

AUGUST 24, 2023

Cost of A Private Drug Plan Claim

Prepared for Innovative Medicines Canada (IMC)

Executive Summary

Prescription drugs improve and save the lives of millions of Canadians across the country, every year. They can help diagnose, cure, manage, and prevent disease and improve quality of life.

Drugs are funded, or paid for through provincially funded plans, privately sponsored drug plans, and Canadians who pay out of pocket. The amount paid by publicly or privately funded plans and individual Canadians is comprised of more than the drug “price” – it is based on the drug cost (manufacturers list price), as well as a mark-up and dispensing fee – or, in the case of Quebec, a professional fee.

IMC contracted Reformulary Group to analyze the cost of a private plan prescription drug claim in Canada, and separately in Quebec. This report summarizes that analysis.

The analysis of low-cost oral solid drugs reveals that the non-drug components, such as professional fees (Quebec) and mark-up and dispensing fees (rest of Canada), represent a large percentage of the total cost per claim of prescription drugs. In Quebec, claims for oral solid drugs (i.e., pills, tablets, capsules), for chronic conditions dispensed as less than 30 days' supply had professional fees constituting 48.5% of the total cost, compared to 37.9% for claims dispensed in 90 days' supply. Similarly, in the rest of Canada, the non-drug component represented 37.5% and 23.3% of the total cost per prescription for less than 30 days and over 90 days' supply, respectively.

This report also includes potential cost-saving opportunities for privately sponsored drug plans in Canada, specific to low-cost oral solid doses for chronic medications.

Background

In Canada, prescription drug costs are made up of three main components, including the drug ingredient cost, pharmacy markup and dispensing fee. Reformulary Group (RG) was contracted by Innovative Medicines Canada (IMC) to do an in-depth analysis to better understand the ‘cost of a claim’, namely the drug manufacturers’ list price (MLP), and any other costs and/or fees added to the MLP, which comprise the total cost of the drug to a plan member or consumer in Canada. In addition, RG was asked to identify and quantify where savings could be achieved without limiting access to drugs.

Focus of Analysis

This report summarizes our analysis of the cost components of a prescription, including the drug cost (MLP) as well as dispensing fees and mark-up. Each section of this report highlights our findings, based on the data; the report does not include any subjective commentary.

We used data from our private market dataset, for the period January 2022 to December 2022; refer to the Appendix for further information.

Format of Analysis

Each set of charts is separated into two categories: ‘ROC’, meaning the rest of Canada, or all provinces except Quebec; and, ‘QC’, meaning Quebec. This is due to the unique cost structure in Quebec, in that pharmacies charge ‘professional fees’ that apply in place of an individual dispensing fee and pharmacy markup. Professional fees include the direct and indirect expenses associated with the pharmacist’s professional service and maintenance of the pharmacy’s operations, as well as the profit margin.

The primary analysis has been done by percentage (%) drug cost breakdown by component (i.e., MLP, dispensing fee, markup).

Further analysis was done as follows:

- Investigate the difference in markup across provinces;
- Determine savings based on dispensing longer days’ supply (90 days) for oral solids as well as savings based on introducing markup limits; and,
- Examine the days’ supply per province and drug cost by share of days’ supply.

