

Delivering world class value for money in provincial drug system

A Case for Change

**Ron Sapsford
Deputy Minister
Ministry of Health and Long-Term Care**

July 2009

In 2005, we set out to reform the Ontario public drug system

Drug System Secretariat established in June 2005 to lead system-wide review

- Conducted research with 250+ experts around the world; visited U.S. & U.K.
- Conducted extensive consultations: over 100 meetings with 350 stakeholders; 92 written submissions; consumer and patient roundtable; public opinion research
- Brought forward package of 26 recommendations to Minister in January 2006

Government gave direction to move forward on entire package

- Legislative changes in Bill 102, *Transparent Drug System for Patients Act*
- Referred to Standing Committee on Social Policy; public hearings followed by clause-by-clause review June 6, 2006; Bill amended by Committee and adopted June 7
- Bill received Royal Assent June 20, 2006
- Numerous regulatory amendments passed
- Policy recommendations moved forward

In doing so, we had a few over-arching goals

Increase governance, transparency, and accountability

- Decision making process not transparent & poorly understood among stakeholders
- Public participation absent in decision making process and structure
- Inconsistencies in drug funding policy
- Need for accountability and enforcement

Achieve better health results and have better access to drugs

- Administrative barriers to access, such as special authorization process
- Better use of pharmacists' skill and expertise

Improve the value for money equation

- Skyrocketing drug costs
 - Tax revenues were growing at 3.5%; healthcare was growing at 6%; drugs were growing at 15%
 - Unusual rebating practices that did not benefit payer & inflated generic prices
- Government not leveraging \$3.5 billion purchasing power

We are proud of the progress we have made

- Better management of \$4 billion program
- 2-year savings more than \$600 million, reinvested into Ontario's drug system to improve patient access to drugs
- Managing growth rate - < 5% growth rate, down from 10% in 2004-2005
- Improved access: Faster drug funding decisions & innovative agreements
 - Rapid review process for breakthrough drugs
 - 116 new brand name drugs reimbursed, of which 11 are cancer drugs/indications
 - >60 listing agreements; >100 pricing agreements
 - Expanded use of generic drugs
 - New Drugs for Rare Diseases framework
- Pharmacy reimbursement reflects more cost & value of clinical pharmacy services
- Over 395,000 Ontarians have received a MedsCheck medication review
- Improved enforcement & audit throughout supply chain
- Modernizing Exceptional Access Program: Telephone Request System; web-based system, etc.
- Greater patient and public participation
- Much greater transparency

However, there is still a way to go in achieving world-class value for money

- 1 We need to continue to provide funding for the increasing demand for drugs
We need to continue to make investments in new drugs
- 2 We pay more for generic drugs, and spending on generic drugs is forecasted to increase rapidly over the next five years

We support more pharmacies per capita than many other developed countries
- 3 There are unacceptable practices within the existing system
- 4 Despite increased spending, patients are not receiving a higher level of service in the current system
- 5 Other jurisdictions have taken substantive steps across the value chain to reduce prices – it makes sense for Ontario to pursue this now

1 We need to continue to provide funding and make new investments in drugs

Drug cost and pharmacy payments are significant portion of gov't healthcare spending

Drug Cost

Brand name drugs	\$2.4 billion	75.3% of drug cost	58.5% of total budget
Generic drugs	\$789 million	24.7% of drug cost	19.2% of total budget
Total drug cost	\$3.189 billion		77.78% of total budget

