulary would encourage the appropriate use of medicines while considering their therapeutic value for patients.

More medicine does not necessarily mean better medicine. This is something that private plans fail to grasp. Research shows that around 80 per cent of new drugs entering the market today do not provide an increased therapeutic benefit to patients over existing, cheaper drugs. At the same time, it is estimated that “private drug plans waste $5.3 billion in reimbursements for drugs that do not provide any additional therapeutic benefits.
How Universal Pharmacare Would Give Canada an Economic Advantage

compared to existing formulations. This amount represents 56 per cent of total money spent by private drug plans.\(^{15}\) This becomes increasingly significant when combined with the fact that Canadians spent approximately $30 billion on prescription medication in 2016.

Why faulty models don’t work

As with any proposed expenditure and policy change of this magnitude there are groups with vested interests that want to see the current system maintained for their profit.\(^{16}\) Other possible approaches such as a tiered, “some drugs” program, or catastrophic coverage are inadequate options that would still leave in place many barriers for patients because they would only address a portion of the cost of medications. They also do not address fundamental safety issues and they have a limited impact on drug plans. It is known that “all needs-based means of paying for prescription drug costs, including deductibles, co-payments, and risk-rated premiums, are borne disproportionately by those with significant and/or ongoing health needs. This limits the financial protection provided to patients and families.”\(^ {17}\) Research has shown that co-pays of as little as $2 per prescription can prevent patients from purchasing needed medications.\(^ {18}\) Studies show that income-based drug plans, which only cover costs above income-based deductibles, fail to promote access to needed medicines.\(^ {19}\)

Quebec currently has a hybrid private-public drug plan, which corporate lobbyists, think tanks and the insurance industry often tout as the way drug coverage should be provided in Canada. If implemented nation-ally, this system would allow private insurers to keep the profitable share of the market and increase inefficiencies. In essence, this model creates, “a massive indirect subsidy to insurance companies in addition to tax subsidies offered by the federal government, which represent 13 per cent of expenditures by private drug plans.”\(^ {20}\)

The Quebec model has done little to improve fiscal barriers and contain costs. While Canada has the second-highest per capita costs for prescription drugs in the OECD, Quebec has the highest per capita cost among provinces. It has been noted that, “for 22 years prior to mandatory private drug insurance in Quebec, per capita spending on prescription drugs was approximately equal in Quebec and the rest of Canada. In the 19 years since their policy change, costs in Quebec have far outgrown the rest of Canada. Private employers and households in Quebec now spend $200 per capita more on pharmaceuticals than employers and households in the rest of Canada.”\(^ {21}\)

Former Quebec health minister, Jean Rochon, who implemented the province’s drug regime 20 years ago, said that “at the time, such a hybrid model was the right thing to do,” but added that “the system is now outdated and we needed to move on to tackle the new challenges relating to drug coverage.”\(^ {22}\)

Further, a recent government report noted that the system remains inequitable, inefficient and unsustainable.\(^ {23}\)

The Quebec model shifts the costs of the public plan onto private plans, which then pass costs onto individual beneficiaries. Quebec’s mandatory private coverage also does not take into account varying levels of income, so the costs associated with the system have an especially unfair affect on the working poor. With the involvement of multiple payers the Quebec model “adds administrative costs, diminishes purchasing power, and creates funding silos that limit the potential for health care managers and providers to consider the full benefits and opportunity costs of prescription drugs as an input into the broader health care system.”\(^ {24}\) This system clearly doesn’t work and would be damaging to the Canadian economy if implemented nationally. Research shows that employers and employees have ended up paying steep premiums, which in turn increases labour costs and reduces the competitiveness of Quebec’s businesses.\(^ {25}\)

Many voices call for universal pharmacare

There are many Canadians who are calling for universal pharmacare. The demand for pharmacare has been consistently high across the country. A major poll in 2015 found that a striking 91 per cent of Canadians support a universal pharmacare plan.\(^ {26}\) A citizens’ reference panel on pharmacare was recently assembled by researchers at the University of British Columbia of randomly selected and impartial people who, after studying the information available on the topic of pharmacare versus the status quo, con-
cluded that the best option to provide Canadians’ with their medications is a universal, mandatory, public national drug coverage program. Whether it is through polls, or asking randomly selected groups of Canadians to examine the evidence, the public knows that the claim that we can’t afford pharmacare is untrue and, in fact, the evidence overwhelmingly shows that it is the key to affordability and better health outcomes for everyone. Many other countries have shown that they can achieve better outcomes with a universal pharmacare plan. Doubling down on our fragmented system will only see benefit costs rise higher and the health of Canadians decline. But it isn’t just the public, academics, unions and social justice groups that are overwhelmingly calling for universal pharmacare.

The Federation of Canadian Municipalities, representing 90 per cent of Canada’s municipal population, has endorsed a motion to “call on the federal government to work with the provinces and territories to develop and implement a national pharmacare program.” Business groups like the B.C. Chamber of Commerce have recommended that the provincial and federal governments work together to create a universal pharmaceutical program. Recent data shows that 90 per cent of businesses in Canada felt generally positive towards the idea of a public pharmacare program. The federal New Democratic Party and the Green Party have both been long-standing advocates for universal pharmacare. Adding more momentum, delegates at the May 2016 biennial Liberal Party of Canada convention approved a motion to support a “national-universal pharmacare program as one of its policy priorities,” and “implement a national pharmacare plan in place within its first mandate.”

Lobbying discussions with Conservative Members of Parliament revealed that many individual MPs support the idea of pharmacare. At the provincial level there is strong support from governments to move toward a national drug plan.

While there are many complexities and options for a plan that need to be considered, never has political support been stronger. For pharmacare to become a reality, the two largest provinces – Quebec and Ontario – need to be on-side. Ontario is currently taking the lead on this issue. Quebec is “also interested in improving their system and might be willing to work with a federal government on improvements if conditions are right.” With so many people and politicians in support, it is now time to move forward with universal pharmacare.
• In 2016, Canadians filled more than 600 million prescriptions at a cost of more than $30 billion.

• Canadian drug expenditures overall increased by 184.43 per cent between 2000 and 2012.