Overall & Provincial Percentage Prescription Drug Cost by Component

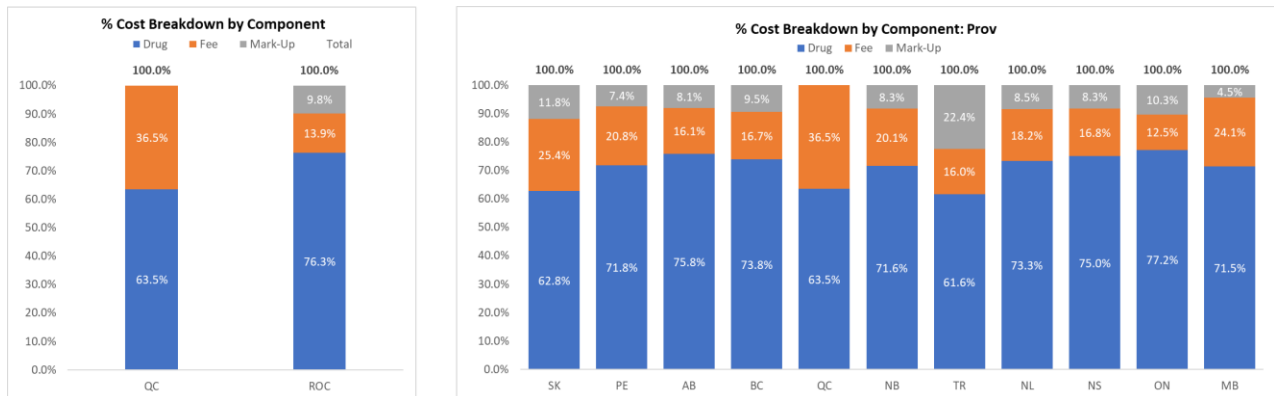
Chart 1 (below) focuses on the differences in percentage markup and dispensing fees across provinces in Canada. There are several factors in certain provinces that affect the weighted average percentages included in these charts, which are explained later in this section. The results were summarized by examining the average cost per claim for Quebec as well as the rest of Canada.

- Average cost per claim in QC is \$58.88, with 63.5% comprising the MLP. The remaining 36.5% comprises all associated ‘professional fees’ related to the prescription.
- Average cost per claim in ROC is \$75.91, with 76.3% comprising the MLP, 13.9% comprising dispensing fees, and 9.8% comprising mark-up. The latter two, representing non-drug costs, totalled 23.7% of the cost.

As a result of lower days’ supply dispensed on average in Quebec compared to the rest of Canada, Quebec private plans experience some of the highest costs per claim.

Chart 1 shows that Quebec has a lower percentage related to drug cost compared to the rest of Canada, and a higher percentage related to professional fees.

Chart 1 | Percentage cost breakdown by drug cost, markup, and dispensing fee for all drugs



Annual Drug Cost

Chart 2.1 (below) shows the percentage breakdowns of total annual drug cost based on drugs under \$10,000 annual cost per claimant, compared to the higher-cost drugs.

For all provinces excluding Quebec (ROC), the dispensing fees associated with drugs under \$10,000 represented 16% of the total cost per prescription. The same dispensing fee amount is applied for both drugs under \$10,000 and over \$10,000 – in other words, proportionally, the dispensing fee represents a larger proportion of the cost for drugs under \$10,000. For drugs over \$10,000, the dispensing fees represented 0.2% of total cost of the prescription.

- In ROC, the average cost per claim for drugs under \$10,000 annually is \$63.58 per prescription (or \$1.44 per day). Claim cost breakdown is: 73.8% drug cost, 9.6% mark-up, and 16.6% dispensing fees.
- In ROC, the average cost per claim for drugs over \$100,000 annually is \$6,127.44 per prescription (or \$231.21 per day). Claims cost breakdown is: 88.9% drug cost, 10.9% mark-up, and 0.2% dispensing fees.

Similarly, Chart 2.2 shows that Quebec has a higher percentage of the cost per claim on professional fees – 44.3% – than the rest of Canada for drugs under \$10,000, and a smaller percentage of the cost per claim on professional fees – 13.6% – for drugs over \$100,000.

- In Quebec, the average cost per claim for drugs under \$10,000 annually is \$43.02 per prescription (or \$1.68 per day); approximately 44.3% of the average cost per claim is dispensing fees.
- In Quebec, the average cost per claim for drugs over \$100,000 annually is \$5,915.12 per prescription (or \$225.68 per day); approximately 13.6% of the average cost per claims is professional fees.

Of note, Quebec professional fees as a percentage of the total cost per claim are higher for every range of drug cost compared to the rest of Canada (combined dispensing fee and markup).