Pharmacy Payments

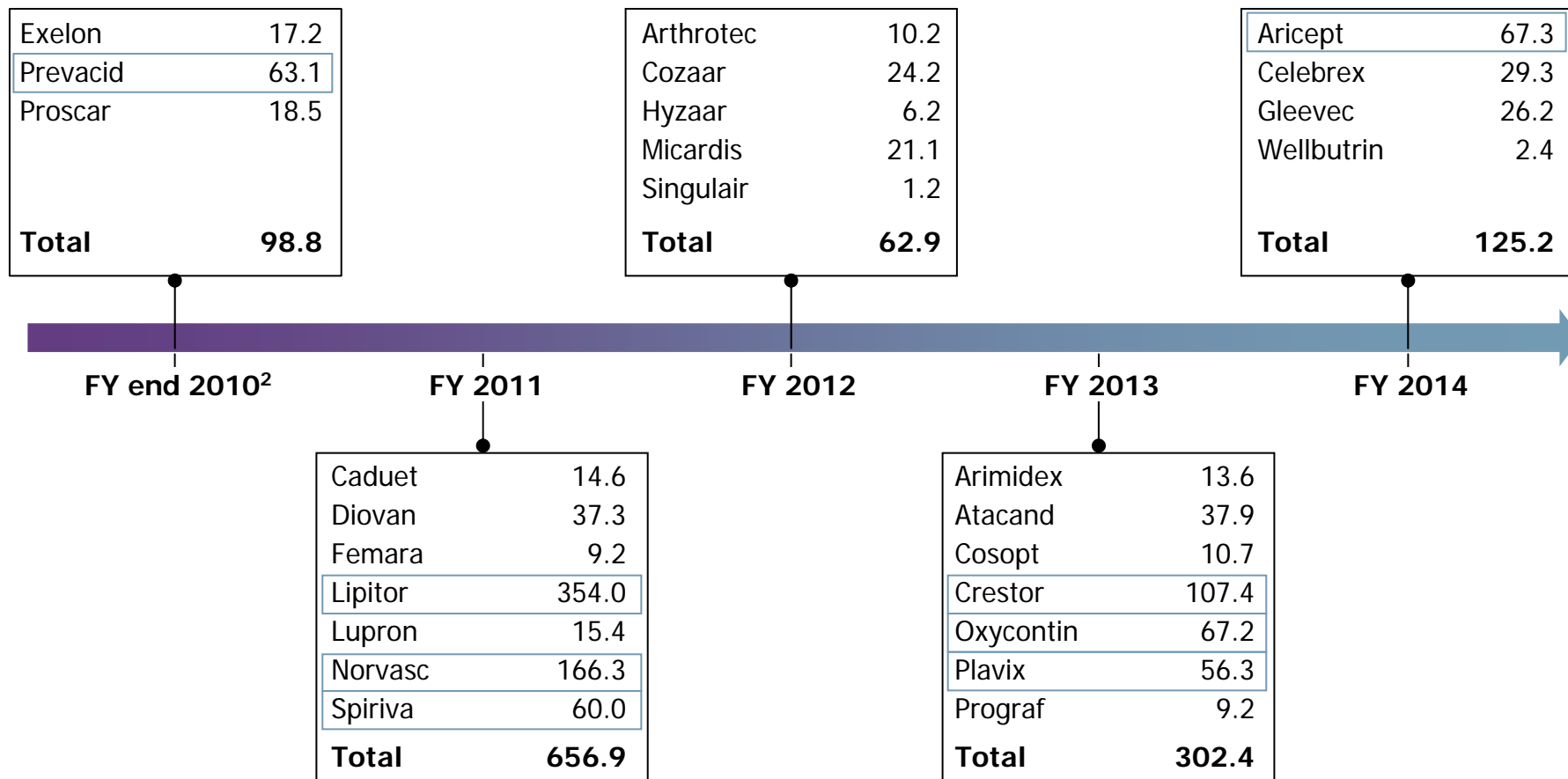
Dispensing fee	\$686.6 million	72.46% of pharmacy payments	
Mark-up	\$242.5 million	25.59% of pharmacy payments	
Compounding fee	\$ 9.9 million	1% of pharmacy payments	
MedsCheck service	\$ 9.9 million	1% of pharmacy payments	
Total pharmacy payments	\$947.5 million		23.1% of total budget

TOTAL	\$4.136 billion		100% of total budget
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2 With a number of major drugs coming off patent ...