• 23 per cent of Canadian families - nearly 1 in 4 - fail to take needed medication due to costs.
How Universal Pharmacare Would Give Canada an Economic Advantage

The health care landscape in Canada is changing – something both public and private plan providers know. In order to understand where we need to go with drug plans in Canada it is essential to first understand how the prescription drug costs are changing. Prior to the 1980s:

Prescription medication costs made up a relatively small proportion of health care spending. The 1980s marked a period of rapid growth for the pharmaceutical sector, owing to multiple factors such as scientific and technological advances in pharmacology; changes in population size, demographic characteristics, and health status; shifts in patent laws, and innovations in the marketing of pharmaceutical products.\(^{33}\)

Since 2010, Canadian provinces have been working together in a group called the Pan-Canadian Pharmaceutical Alliance (pCPA) to lower drug costs through a bulk buying initiative. The federal government has recently joined the provinces in this initiative. Since March 2015 there have been 63 completed joint negotiations on brand name drugs and price reductions on 14 generic drugs.\(^{34}\) The pCPA revealed that its deals are saving public plans $712 million annually.\(^{35}\) While this may seem substantial, it is only the starting point of possible savings. While individual companies do not have leverage when buying prescription drugs, and the provinces are attempting to use what leverage they can muster, it’s only through the federal government and a national plan that the full potential of savings can be realized.

The rate of growth of total health expenditures in 2016 was predicted to be around 2.7 per cent. In comparison, public drug program spending increased 9.2 per cent from 2014 to 2015.\(^{36}\) The facts surrounding the current situation are clear. Prescription and retail drugs have now become one of the top three largest contributors to health expenditures in Canada.\(^{37}\) Total spending on prescription drugs has nearly quadrupled since the 1990s, of which 42 per cent is financed by the public sector and 23 per cent is paid out of pocket by patients. The per capita cost of prescription medications has increased fivefold since 1984.\(^{38}\) In 2016, Canadians filled more than 600 million prescriptions at a cost of more than $30 billion.\(^{39}\) This amount is four times more than what we spent on prescriptions 20 years ago. No other component of Canadian health care has increased in cost as quickly.\(^{40}\)

**Skyrocketing drug costs in Canada and abroad**

We have all read the stories in the news about price gouging and predatory trade-craft by Big Pharma in the U.S. The company Turing raised the price of pyrimethamine, an old medication (known as an “orphan drug”) used to treat a parasitic infection in the brains of immune-compromised (usually HIV-infected) people from $13.50 to $750 a pill – an increase of over 5,000 per cent.\(^ {41}\) In another example, the drug companies Health Bresch and Mylan raised the price of the EpiPen auto-injector to more than $600 for two pens right before the start of a new school year when parents were buying new EpiPens for their school-bound children.\(^ {42}\) There is about $1 worth of the hormone ephinephrine in each EpiPen. The nominally Canadian and scandal-ridden company Valeant raised the cost of two commonly used heart drugs, Isuprel and Nitroprress, by $25 per cent and 212 per cent respectively after acquiring them.\(^ {43}\)

There are also less publicized but equally devastating price hikes that have a major impact on group benefits plans. Amgen’s list price on Enbrel more than doubled. Johnson & Johnson increased the list price on its anti-inflammatory medication remicade, which is used for auto-immune disorders such as Crohn’s Disease, by 63 per cent.\(^ {44}\) The cost for an infusion of remicade can be as high as $4,000, and treatment for one patient during the course of a year can run between $20,000 and $30,000.\(^ {45}\) Sofosbuvir, a hepatitis C drug manufactured by Gilead Sciences, which could possibly eliminate hepatitis C, has a list price in the U.S. of close to $100,000. By the second quarter of 2015, sales of sofosbuvir exceeded $182 million in just over a two-year period.\(^ {46}\)

In Canada and abroad these high drug costs have meant that very few patients who would benefit from these drugs can access them. Cancer drug prices have also increased dramatically. It is common to see a $10,000-a-month cancer drug in the U.S. The average monthly amount insurers and patients paid for a new cancer drug was less than $2,000 in 2000, but soared to $11,325 in 2014.\(^ {47}\) Overall, the amount spent globally on medicines is “forecasted to grow at a compound annual rate of between four to seven per cent and will reach a total of $1.3 trillion by 2018.”\(^ {48}\) Economists estimate that the average mark-up for patented drugs is nearly 400 per cent in the U.S.\(^ {49}\) Unlike most other industries, Big Pharma’s ability to raise prices year after year continues unfettered.

Canada is not insulated from the issues plaguing American health care. After two decades of inaction and various failed attempts at managing medication costs, Canada has some of the highest drug prices in the world. No matter how you measure it, Canadians pay more for medication than they should because
Drugs in Canada are roughly 30 per cent more expensive than in comparable countries.

With 90 per cent of the pharmaceutical market in Canada in the community setting outside of our public health care system, inadequate access to necessary medication has led to adverse health outcomes and premature deaths. Research shows that 1 in 10 Canadians did not take the medications they were prescribed because of costs. Further studies show that 23 per cent of Canadian families – nearly 1 in 4 – fail to take needed medication due to costs, which has enormous impacts on people’s health. As drug prices continue to rise, “lower income people show higher non-adherence rates, and rates of non-adherence are shown to rise as costs increase, even with fees as low as $10.”

Five per cent of Canadian children and adults and 10 per cent of Canadian seniors pay over $3,000 per year for drugs. A catastrophic drug program that only paid for these medications would still leave 19 per cent of the households without affordable access. In Canada, it is believed that 6.5 per cent of hospital admissions are the result of not taking medications, or taking them improperly, which costs an estimated $7 billion to $9 billion per year. This has a substantial cost annually that leads to tax increases for individuals and employers to cover rising health care costs.

Since 2000, federal government data shows that the increases in drug expenditures in Canada have outpaced increases in all other countries. Canadian drug expenditures overall increased by 184.43 per cent between 2000 and 2012 – a rate higher than any other comparator country, even the United States. In 2013, Canadians spent 1.8 per cent of our Gross Domestic Product (GDP) on pharmaceuticals. Canadians spent $29 billion in 2015 on prescription drugs – which equals $814 a year per Canadian, according to the Canadian Institute for Health Information. For patented drug products, sales increased in 2015 to $15.2 billion from $13.8 billion in 2014, an increase of 9.5 per cent. This was the largest single increase in Canadian history of patented drug sales. In 2014, patented drug products accounted for 61.8 per cent of the total drug sales in Canada, an increase from 59.9 per cent in 2014. Canada’s generic drug prices are also exceptionally high. There is almost a 20 per cent gap between generic drug prices in Canada and those in foreign markets. To make matters worse, the Canadian government has been signing, renegotiating, or attempting to sign international trade deals that further entrench pharmaceutical patents and drive up drug costs dramatically.

To put it simply, the figures show us that the rising cost of drugs are simply unsustainable for public and private benefits plans under our current disjointed coverage system.

The impact of drug costs on the health of Canadians

Medicine used in acute care at hospitals is 100 per cent publicly paid in accordance with the Canada Health Act, but there are no national standards for coverage of prescription drugs outside of hospitals in Canada. The Canada Health Act ensures that:

All Canadians have access to medically necessary physicians’ services and hospital care — including all prescription drugs used in hospital — through universal, comprehensive, public health insurance. This system of universal health coverage in Canada does not extend to medications used in the community.

