



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

EXECUTIVE SUMMARY

Canadians know that a universal, national drug coverage plan – also known as pharmacare – is long overdue. 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 experts at all 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.

No other policy change and program can have the same kind of positive impact on the well-being of Canadians while saving as much as \$14 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.

Prescription drugs generally represent the largest portion of the cost for employer-provided benefits plans and are a contentious bargaining issue. This report shows 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 spend-

ing in Canada, a universal, public pharmacare program would add considerably to this advantage. 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.

Canada needs pharmacare because:

- Prescription drug costs are skyrocketing. Total spending on prescription drugs has nearly quadrupled since the 1990s, of which 42 per cent is financed by the public sector and 22 per cent is paid out-of-pocket by patients. In 2016, Canadians filled more than 600 million prescriptions at a cost of more than \$30 billion.
- Employers are struggling to contain costs on benefits programs for employees. 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.

The solution to these runaway costs is 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.

Impacts in the workplace

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.

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 precariously employed.

With rising drug costs and only a limited number of people having drug plan coverage in Canada, it is not surprising 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.

With a disproportionate number of young Canadians precariously employed, unemployed or underemployed, almost half of millennials between 15 and 29 likely don't have access to employer-run 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.

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.

Chronic disease and skyrocketing costs

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.

Prescription 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 medication and 54 per cent of those take four or more. 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.

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.

Passive cost containment era is over

The era 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.”

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. Helen Stevenson of the Reformulary Group points out that “Every good business understands the importance of reinvesting savings – this is as true when it comes to employee drug plans as anywhere else.” A universal pharmacare plan would save the private sector \$8.2 billion annually and provide high quality, equitable coverage to everyone.

The solution isn't at the bargaining table

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.

Negotiations can often be very challenging at the bargaining table. Solutions to the rising costs of prescription drugs only add to these challenges. Prescription drugs generally represent the largest portion of the cost for employer-provided benefits and are a contentious bargaining issue. 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."

Universal pharmacare adds value

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.

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 but it would also reduce employer-sponsored drug costs in Canada by \$8 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.

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

The U.S. is clearly Canada's most important trading partner. 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."

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 2016, Canada maintains 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 plans. 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 an 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 have with public health care, it can be conservatively estimated that a minimum of \$5 per 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.

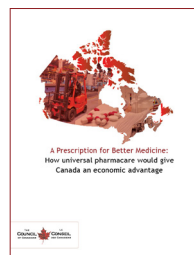
The voices of the public, labour and business must come together for universal pharmacare

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. There are many examples of other comparable countries that 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 \$14 billion annually.

But 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 of rising private drug plan costs are impacting employers' budgets and have resulted in employees' poorer health. According to social and health policy researcher Marc-André Gagnon, it is more apparent than ever that:

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.

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



Read the full report online at canadians.org/pharmacare

Need more information? Contact the Council of Canadians at 1-800-387-7177 or email inquiries@canadians.org