Chart 2.1 | Percentage cost breakdown by annual drug cost

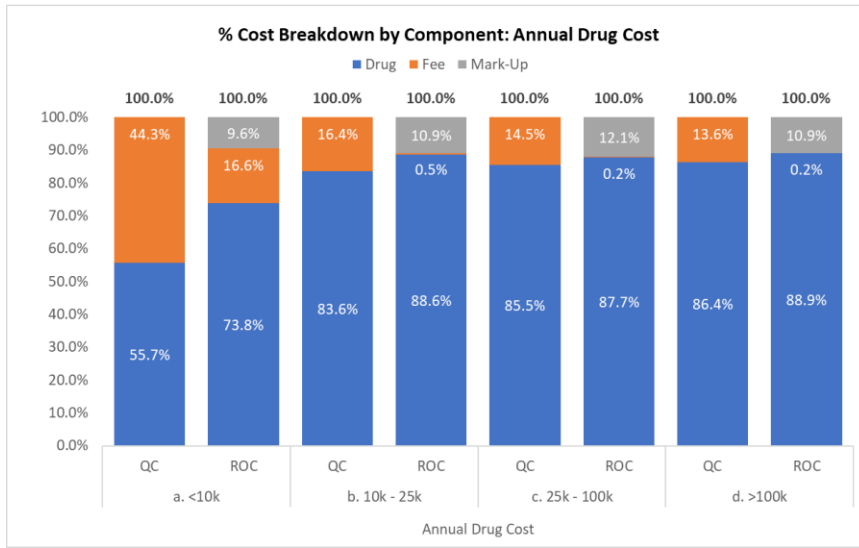
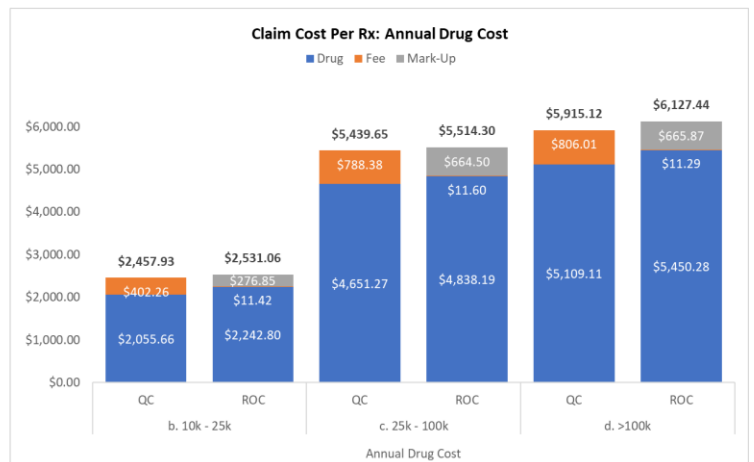
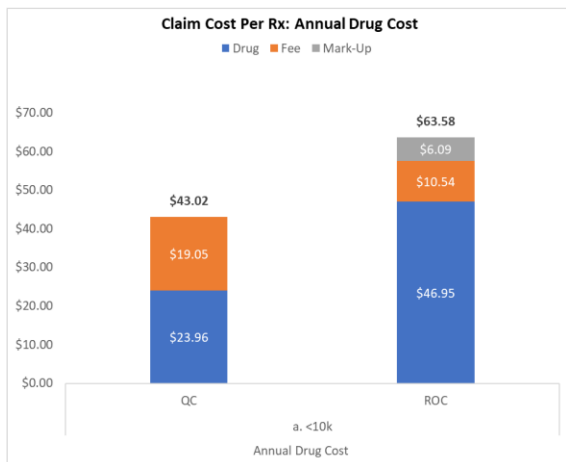