The prices of brand name drugs in Canada are roughly 30 per cent higher than in comparable countries like the United Kingdom. Looking at per capita pharmaceutical expenditures, Canada’s drug prices are higher than all other OECD nations with the exception of the United States. Alternatively, if drug prices in Canada were brought down to the OECD average, the savings would be approximately $9.6 billion annually. Bringing per capita drug spending in line with spending in the United Kingdom, which performs better than the OECD average, would not only provide Canadians with better access to medications, it would also save $14 billion annually.

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• Canadian companies spend about $200 million per week on prescription drugs in costs incurred by employer drug plans.

• The overhead expenses for private health insurers are 10 times greater than the public system.

• Chronic drug spending is going to drastically increase in the next few years.
Unsustainable and Inefficient Private Plans

Our current fragmented system of drug plans means higher drug costs for everyone. Canada has a total of 19 publicly funded drug plans (10 provincial, three territorial and six federal). It is estimated that 10 million Canadians are covered by publicly funded drug plans – 9 million through provincial plans and an additional million through federal plans. Conversely, more than two-thirds of Canadians – close to 25 million people – do not have access to a public drug plan. The large majority of Canadians – around 71 per cent – are forced to obtain drug coverage through private insurers, either through their employers or purchased individually. In a nation that prides itself on humanity, this means that 10 per cent of Canadians – around 3.5 million people – lack even basic drug coverage.

There are 2.8 million self-employed Canadians with no employer-based health benefit coverage. Looking at the 15 million Canadians with paid employment (full-time and part-time), “one in three (64 per cent) do not have health benefits provided by their employer. In other words, 5.4 million Canadians in paid employment do not have employer-provided health insurance. Altogether, 8.4 million working Canadians, those self-employed and in paid employment, do not have employer-based health benefits.

Of all other OECD countries, only the United States and Poland have a lower percentage of drug costs paid for by public programs (Canada is also second only to the United States in the use of private insurance). It is important to note that for many of these plans people must pay a portion of the drug costs (co-pays), which creates a proven obstacle to acquiring needed medications. There is an issue with unequal access to medication for Canadians with private plans between provinces. With varying coverage and payment schemes between jurisdictions, beneficiaries end up paying more or less for access to essential medicines depending on where they live, not on the basis of medical need. For example, in Ontario, research shows that just 38 per cent of work-based private plans cover 100 per cent of the cost of prescribed medications. Overall, it is estimated that individuals end up paying 22 per cent of all drug costs in Canada out of pocket. It is important to note that this number excludes employees’ contributions to work-based premiums as well as people who buy individual insurance plans, so the figure is likely higher.

The rising costs of private drug plans

It is no secret that employers are struggling to contain costs on benefits programs for employees. Health benefits remain among the top issues in 2017 for both employers and labour. Reports indicate Canadian companies spend about $200 million per week on prescription drugs in costs incurred by employer drug plans. In 2017, projections show that the medical costs for group benefits plans will increase by eight per cent due largely to increasing drug costs and Canada’s aging population.

Canada’s multi-payer system for prescription drug coverage is highly inefficient. Approximately 40 per cent of Canadians are covered by employee supplementary health benefits and there are an estimated 100,000-plus group insurance contracts in Canada. With 24 separate companies each negotiating with large pharmaceutical companies for each individual drug price, private insurers have limited leverage with which to negotiate costs.

In private plans, costly increases are passed on to beneficiaries through higher premiums since private insurers do not negotiate drug prices with the pharmaceutical industry.

Private drug insurance plan premiums for Canadian companies continue to increase at a faster rate than drug costs. This is because most private drug plans are managed by insurance companies, which are normally compensated by a percentage of drug costs. Private insurers cover more than $10 billion in prescription drug costs in Canada. The financial incentives for private plans do not encourage stemming the growing costs, but rather increasing them. To put it another way, the goal is not cost containment or improved health outcomes, but rather the maximization of profit for the insurance industry.

The percentage of premiums paid as benefits dropped from 92 per cent in 1991 to 74 per cent in 2011. This means that Canadians were paying $3.2 billion more in 2011 than they would have if the ratio between premiums and benefits had stayed constant since 1991. As costs increase, private plans aren’t moving to contain costs, but to shift them to workers instead.

Overall, public plans have remained steady (if ineffective) while private insurance plans have a steep cost curve. For-profit firms dominate the private health insurance landscape in Canada, representing about 80 per cent of the market. Since 1997, “the conversion of many insurance companies from mutual companies to publicly-traded, for-profit companies has also created
pressure for increased profits. As a result, there is a significant and growing gap between what Canadians pay in premiums and what they receive in benefits from private, for-profit insurance providers.\textsuperscript{95} This change has had a dramatic impact on insurance companies, “rather than being solely accountable to policyholder owners, these firms now had a dual accountability to provide services to policyholders, while also providing a return on investment to shareholders.”\textsuperscript{96}

Canadian private health insurers also have minimal regulations compared to other countries, and there are no restrictions regarding the percentage of premium revenue that must be paid as benefits. The private plan insurance companies also receive tax subsidies and indirect subsidies, so they have little interest in containing costs. These subsidies cost the federal government (and the public through taxes) more than $1.23 billion annually. Further subsidies are provided by the provinces.\textsuperscript{87} Private drug insurance survives in Canada because of the generous financial advantages offered by the State or because, in the case of Quebec, it is mandatory.\textsuperscript{88}

Private health insurers also employ the practice of “skimming” in health insurance plans. The problem is well known – private plans generally accept the “good risks,” namely workers generally richer and healthier. It has been noted that:

“It is in the interest of the rich and healthy to maintain a drug insurance plan where they pay according to their drug consumption (within the workplace) rather than their income. In a universal pharmacare plan all the risks are pooled and the coverage can be financed more equitably.

In 2011, Canadians paid $6.8 billion more in premiums to for profit insurance companies than they got in care.

through income taxes based on a percentage of income. In the current system, we often encounter situations where workers in a richer and healthier workplace contribute less than workers in a poorer and less healthy workplace. The major difference in a universal pharmacare program is that the overall risks are pooled and the financing, based on a percentage of income, is more equitable.\textsuperscript{99}

The overhead expenses for private health insurers are 10 times greater than the public system.\textsuperscript{50} In 2011, Canadians paid $6.8 billion more in premiums to for profit insurance companies than they got in care, representing an overhead cost of about 23 per cent.\textsuperscript{91} So nearly one-quarter of money paid to for profit private plans is spent on administration and to pad insurance companies’ profit margins. It is estimated that $1 billion is spent on duplicative legal, technical and administration services for private drug plans.\textsuperscript{93} The portion of administrative costs for all private plans (for profit and not for profit) doubled in 20 years. In 2013, it is estimated Canadians paid $1.5 million in just administrative costs alone on their private drug coverage through insurance premiums. A universal pharmacare program would reduce these administrative costs from 16 per cent to 1.8 per cent, or by $1.3 million.\textsuperscript{93} Further, if a correlation is made with the role public medicare has played in physician and hospital expenditures between Canada and the U.S., we see that 39 per cent of the costs result from differences in administrative expenses borne by both insurers and providers.\textsuperscript{94} The extraordinarily high administrative costs in the U.S. come from the much higher proportion of private insurance in that country and it is “private coverage, not ‘being American,’ that is expensive.”\textsuperscript{95} Implementing universal pharmacare would create a similar situation to the lower administrative costs we enjoy through services covered under our medicare and provides Canadian employers a competitive advantage with significantly less administrative costs.