Drugs coming off patent (with FY 2008/09 ODB spend)¹

Canadian \$ in millions



¹Includes government and recipient pay portions

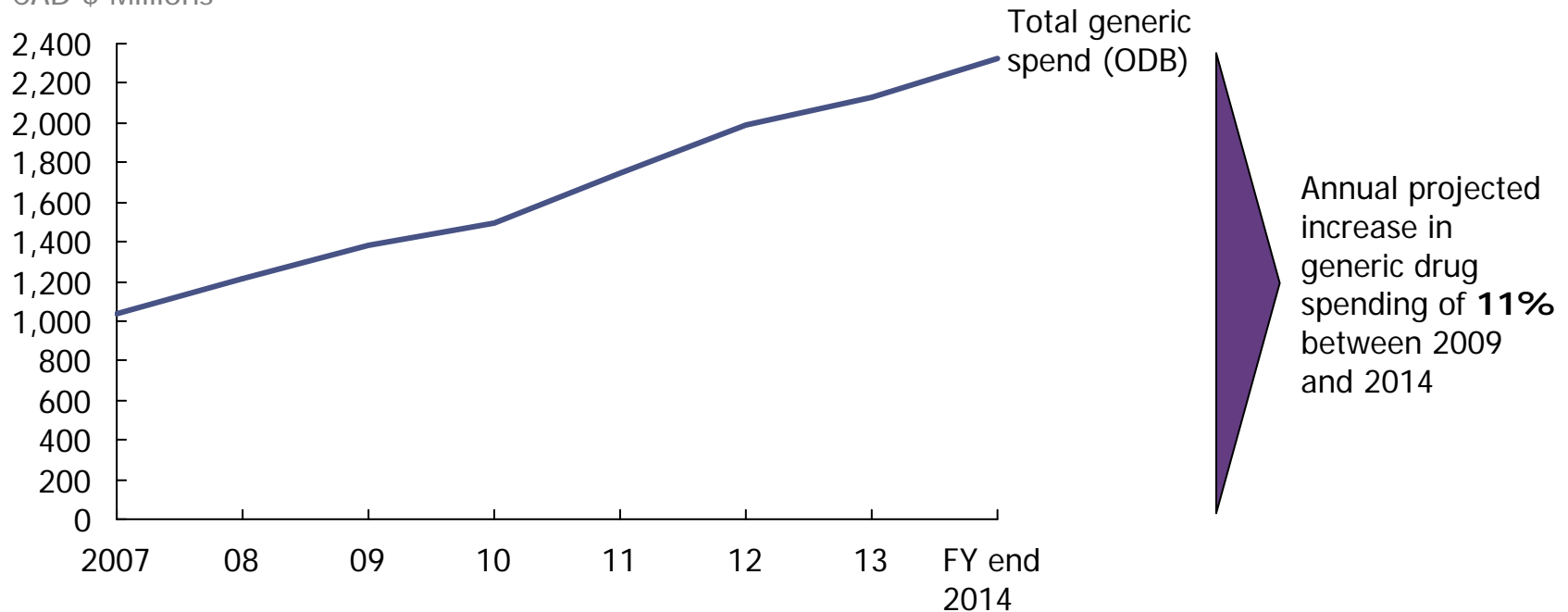
²Fiscal Year is defined as April to March, e.g., FY end 2010 is 4/09 – 3/10

Source: ODB Database; Mylan; Brogan; team interviews

2 ... ODB generic drug spending is forecasted to rise significantly

Projected total ODB generics spend¹

CAD \$ Millions



Projections made with following assumptions

- Branded drugs coming off patent: Spend for generic version held at 50% of branded spend, growth kept at overall branded rate (assume entry at 6 months into FY), then decreased in half by second year and zero growth thereafter
- Base growth of generic drugs spend based on overall growth rate of generic drugs existing as of FY 2005