Chart 2.2 | Claim cost breakdown by annual drug cost

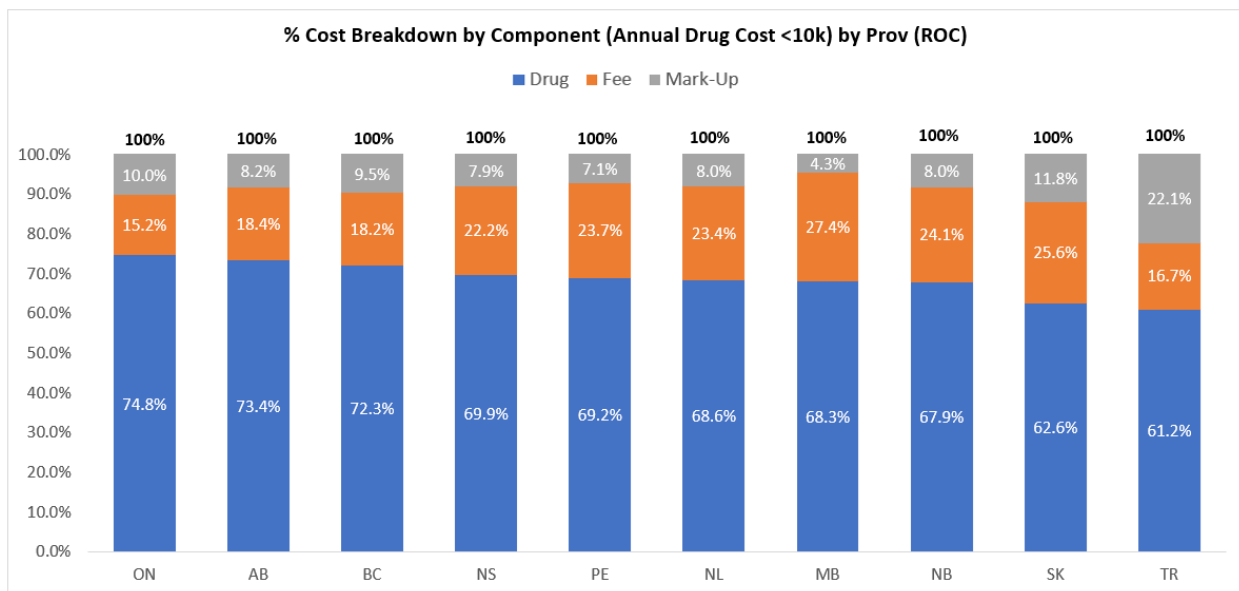


Breakdown for Annual Drug Cost <10k by Province in Rest of Canada

Chart 3 shows the percentage breakdown of claim cost components by province (excluding QC) for drugs with annual cost of less than \$10,000. The portion of claim cost for drugs (excluding mark-up and fee) varies from only 61.2% in the Territories of Canada (TR) to 74.8% (ON).

This report examines private drug plans, however, understanding the policies on markup and dispensing fees in public drug plans can provide insight into the disparities observed in the cost component breakdown. Ontario public plans have lower limits on dispensing fees and mark-ups than many provinces. For instance, the dispensing fees that most pharmacies can claim range from \$8.83 to \$13.25 and the mark-up applied is between 6% and 8%. In Manitoba, pharmacies charge the provincial drug programs up to \$30 per prescription, as the markup is included in the maximum dispensing fee.

Chart 3 | Percentage cost breakdown (annual drug cost <10k) by province (ROC)



Cost Breakdown for Drugs for Chronic Conditions (Low-cost oral solid dose drugs)