The simple fact is workers and employers would move from private plans and insurers to public coverage if they could. Why pay for insurance that wastes huge amounts of money, offers higher barriers to gaining health benefits, and is increasingly expensive for employees and employers? These factors lead to lower wages for workers and lower company earnings. Private drug coverage exists in Canada because workers cannot generally benefit from public coverage.\textsuperscript{96} Why then does our government continue to support the insurance industry and private drug plans over universal pharmacare? Why would any country, “abide the continued existence of a health insurance patchwork that is at once so grotesquely inefficient, expensive, and unfair? The answer is simple. It has been well said that every system is perfectly designed to achieve the results that it does, in fact, achieve... Private health insurance may be an inefficient and inequitable way of spreading health risks across the population, but it functions as a superb generator of incomes, both individual and corporate.”\textsuperscript{97}
How Universal Pharmacare Would Give Canada an Economic Advantage

Future cost trends make private plans unsustainable

Private drug plan providers have realized that our current system is not sustainable in the long term and are passing on more costs to beneficiaries. Over the last decade “the pharmaceutical industry has responded to the ‘patent cliff’ – the end of price protection for blockbuster drugs such as Lipitor and Zoloft – by focusing their development efforts on high-cost drugs.”

For example, data shows that in 2005, “one new drug arrived on the Canadian market that cost between $20,000 and $49,999 per patient per year and two debuted at more than $50,000 per patient per year. In 2015, there were 45 new drugs in the $20,000–$49,999 segment and 20 launched in the over $50,000 category.”

Disruptive cost increases in the future are expected to be at a much higher rate than the already rising costs during the 2011 to 2014 period, and the critical cost escalation will likely force employer plans over the tipping point threshold.

Many specialized medicines can cost $50,000 or even $500,000 per patient per year. While the cost of maintenance drugs (for example, drugs to control blood pressure) has risen 58 per cent since 2005, biologics and specialty drugs have increased by 325 per cent in that same time. These drugs, which are often biologics and antivirals, treat a variety of chronic and complex conditions such as cancer, hepatitis C, rheumatoid arthritis, inflammatory bowel disease and numerous others. Recent data from the insurance industry shows that 83 per cent of private drug plan sponsors find the new drugs coming to market are too expensive for their plans to remain sustainable, and 90 per cent of respondents agree with shifting costs onto benefit plan recipients.

While high cost speciality drugs are not the lone issues pushing plans over the edge, they will have a compounding impact in the years to come.

It has been highlighted that, “pricey new biologic anti-inflammatories such as remicade, enbrel, humira and rituxan are one reason why the cost of these insurance benefits are expected to go up in 2017. Biologics are a class of medical products that include a wide range of drugs that are made from biological sources. Most of the drugs we are familiar with are chemically synthesized and are made up of a relatively simple combination of molecules.” The medications are used to treat chronic inflammatory diseases such as rheumatoid arthritis, Crohn’s disease, ulcerative colitis and psoriasis.

These drug treatments have doubled in cost in Canada since 2010, soaring to $2.2 billion in 2015. A recent review found remicade costs 25 per cent less in other markets comparable to Canada. Overall, studies suggest the global market for biologics will reach $386.7 billion by the end of 2019.

Biologics provided roughly 22 per cent of Big Pharma companies’ sales in 2013. This percentage is expected to rise to 32 per cent by 2023.

The number of Canadians estimated to be diagnosed with cancer in 2016 was 202,400. Two in five Canadians are expected to develop cancer in our lifetimes. While there are thousands of drugs in development to treat cancer – with more than 1,800 molecules under investigation – most have astronomically high price tags.

For example, two new cancer drugs available in Canada – keytruda and opdivo – cost about $123,000 per year of treatment. In Ontario alone, expenditures for cancer drugs, both intravenous and oral, were $652 million in 2014-15, an increase of 20 per cent over the previous year. Also coming is a shift from cancer drugs that are administered in hospital – where they are covered by public health care plans – to drugs that can be administered at home, transferring the cost burden to patients and employers.

In fact, approximately 73 per cent of cancer drugs in development are designed to be self-administered, which will likely put an insurmountable strain of private drug plans.

For Canadians, the cost related to the direct-acting antivirals (DAAs) for the treatment of hepatitis C has become a critical issue for public plans, private insurers and patients. Data from 2015 highlights that the high cost of prescription drugs in Canada continues to grow at alarming rates with, “new treatments introduced at staggering prices (such as a drug for genotype 1 of the hepatitis C virus, range from the lower end – $47,000 if drug is prescribed for eight weeks – to as high as $268,000 if combination therapy is required for 24 weeks). It is worth noting that these high price drugs...
have been a boon for pharmacists and drugstores, which might explain why there’s been 20 per cent growth in the number of retail pharmacies in Canada since 2008. Coupled with the inefficiency of private plans, there are common stories of employers paying “the pharmacy $31,000 to hand three sets of tablets to a member over the course of six months. And this happened and nobody asked a question.”

In 2005, there were 20 drugs on the Canadian market with an annual average cost of $10,000 or more, representing approximately five per cent of the total private drug plan costs. By 2015, the number of drugs grew by more than five times to 124, representing nearly one-quarter of the private drug plan costs. For drugs exceeding $50,000 there were two on the Canadian market in 2005, but by 2015 the number of drugs over this threshold had grown to 20. Of all drugs approved in Canada in 2015, 58 per cent were considered specialty drugs to treat chronic, complex conditions (with one in three for cancer treatment). A long list of high-cost medications currently in development further intensifies the financial risk plan sponsors face and will remain the major cost driver for health benefit plans. Higher-cost specialty drugs are expected to account for 35 per cent of spending by 2018 and 42 per cent of total spending by 2020 (up from 26.5 per cent in 2014 and 29.9 per cent in 2015). While specialty drugs represent approximately two per cent of claims in Canada, they grew steadily as a percentage of total drug spending in private plans from 13.2 per cent in 2007 to 26.5 per cent in 2014, according to Express Scripts, a provider of health benefits management services. The Patented Medicine Prices Review Board’s data similarly shows that high-cost beneficiaries – defined as active beneficiaries with annual drug costs of $10,000 or more – accounted for more than 25 per cent of private drug plan costs in 2015, compared to 9 per cent in 2005. Spending on specialty drugs in Canada is on track to quickly double to $5.6 billion for private plans by 2020.