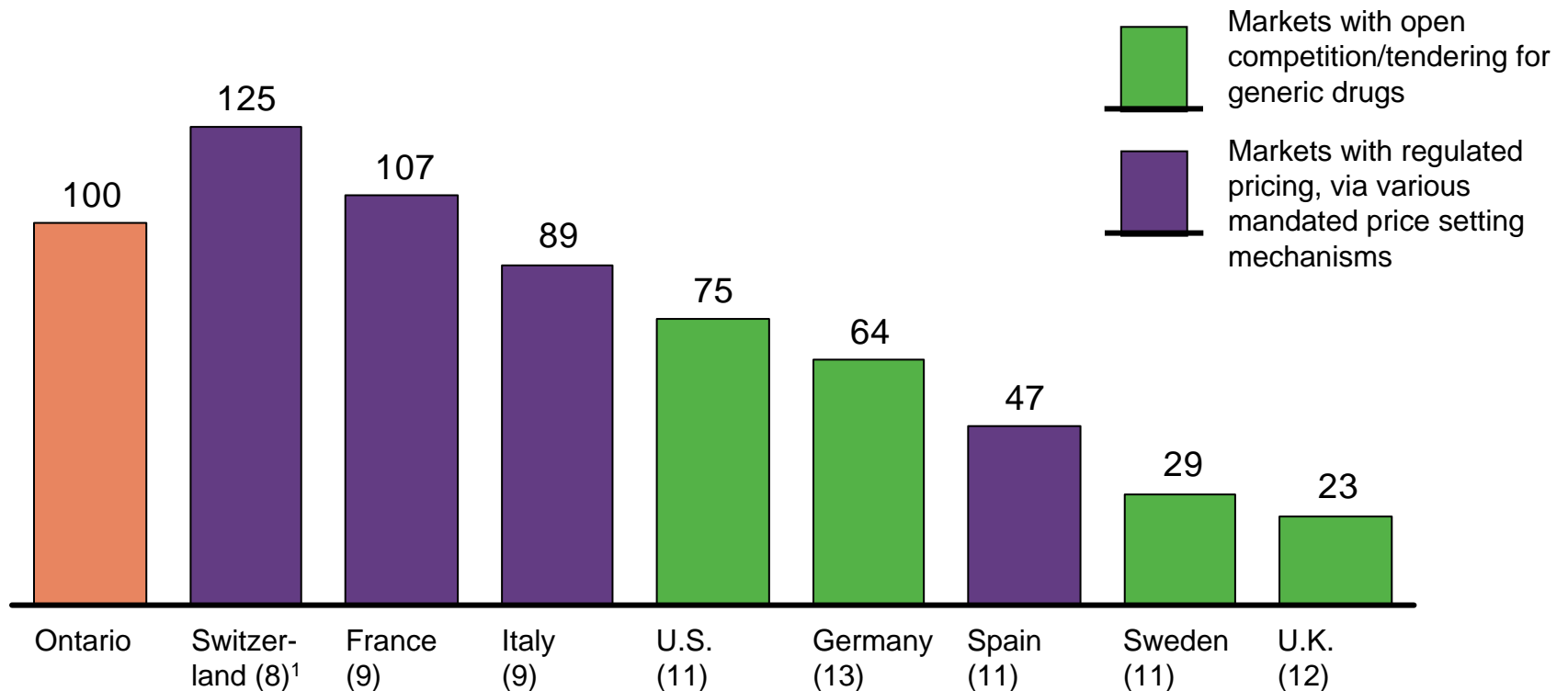
¹Includes government and recipient pay portions

Source: Internal OPDP calculations based on HNS database; Brogan; Mylan

2 Ontario is spending more on generic drugs than most developed countries

ESTIMATES

Benchmark of generic drug prices based on top 20 MOHLTC drugs
MOHLTC price indexed to 100%