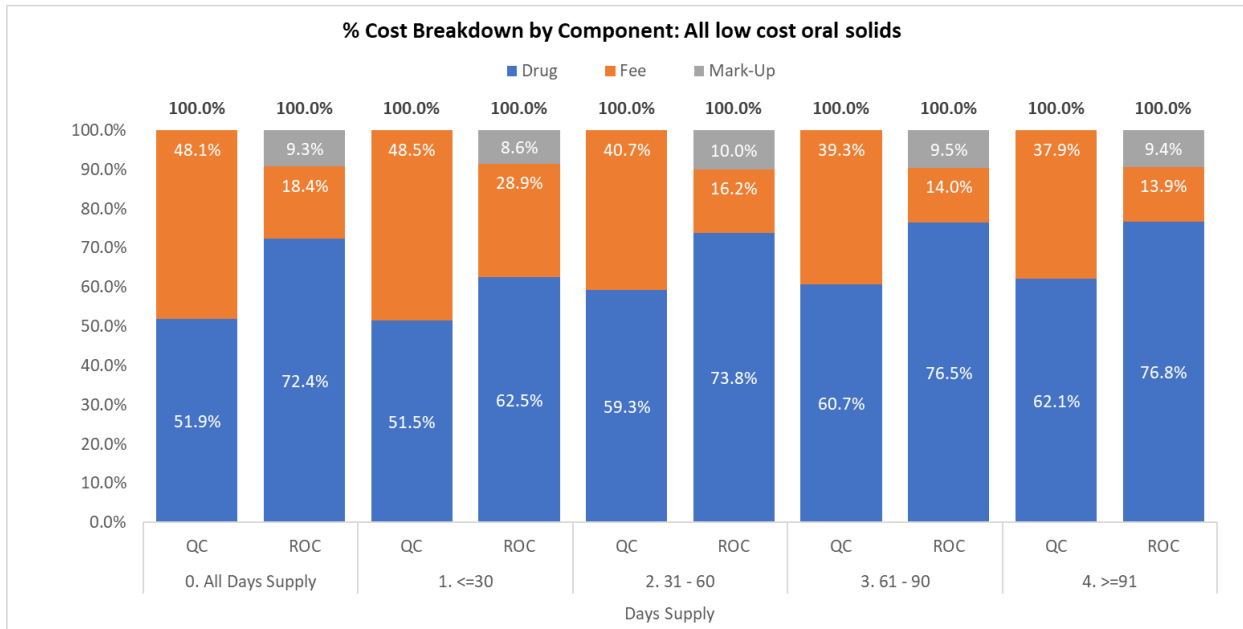
Our analysis of low-cost oral solid dose drugs (i.e., pills, tablets, capsules) used to treat chronic conditions was based on drugs to treat cardiovascular conditions (grouped together), diabetes, and mental health disorders. More specifically, the mental health drugs included anti-depressants, anti-psychotics, and ADHD drugs. The selection of these categories was driven by the long-term chronic nature of their use and the low cost of medication (mainly due to availability of many generic drugs). These factors would make them a logical choice for longer days of dispensing per claim.

- ROC: Average cost per day of \$0.94 for drugs to treat these chronic conditions (combined). The cost per day for claims of 90 days' supply is lower than the cost per day for claims of 30 days' of supply.
 - Claims dispensed with 30 days' supply or less had an average cost per day of \$1.79; 37.5% of the cost comprised dispensing fees and markup.
 - Claims dispensed with over 90 days' supply had an average cost per day of \$0.71; 23.3% of the cost comprised dispensing fees and markup.
 - Switching to 90 days' supply would represent a 60% savings in cost per day
- Quebec: Average cost per day of \$1.40 for drugs to treat all three chronic classes (combined). Like the rest of Canada, the cost per day for claims of 90 days' supply is significantly lower than the cost per day for claims of 30 days' of supply.
 - Claims dispensed with 30 days' supply or less had a cost per day of \$1.43; 48.5% of the cost comprised professional fees.
 - Claims dispensed with over 90 days' of supply had an average cost per day of \$0.79; 37.9% of the cost comprised professional fees.
 - Switching to 90 days' supply would represent a 45% savings in cost per day.

As depicted in Chart 4, for all claims dispensed for greater than 90 days, approximately 77% of the cost was for the drug; if dispensed at less than 30 days' supply, the cost of the drug was approximately 62.5% (ROC). The remainder of fees associated with the claims dispensed was for the dispensing fees and mark-up. This presents a key finding in this report, in that the non-drug component (dispensing fee + mark-up, or professional fees in QC) represent a larger cost of the claim than the drug component, based on being dispensed at a lower days' supply.

As the days' supply increases, the non-drug component (dispensing fees and mark-up) as a percentage of the total cost per claim for drugs to treat these chronic conditions decreases. For example, for ROC, the non-drug component represents 37.5% of the total cost per prescription for <30 days' supply (or \$0.67 per day) compared to 23.3% for >90 days' supply (or \$0.17 per day). Similarly, for Quebec, 48.5% of the total cost per prescription for <30 days' supply (or \$0.69 per day) compared to 37.9% for >90 days' supply (or \$0.30 per day).

Chart 4 | Percentage cost breakdown by days' supply (low-cost chronic oral solids)



Opportunities for Potential Savings, for Canadian private drug benefit plans

As described in this report, claims for prescription drugs in all provinces except Quebec (ROC) comprise the drug cost, and dispensing fees and mark-up; and in Quebec, it comprises the drug cost and professional fees. The non-drug component (dispensing fees and mark-up) as a percentage of the total cost per claim for drugs to treat specific chronic conditions decreases as the days' supply increases.