The changing landscape of the drug market and the associated costs will have a major effect on both small and large employers, threatening the stability of plans across the board. With prescription drug costs representing the majority of a private plan’s health spending, insurer’s inflation factors for prescription drugs have shown an increase from 11.57 per cent in 2015 to 12.09 per cent in 2016. While inflation has been a cost driver for Canadian insurers’ bottom lines for some time, the risk of new high cost drugs has caused insurers to quickly change pooling arrangements and increase pooling charges. Simply having a high amount of drug pooling in an employer’s plan design won’t make the risks and costs of catastrophic drugs disappear. It is estimated that employers can expect increases in drug-pooling costs to exceed 50 per cent this year.

Approximately 40 per cent of Canadians are covered by employee supplementary health benefits, but these private plans are both unprepared and don’t have the tools for what is going to occur in the coming years. These plans already spend more on specialty drugs than on all generics combined. It has been pointed out that:

“The inflation of catastrophic claims insurance premiums is also an issue as it will put more pressure on the affordability of existing plans. There is also pricing asymmetry on the private side, meaning that there is wide variation in what private plans pay for specialty drugs. Chronic drug spending is going to drastically increase in the next few years. Just considering the annual cost increase due to chronic, recurring therapies most current plans are not affordable.”

There are already occurrences of individual beneficiaries in plans whose drug bills run over half a million dollars annually. The solution to these runaway costs is abundantly clear – by adopting a universal pharmacare system which has the tools and buying power to attain reasonable costs for the medications Canadians need, we create a system that benefits both employees and employers.
• The average cost of providing private plan benefits for employees is now $8,330 per full-time employee.

• Currently, at least 30 per cent of private plans now have maximums on drug coverage.

• Decisions about what medications people have access to should not depend on negotiations between employers and unions.
According to the Canadian Labour Congress, in 2013 73 per cent of full-time employees had health benefits coverage by their employer, compared to only 27 per cent for part-time workers. Canadians working low-income jobs are the most vulnerable in our system as they generally do not have drug coverage as part of their employment, but they earn “too much” to be covered under public plans. Nearly all employees earning more than $100,000 receive health benefits (94 per cent), compared to 32 per cent of those earning between $10,000 and $20,000 and 17 per cent of those earning $10,000 or less.

Men are also more likely to have a benefits plan from their employer than women because women work more often in part-time jobs that do not offer health benefits. In 2015, there were 2.2 million women and 1.1 million men in part-time employment in Canada. Twenty-five per cent of part-time workers have employer-provided health benefits. It is estimated that approximately 1.6 million women and 0.8 million men working part-time in Canada at that time did not have employer-provided health benefits. For workers aged 25 and under, again, only 25 per cent have employer-provided benefits. This comes at a time when approximately 39 per cent of workers between the ages of 15 and 29 are precarious employed. A recent survey found that nearly 50 per cent of respondents say they rely on each paycheque to cover their bills, with 40 per cent admitting they spend an amount equal to all or more of their net pay each week. Twenty-five per cent stated they wouldn’t be able to come up with $2,000 if an emergency situation happened within the next month. It is not surprising then that studies show that one in three Canadians with incomes under $50,000 reported that they or someone in their house were not able to take their medication as prescribed – if at all – because of costs.

The cost per private plan beneficiary continues to rise for all age groups. Four distinct generations are now in the workplace, all with varying benefit needs. At one end of the spectrum, young workers today have,

“Borne the brunt of the corporate drive for a more ‘flexible’ workforce and the ‘uber-ization’ of the workplace... Today’s world of work for young Canadians is one where [they] are being denied the opportunities, job stability, and social protections that previous generations have enjoyed.”

Data shows young workers are four times more likely to work part-time than older workers and “over 230,000 young workers would rather work full time hours but business conditions don’t allow for it or they simply couldn’t find full-time work.”

Millennials (Generation Y) are now make up 25 per cent of the Canadian workforce. In North America, employment forecasts predict millennials will represent more than 40 per cent of the labour force by 2020, which is more than baby boomers and Generation X combined. Together, generation Z and millennials, the two youngest groups in the workforce, make up 40 per cent of the current workplace population. These two groups will represent 25 per cent of the global workforce by 2025. As a result, this generation, which represents 27 per cent of the Canadian population, is one of the most important demographics for benefits planning and are coming into an age where they will begin consuming more health care.

When it comes to millennial and generation Z employees, survey data shows only 37 per cent have access to workplace health benefits that fully meet their needs. Other surveys show that 38 per cent of millennials are likely to say employers have a “significant responsibility” for supporting employees’ physical health. The same survey found almost half (47 per cent) of millennials say their health has impacted their work productivity in the last six months, which is higher than any other age group. Thirty-eight per cent of Canadians with a health condition say it impacted their productivity at work in the last six months and 19 per cent missed several days of work as a result. Among millennials, 39 per cent missed several days and more than half – 53 per cent – described some effect on productivity. Traditionally, much of the discussion around pharmacare has focused on better protecting the health of Canadians, especially children and seniors, but according to health researchers “one prominent group is often overlooked in the debate: a growing number of millennials don’t have access to employer-funded prescription drug plans, nor do they meet the requirements to access publicly funded plans.” With a disproportionate number of young Canadians precarious employed, unemployed or underemployed, almost half of millennials between 15 and 29 likely don’t have access to employer-run

Impacts in the Workplace
private health insurance plans. The degradation of private health plans is a trend that needs to be reversed to ensure a healthy and productive labour force in the future. Universal pharmacare remains an essential missing component of our health care system.