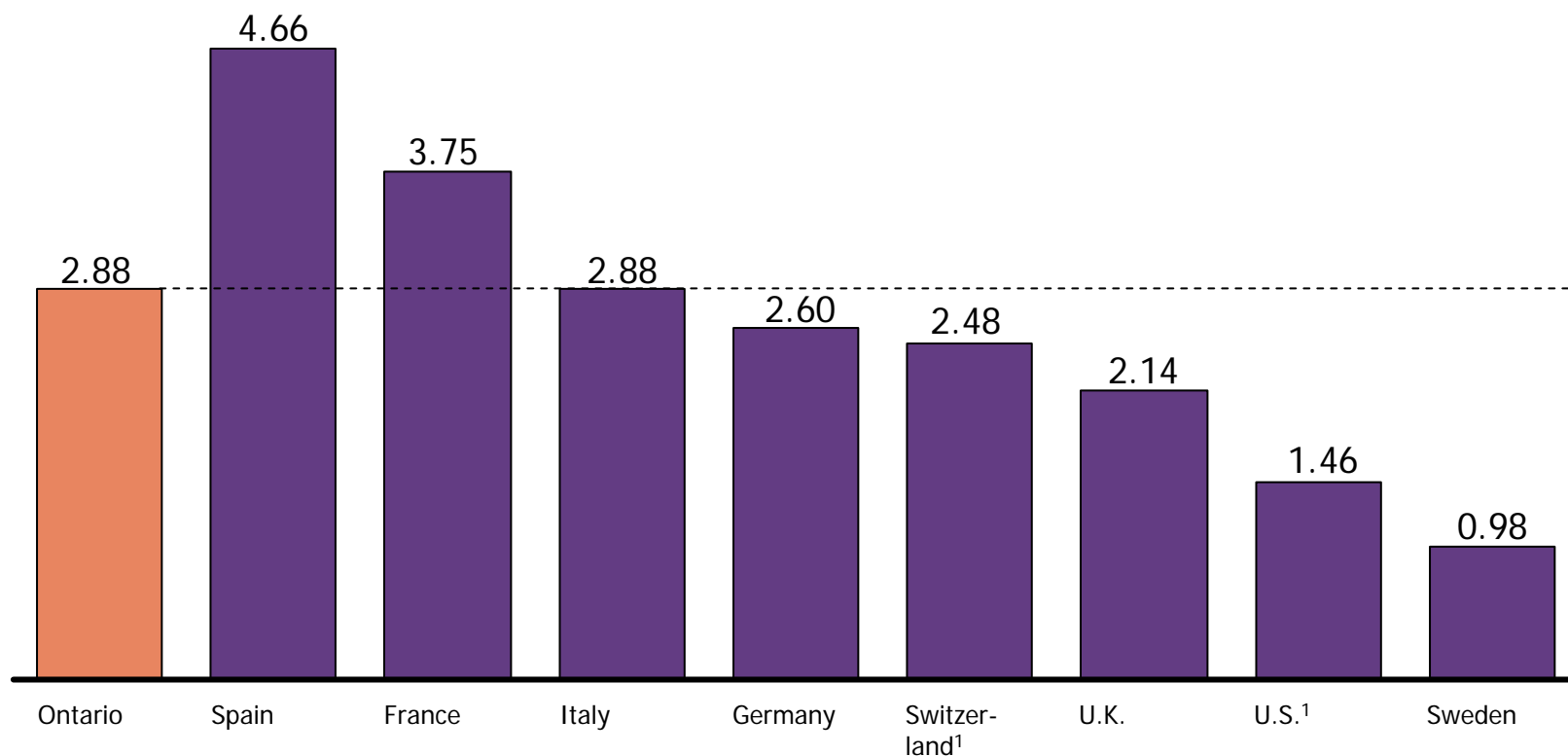
¹Figures in brackets represents number of comparable drugs available in respective country to MOHLTC's Top 20 drugs
Source: OPDP formulary as of 3/09; FSS (US); Vidal (France); FarmaDati (Italy); TLV (Sweden); SL-Priese (Switzerland); Lauer-tax (Germany); BNF (UK), Drug Today (India); Portal Farma (Spain); Infarmed (Portugal)

2 At the same time, Ontario has more pharmacies in urban areas than most of these countries

ESTIMATES

Pharmacy saturation

Pharmacies per 10,000 population



2 Ontario pharmacies, generic manufacturers, and brand manufacturers all make high margins

- Ontario pharmacies have high margins relative to the broader retailing sector, on average
- Generic manufacturers are estimated to make high margins on ODB drug manufacturing, even net of rebates to pharmacies. This margin level is high compared to other manufacturing sectors in Canada
- Brand manufacturers are estimated to make high margins on patented drugs; Ontario prices tend to be lower than US prices, but so are costs
- Opportunity for greater productivity – such as improving labour productivity – in generic manufacturing, brand manufacturing, and pharmacy operations
- Unlike other industries, pharmacy and drug manufacturing provide stable and predictable revenue as compared to most other industries