Optimizing Dispensing Fees

Based on the data and analysis, there are potentially significant savings by requiring a minimum 90-days' supply dispensed for chronic oral solid medications, in ROC (excluding Quebec). Of note, British Columbia's PharmaCare program recently extended the authorization limit for daily dispensing from 60 days' supply to 100 days' supply.

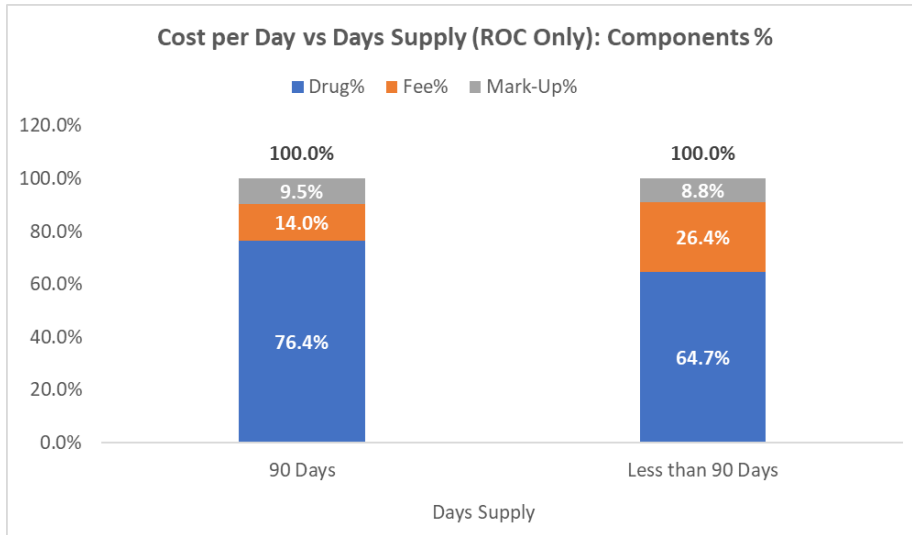
As illustrated in Chart 5 below,

- Approximately 48.5% of claims for these low cost, chronic oral solid medications are dispensed with less than 90-days' supply, resulting in an average cost per day of \$1.65, with \$0.44 per day for fees alone (26.4% of cost).
- If the days' supply is increased to at least 90-days' supply, based on the same drugs, the average cost per day is \$0.79, with only \$0.11 for fees (14.0% of cost). This would represent a 52% reduction in average cost per day.

Further, since chronic oral solid medications make up 28.3% of total drug cost, if all drugs in this group were dispensed with 90 days' supply, the potential savings for privately sponsored drug plans is 2.0% or \$317,434,698 (total 2022 private sector prescribed drug spend excluding Quebec was \$16.23 billion).

It is important to note that there are other factors that sometimes affect the days' supply of drugs dispensed; factors such as drug shortages or limits imposed by some employer sponsored drug plans.

Chart 5 | Breakdown of prescription cost by days' supply (oral solid drugs for low-cost chronic conditions)