At the other end of the spectrum many older workers see their private health insurance suddenly terminated at age 65. This comes at a time when there are more than 400,000 Canadians working full time and almost 300,000 working part time past the age of 65 – a figure that is up 300 per cent from 1990. Current demographic trends suggest that by 2041, 25 per cent of the population in Canada will be 65 or older. Many employer plans still use 65 as a criterion for ending insurance contracts instead of basing coverage on active versus retired status. A survey of 170 Canadian employers showed that 25 per cent stopped providing health coverage to people past the age of 65. The percentage of Canadian employers offering retirement health benefits to new employees has fallen from 62 per cent in 2002 to 49 per cent in 2011. Other survey data suggests that between 2012 and 2015 the number of employers who plan to limit retirement benefits only to employees grandfathered under benefit plans doubled. Other private plan sponsors looking to limit their liability for drug costs have, over the last decade, increasingly used benefit-limiting tools such as co-insurance and annual or lifetime insurance caps. A 2011 survey found that 33 per cent of employers will attempt to limit or eliminate drug coverage benefits to current retirees if their liabilities double despite the legal and financial risk to the employer. We have already seen this trend where employers have chosen to cut off benefits to retired employees, like US Steel Canada did to pensioners in Hamilton. Lastly, private plans miss the mark on their estimates of chronic disease in the workplace. For example, “59 per cent of employees have at least one chronic condition – high blood pressure, high cholesterol and depression are the most common – plan sponsors think just 32 per cent do.” For older workers, 79 per cent of employees aged 55 to 64 have at least one condition. Chronic disease is a serious issue in Canada, accounting for 67 per cent of all health care costs. For younger workers, three out of five Canadians older than age 20 have a chronic disease, while four out of five are at risk of developing one. For lower income working Canadians, 38 per cent have multiple chronic conditions which is second only to the U.S. at 41 per cent. Drugs are an integral part of our health care system, as 90 per cent of Canadians with chronic conditions (e.g., cardiovascular disease, kidney failure, depression, etc.) take at least one prescription drug and 54 per cent

In 2015 a bankruptcy court approved a plan by US Steel Canada to cut health care benefits to 20,000 pensioners. The Ontario government set up a short term fund of $5.5 million to cover acute health care costs. Two years later, health benefits remain a key factor in refinancing the company.
of those take four or more.\textsuperscript{157} With the prevalence of chronic disease and skyrocketing drug costs, private plan benefits have never been more expensive. According to the Conference Board of Canada the average cost of providing private plan benefits for employees is now $8,330 per full-time employee.\textsuperscript{158}

### The end of passive benefits cost containment

Private plans across Canada are adopting a variety of measures to try to keep skyrocketing costs down. Some of these measures follow choices public plans have implemented for years. Changes include refining plan designs, better integration of data, using generic substitutions for drugs where appropriate, providing preferred pharmacy networks with lower dispensing fees, or adding wellness programs and chronic disease management support services as core benefits. A recent Health Policy report highlighted that in the absence of a national pharmacare program, “it behooves private plans to emulate public approaches and strategies,” and that private plans irrationally shield employers and employees from “making rational choices on drug coverage which are based on considerations of effectiveness, safety and value for money.”\textsuperscript{159} It has been noted that “unlike some consumer products where a store-brand version could be noticeably inferior to the original, generic medications contain the exact same medicinal ingredients and dosages as the brand drug.” It does not make sense for private plans to pay substantially more for the same product.\textsuperscript{160} Or, to relate it to everyday life, “one gas station charges $1.40 per litre and the other gas station charges $1.10 per litre for virtually the same gas, and we frequently hear about the line-ups for the $1.10/litre gas station…why not with drugs?”\textsuperscript{161}

It is common knowledge that, “A lot of private plans are paying for branded medicine when generics are available, which is, frankly, just a waste of money in most instances... They’re also paying for more expensive drugs when cheaper drugs would be just as effective and less costly for employers. And I think what people forget is that if you look at the economics literature, the people who eventually pay for drug plans are employees over the long term, so all of us are paying for it in decreased wages over time.”\textsuperscript{162}

The end of passive cost containment is over for private plans. Unfortunately, instead of demanding the government implement universal pharmacare, employers have turned to cost shifting mechanisms that lower costs, but have consequences for the health and financial well-being of employees. As a Health Council of Canada report explains, “private drug plans are funded, in part, by employees, albeit indirectly. (...) Regardless of the mechanism, from the employer’s perspective drug insurance is an additional cost of employing a person. Hence, it can translate to lower wages for employees.”\textsuperscript{163}

Currently, at least 30 per cent of private plans now have maximums on drug coverage. Currently, at least 30 per cent of private plans now have maximums on drug coverage, which is leading Canadians to an American model where medication is held back from patients who require it.\textsuperscript{164} Depending on the private plan, measures include employees paying larger shares of premiums, health care spending accounts (HSA) with defined maximum limits, questionable stop-loss insurance, tiered reimbursement levels for different drug therapies, employees paying full dispensing fees, expanded prior authorizations, annual or lifetime coverage limits, or increases to out-of-pocket costs with higher co-payments and deductibles for insured members.\textsuperscript{165} Other employers have introduced flexible plans to give employees more “choice.” These plans ask employees to estimate at what level of coverage they think they will need in the future and pay the associated premium with that level. If employees guess wrong, or have an unexpected health condition, they are left paying out of pocket for their medication. It is evident from decades of research that these measures limit or stop patients from accessing medically necessary drugs. When people don’t take the medications they need the workforce will be negatively impacted. It will also not solve the rising cost problem facing private plans.\textsuperscript{166}

Benefit cost increases for employers don’t just disappear. Instead, many companies are passing costs forward to customers by raising the prices of the company’s products and services. “Every good business understands the importance of reinvesting savings, this is as true when it comes to employee drug plans as anywhere else.”\textsuperscript{167} A universal pharmacare plan would save the private sector $8.2 billion annually and provide high quality, equitable coverage to everyone.\textsuperscript{168}
Impacts in the Workplace

The solution isn’t at the bargaining table

Recent surveys have found that 84 per cent of Canadian employees believe employers have a responsibility to support their employees’ physical health, 77 per cent feel that all Canadian employees are entitled to receive a health benefits plan sponsored by their employer, and just 5 per cent disagree with the idea that employee health benefits should be an entitlement.169 Outside of the model in Quebec where employers are required to provide private drug insurance for eligible employees, employers are not legally required to provide health insurance to employees in the Canadian workforce.

In 2013, approximately 13.3 per cent of all workers in Canada were unionized private sector employees, 18 per cent were unionized public sector employees, with the rest being non-unionized employees.170 While the coverage is not universal for unionized workers, unionized workers are more likely to receive employer-provided prescription drug benefits. Further, even among unionized workers, higher paid workers are more likely to receive more comprehensive coverage than lower paid workers.171 Despite spending a large amount of time bargaining for better health benefits for workers, unions across the country know that the solution to Canada’s prescription drug problem will not come at the bargaining table. The Canadian Labour Congress and its affiliates (representing 3.3 million workers in Canada) and provincial labour federations across Canada all support universal pharmacare for this reason. From nurses to postal workers, many unionized workers support quality drug coverage and health benefits for everyone.

With the rising costs of private health plans, unions and employers are often in an unfair position of deciding the availability of prescription drugs for workers.

Negotiations can often be very challenging at the bargaining table. Solutions to the rising costs of prescription drugs only add to these challenges. Unions across Canada are reporting that health and drug benefits are increasingly being negotiated at the bargaining table with employers.172 Prescription drugs generally represent the largest portion of the cost for employer-provided benefits and are a contentious bargaining issue.173 With the rising costs of private health plans, unions and employers are often in an unfair position of deciding the availability of prescription drugs for workers. Research has shown that employers indicate that, “monetary items in collective bargaining are discussed on a cost-neutral basis; meaning that an increase in a benefit line item must be offset by cost-savings elsewhere. Thus, changes in benefits are discussed in the context of introducing changes to compensation, as any cost increase or saving in one area affects the entire basket of goods offered to employees in their compensation packages.”174 Further, a process that is guided by and ultimately leads to reduced health benefits in the name of more affordable of private insurance plans, rather than on an evidence-based process to meet workers medical needs, serves no one’s interests. The Canadian Union of Public Employees has highlighted:

“Decisions about what medications people have access to should not depend on negotiations between employers and unions. These should be decisions made by patients and their health care professionals, not by labour unions, not by employers, and not by private, for-profit insurance companies. Getting employers and labour unions out of the business of providing insurance for medically necessary health care to employees will also relieve some of the pressure on employers and unions related to the cost of benefits, allowing us to focus on other priorities at the bargaining table and potentially improving labour relations by eliminating one of the most contentious issues from bargaining.”175
• Pharmacare would unite Canadians as a single purchaser with increased buying power.

• Benefits packages are essential to keeping quality and experienced employees.

• High drug costs and ineffective private health plans are a threat to all Canadian employers’ bottom lines.
Every day $17.1 million is wasted in expenditures that would not have been incurred if Canada had a universal pharmacare plan. Canadians are currently wasting $7.3 billion a year individually through their employers and collectively through their governments because of our fragmented and inefficient system. Over the last 10 years this amount has been estimated at $62 billion of wasted health care dollars. Looking at these figures another way it means that every minute of every day there is $14,000 squandered because Canadians pay among the world’s highest prices for prescription drugs. The longer we wait, the more the waste piles up. As shocking as these figures are, it is worth noting that they are based on conservative estimates, and the amount of wasted money is likely even higher. The figures also do not take into account the differences in administrative overhead between private drug insurance plans and the public system. Based on recent estimates, adding administrative costs into the estimated waste in the current system would increase the total by an additional $1.7 billion annually. It is clear that the money employers, employees and governments are wasting could be much better spent.

It is estimated that employers spend up to $5 billion on private drug plans that are not well positioned to manage drug pricing or the prescribing and dispensing decisions of health professionals. A universal pharmacare plan is not only economically viable it would reduce employer-sponsored drug costs in Canada by up to $10.2 billion per year. This money could then be spent to further develop the business or offer improved wages, among other things. Pharmacare would unite Canadians as a single purchaser with increased buying power, which is a significant advantage. Additional advantages would be: a reduction of administration costs for businesses and unions, the elimination of the need for tax subsidies to encourage employer-funded benefit packages, decreased direct emergency and acute care medical costs due to inappropriate or underuse of drug therapies, and a significant reduction of other health service costs.

The value of quality employer benefits

The rising costs of associated with new medications and the inefficiency of private drug plans creates a major problem for businesses of all sizes. As it stands, around 10 per cent of gross payroll is spent on employee benefits with drugs representing the largest and fastest growing component of these private plans. With approximately 60 per cent of Canadians covered through private drug plans, the increases in drug costs and the inability to contain them has, “led to increased labour costs, making Canadian enterprises less competitive. The possibility of losing drug coverage also reduces labour mobility for employees.”

High drug costs and ineffective private health plans are a threat to all Canadian employers’ bottom lines, and this situation will only get worse in the future without universal pharmacare.

Benefits packages are essential to keeping quality and experienced employees. To attract and retain skilled employees to grow a business, employers know they must offer competitive benefits. In Canada, the most highly valued benefit is the prescription drug plan. Quality health benefits help secure employment. Surveys show that 77 per cent of employees would not move to a job that did not include benefits. Additional data shows that when employees were asked if, “they would rather keep their benefits coverage or receive $10,000, 59 per cent said that they would rather keep their benefits coverage. And when asked if they would rather keep their benefits coverage or receive $20,000, 48 per cent said they would rather keep their benefits coverage.” It has been pointed out by business leaders that, “this creates inefficiency of our economy because many Canadians are forced to choose where to work based on access to insurance rather than aptitude and passion.”

A boost for small businesses

Canadians most likely to be uninsured or underinsured for prescription drugs are those working in small and medium-sized businesses, low-wage earners, non-union workers, and part-time workers. Under the government’s classifications, a small business has 1 to 99 paid employees, a medium-sized business has 100 to 499 paid employees, and a large business has 500 or more paid employees. As of December 2015, the Canadian economy had a total of 1.17 million employer businesses. Of these, 1.14 million (97.9 per cent) were small businesses, 21,415 (1.8 per cent) were medium-sized businesses and 2,933 (0.3 percent) were large businesses. While small businesses between 1 and 99 paid employees make up the majority of enterprises, it is worth noting that 75 per cent of companies have five or fewer workers. Because of the high costs associat-
Universal Pharmacare Adds Value

ed with private plans, many of these smaller employers are not able to offer health benefits at all.

The costs of health benefits are not distributed equally across all employer groups through private plans. Smaller businesses with fewer employees end up paying significantly more per capita than large employers as they have higher insurer expense loads. It is for these reasons that the Surrey Board of Trade recommends pharmacare:

“[...] would substantially save businesses in providing health benefit packages to their employees, particularly the small and medium sized enterprises. It can only help Canada’s economy if business owners and employers are freed of the administrative necessity and costs of negotiating and providing drug benefit program.”189
• The U.S. spends two-and-a-half times more than the OECD average on health care.

• Canada’s public health care system remains more important than ever to attract investment, create jobs and maintain a healthy workforce.

• An increased competitive advantage from pharmacare would mean a significant gain for the Canadian economy in the short and long term.
Universal Pharmacare’s Competitive Advantage

As the information presented in this report should make abundantly clear, the supposed trade off between universal pharmacare and economic prosperity is a false dichotomy. The research shows that for comparative countries, pharmacare has not reduced their economic vitality. A fully universal health care system is more likely to foster economic growth than inhibit it.

With the rapid escalation of drug costs, “affordability in a global context is taking on increasing importance as labour costs vie with the need for productivity growth to remain competitive.” With the unsustainable and rising costs of private health plans, universal pharmacare would represent a significant decrease in labour costs for employers while increasing the net disposable income for all workers. Further, pharmacare would have same effect as a large tax cut to help boost the economy while providing better access to care and greater labour mobility.

Universal pharmacare would give Canada a significant competitive advantage over the U.S.

The U.S. spends an estimated $2 trillion annually on health care expenses – more than any other industrialized country. The U.S. spends two-and-a-half times more than the OECD average on health care, yet it ranks with Turkey and Mexico as the only OECD countries without universal health coverage. American companies that “pay large amounts to private insurance companies to cover their employees with health care are at a competitive disadvantage against companies in countries with single-payer health care or other universal health care systems.”