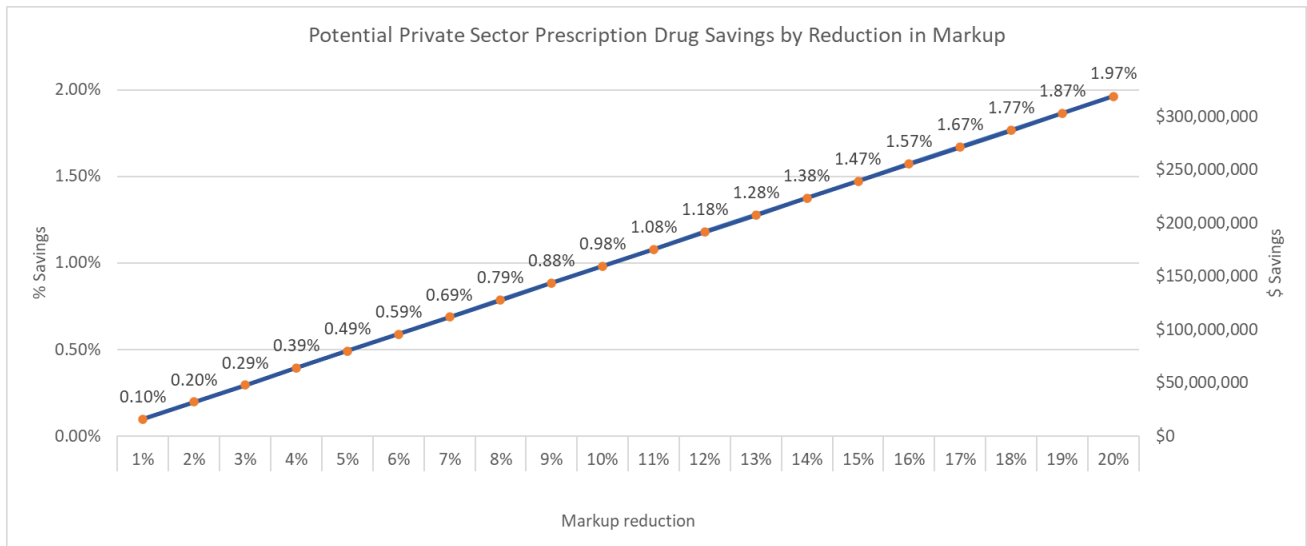


Optimizing Mark-ups

For privately sponsored plans in all Canadian provinces except Quebec, mark-up accounts for 9.8% of total prescription cost, on average. Based on the data used in this report, a 1% reduction in mark-up would result in a 0.1% decrease in total spend, as illustrated in Chart 6 below. A 5% decrease in markup could result in an estimated \$80 million in savings, or 0.49% of total savings.

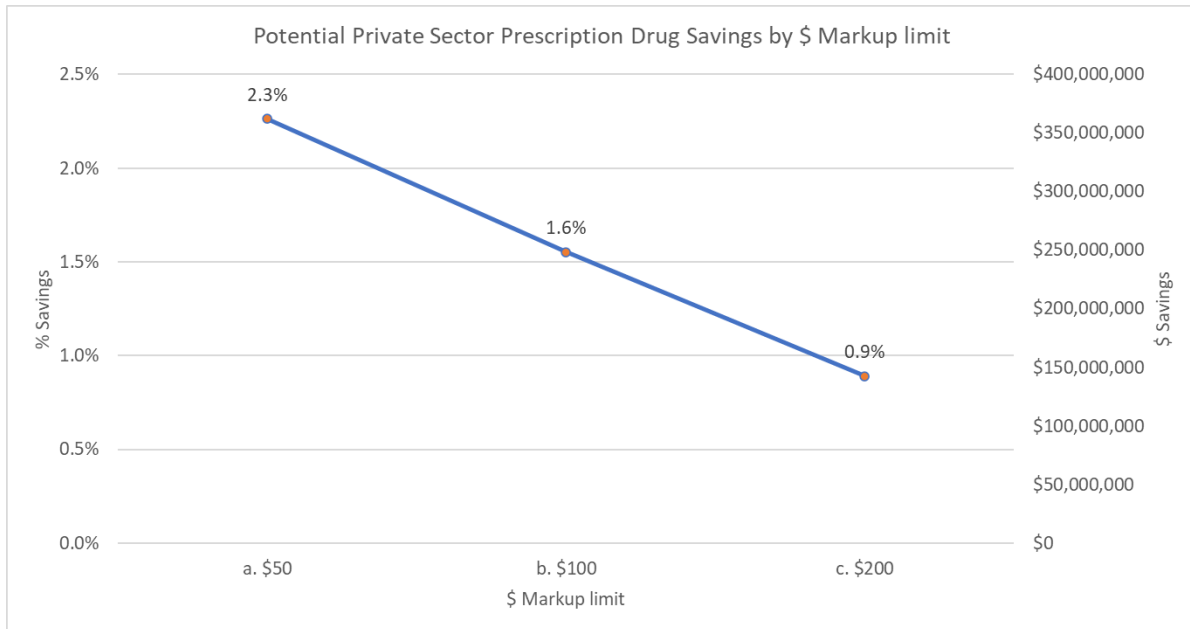
Provinces' public plans such as Alberta, Saskatchewan and PEI impose a markup maximum. This would generate savings for privately sponsored plans as well.