In 2012, General Motors estimated that the rising health care costs it faces in the United States add “between $1,500 and $2,000 to the sticker price of every automobile it makes.

less critical of the industry. President Trump now says that he will cut taxes and streamline regulations as a way to drive down drug prices – a move applauded by the drug makers.”

Canada was the second largest supplier of goods imported to the U.S. in 2015, with $325.4 billion USD of imports. In 2014, U.S. foreign direct investment (FDI) in Canada (stock) was $386.1 billion USD. In 2015, the U.S.’s investment position rose 10.5 per cent to $387.7 billion. The U.S. is clearly Canada’s most important trading partner and source of FDI. In 2002, Ford Motor Co., General Motors, and DaimlerChrysler all signed a joint letter imploring the Canadian government to take steps to preserve Canada’s medicare system. In the letter, representatives of the companies highlighted that labour costs in Canada are lower than in the United States – several dollars per hour of labour worked at the time – in part because businesses do not have to pay for their employees’ health insurance.

The letter also highlights that thanks to Canada’s public health care system, workers “are healthier and more productive... For both employers and workers in the auto industry, it is vitally important that the publicly funded health care system be preserved and renewed on the existing principles of universality, accessibility, portability, comprehensiveness, and public administration...and must be expanded to cover an updated range of services (including prescription drugs and home care services) that reflects both the evolving nature of medical science and the emerging needs of our population.”

Although this letter was written in 2002 “it is important to note that the cost of employer-sponsored health insurance in the Unit-
ed States has escalated greatly since then. Between 2000 and 2011 the cost of the average annual employer-sponsored premiums in the United States doubled.” In 2012, General Motors estimated that the rising health care costs it faces in the United States add “between $1,500 and $2,000 to the sticker price of every automobile it makes.” As health costs rise in the U.S. under a private system, Canada’s public health care system remains more important than ever to attract investment, create jobs and maintain a healthy workforce.

In November 2014, Honda announced it would invest $857 million over the next three years to upgrade its factories, facilities and technologies in Canada. Outside of our proximity to the U.S., Honda stated that, “many other considerations came into play, most of which revolved around the quality of the workforce and the fact that Canada has universal health care.”

But, the competitive advantage Medicare gives Canadians goes beyond the automotive sector. For example, “Relative to U.S.-based medical device manufacturers, operations based in Canada typically enjoy a 13.1 per cent savings with lower employee health care costs being the main contributor.”

In 2016, Canada maintained an overall cost advantage of 14.6 per cent over the U.S. The competitive advantage Canada maintains would be dramatically improved with a universal pharmacare system, and it would further develop the attractiveness of Canada’s market. Our universal public health care system already provides Canadian employers with a cost advantage of approximately $4 per hour over the U.S. Since it is impossible to obtain disaggregated data from the insurance industry it is difficult to put an exact figure on the hourly-worked costs advantage that would occur by removing private drug plans. To make an estimate we know that an employer who provides extended health benefits to employees – with 100 per cent of drugs included – paid on average $665 per year per employee in 2007-09 and $616 per year to cover their dependents. Other cautious estimates indicate that drug costs have increased with the amount spent per claimant rising from $680 in 2007 to $750 in 2014. With data showing that 87 per cent of premiums are reimbursed in benefits, it means an additional 13 per cent in administration costs. With the above figures in mind, a Canadian employer offering a private drug plan to its employees pays on average, roughly, $1592.28 per year, per employee. In 2015, a Canadian employee worked on average 1,706 hours in a year. Putting these figures together, an estimate can be made that Canadian employers pay on average 93¢ an hour to offer a private drug plan. As drug costs have rapidly increased in the last number of years, this figure is likely closer $1/hour, or will be in the very near future, representing a significant cost for employers. Conversely, a universal, public pharmacare program would mean that Canadian employers would gain $1 an hour competitive advantage as inefficient private plans would become redundant. Paired with the estimated $4 an hour competitive cost advantage Canadian employers already gain with public health care, it can be conservatively estimated that a minimum of $5/hour competitive advantage would be attained with universal pharmacare. This would mean a significant gain for the Canadian economy in the short and long term.
There has never been a better political moment for universal pharmacare. There are overlapping interests between provincial and territorial governments, labour and business groups, and immense public support for pharmacare. Multiple examples of other comparable countries show that better health outcomes and savings can be achieved through universal pharmacare. No other policy change and program can have the same kind of positive impact on the well-being of Canadians while saving $11 billion or more annually. Unlike most public policy prescriptions, pharmacare does not require trade-offs where the decision to invest in an initiative requires diverting resources from an equally worthy alternative cause. The missing ingredient in this is federal leadership and a desire for real change from the government. It is only political apathy that is holding us back from fair, equal and universal access to necessary medications for all Canadians. In the past 20 years alone, there have been three clear occasions in which the issue has been put on the political agenda, and each time the issue was ignored. Every year the federal government fails to take action on pharmacare the waste continues to mount and labour costs continue to rise. There is an ever-widening gap between what we are currently paying for pharmaceuticals and what we could be paying if we had a universal national pharmacare plan. This delay also means that with each passing day more Canadians have to choose between buying food for their family, paying rent, or getting the medications they need. Now is the time to commit to a more compassionate society where all Canadians have the right to good health and the medication they need.

**The voices of the public, labour and business must come together for universal pharmacare**

Time is running out. The evidence shows that private health care and drug plans are not sustainable in the long term since they cannot control rising drug costs. Pharmacare offers a viable alternative. Even in the short term, the pressures because of rising private drug plans costs are impacting employers’ budgets and have resulted in employees’ poorer health. It is more apparent than ever that:

> “The question of cost containment in private sector drug plans becomes less an intriguing academic exercise than a matter of urgent public interest. Employers need to know that the time is right. There are solutions to spiralling drug costs that do not involve curtailing benefits or flat-lining salaries, and employers should consider them – for the good of their organizations, and for the good of their employees.”

Research shows that universal pharmacare would provide a way to foster economic growth across the country and that both employers and employees favour government intervention to help with the problems associated with benefits provisions in Canada. As this report outlines, the current challenges also present an opportunity to increase Canada’s competitive advantage by $5 per hour and strengthen our economy with a healthy workforce.

The health of Canadians “is not a gift; at its best, it can be a fragile accomplishment attained only through collective action.” This report highlights how universal pharmacare is advantageous for both employers and employees. But unless the voices of labour and business come together with the public, Canada’s fragmented system of drug coverage will continue to deteriorate. Whether you’re an employee in a union or not, or a business that is big or small, it is in the interest of all Canadians to tell the federal government that now is the time to implement universal pharmacare.
Endnotes

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33
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