Chart 6 | Potential savings from reducing markup in privately sponsored plans (1%-20%)



Lastly, the potential for savings by introducing a dollar mark-up limit was also explored. Savings with markup limits of \$50, \$100, and \$200 are shown in Chart 7. Potential private sector savings (excl QC) range from 2.3% (or \$367M) when mark-up is limited to a maximum of \$50, to 0.9% (or \$145M) when mark-up is limited to a maximum of \$200.

Chart 7 | Potential savings from reducing markup in employer-sponsored plans (\$)



Concluding Remarks

As described in this report, prescription drug costs comprise the manufacturers' list price (MLP), as well as dispensing fees and pharmacy markups or professional fees, in the case of Quebec.

Key observations underline that, despite variations in cost structures across provinces, non-drug cost components (dispensing fees and markups, or professional fees) constitute a significant portion of the total cost per private drug plan claim. This is especially notable for drugs under \$10,000 annually and for drugs used to treat chronic conditions when dispensed for less than 30 days' supply, specifically oral solids with cost on the lower end of the spectrum.

Significant variations were also found in the cost structures for low-cost drugs used in treating chronic conditions like diabetes, mental health disorders, and cardiovascular diseases, with the proportion of non-drug cost components decreasing with an increase in the days' supply. In Quebec, professional fees constituted a large portion of the total cost per claim for these drug categories.

Savings opportunities could be achieved through dispensing longer days' supply (focus on chronic oral solid medications), as well as introducing limits on drug markup (either reducing mark-up %, or with a dollar cap). Given 48.5% of low-cost chronic claims are 30 days' supply or less, this represents a significant savings opportunity should insurers enforce a stricter days' supply policy to encourage longer term supply where appropriate.

In conclusion, these findings serve as an important resource for private sector payers and the broader public, enhancing transparency in the prescription drug pricing process, and indicating potential pathways towards cost savings without limiting access to necessary medications. The report also provides guidance into potential strategies for cost containment in the Canadian prescription drug landscape.

Disclaimer: This report is a summary of data findings and does not represent any opinions/viewpoints of Reformulary Group.

Appendix

Overview of data

The data pool used for this analysis came from Reformulary Group's private market prescription claims dataset from the period January 2022 to December 2022, only claims where the correct MLP and quantity (in terms of claimants and number of claims) were included. Our private market claims dataset is limited to **claims paid by private payers** from Reformulary Group's prescription claims database and excludes out-of-pocket spending.

Claims from private sector prescription drugs plans across Canada includes 2.34 million claimants representing \$1.8 billion eligible cost.

It should also be noted that the analysis will be limited to drugs where accurate Manufacturer List Price (MLP) are available. Some claim quantities from the dataset will be adjusted accordingly to calculate actual mark-up %.

Manitoba includes markup in the maximum dispensing fee and does not have a separate pharmacy mark-up policy. Saskatchewan has a maximum markup at the pharmacy based on the drug acquisition cost; of note, there is a high markup on low-cost drugs (30% in our findings) for claims submitted in Saskatchewan.

TR: Refers to the Territories of Canada.

Prov	Total Eligible Cost	#Claimants	#Claims
ROC	\$1,481,784,520	1,982,157	19,519,391
QC	\$348,288,032	353,972	5,915,624
Total	\$1,830,072,552	2,336,129	25,435,015

Methodology

Prescription claims data were used (data contains eligible drug cost and dispensing fees). While eligible drug cost includes drug cost (Manufacturers List Price, or MLP) and drug mark-up, these two components are not respectively split in the data and had to be determined.

MLP (from Reformulary drug price file) and corrected QTY (from data) were used in order to separate mark-up from total eligible cost. The three components of claim cost (dispensing fees, drug cost and markup) were used for the analysis.