3 The professional allowance system is not working

- Drug recycling
- Allowances not always being used for activities that directly benefit patients
- 20% limit being circumvented by increasing allowances on private payor sales

The professional allowance system is keeping generic drug prices artificially higher than they should be

4 Penetration of value-added services varies









Examples of beneficial service offerings	% penetration in Ontario pharmacies
• Store services	
• Blood tests	36
• Vaccination	14
• Customer loyalty programs	
• Diabetes care	30
• Smoking cessation programs	26
• Weight management programs	7
• Women's health programs	8
• Cholesterol control consultations	14
• Hypertension management	13
• Asthma management	14
• Anticoagulation management	5
• Home visits	9
• Pain management	10
• Arthritis Management	6

58% of pharmacies in Ontario provide 1 or more of these services today

4 In other jurisdictions, the availability and marketing of services are significantly higher

Pharmacy service offerings

UK example

 <p>We'll Collect your prescription from your doctor</p>	 <p>Discuss your health matters in private in our Consultation area</p>	 <p>Control your asthma by understanding more about your condition</p>
 <p>We offer a babycare TENS rental service to provide you with a drug-free method of pain relief during labour</p>	 <p>Visit your local Lloydspharmacy to take our Multi-allergy test</p>	 <p>Visit your local Lloydspharmacy to take our Food intolerance test</p>
 <p>Take our Free Blood Pressure test at your local Lloydspharmacy</p>	 <p>Could you have diabetes and not know it?</p>	<p>Is your health worth 10 minutes?</p> <p>Ask for your free prescription MOT™</p>

5 A number of jurisdictions are taking steps to improve the value for money in generic drugs

Italy



- Reduced maximum rebates, mandated 1.4% repayment off current list prices to be paid directly back to the National Health Service
- Reduction in dispensing and markup fees
- Mandated price cut off generics by 12% through year-end 2009 (at which point all are open to renegotiation)

Forecast savings of €520 million (approx. CDN\$830 million) in this fiscal year

Netherlands



- Introduced preferential pricing policy – preferred suppliers to be chosen/ mandated by the government
- Open competitive process to become preferred
 - Lowest price (or within 5%)
 - Rules made open enough to allow foreign manufacturers to bid
 - 6- to 12-month period for preferred suppliers

Estimated €355 million annual savings to date, from both generic and pharmacy margins

We consulted a wide range of sources to identify opportunities to further improve

Expert interviews

- Former executives (of strategy, marketing, and production) from global drug manufacturers (generic and branded)
- Former executives from low-cost country generic drug manufacturing industry
- Pharmacists and pharmacy industry executives (from other jurisdictions)
- Pharmacy and medical products industry experts
- External experts in generic drug manufacturing

MOHLTC internal sources

- Interviews with MOHLTC staff
- ODB database
- Health Network System database

Public external sources

- IMS Health Canada
- External reports: Brogan, Mylan, Competition Bureau, academic papers
- Community Pharmacy, Pharmacy News, other press and periodicals
- Companies' financials, publications, and web sites
- Public drug price lists, Industry and trade association websites and reports

Proprietary sources

- Pharma manufacturing cost/productivity benchmarking database (POBOS)
- Contracted global research professionals specializing in generic drugs
- CACDS/OPA study on the cost of pharmacy in Ontario

There are a range of options we are considering to improve the value for money equation

Professional allowances

- Reduce limit or eliminate professional allowances?
- ODB spend only, or for the entire market (public and private)?

Pharmacy services

- Range of services to be compensated?
- Appropriate level of compensation and mechanism/formula?

Distribution channels

- Pursue/promote alternative drug distribution channels?

Generic pricing

- Pricing mechanism (e.g., referenced to brand price, referenced to generic pricing in other markets, open competition)?
- Increase incentives for competitive pricing (e.g., period of exclusivity, guaranteed volumes or terms, etc.)?
- Make easier/more attractive for new entrants to participate?
- “Winner-take-all” competitive agreement model

Brand pricing

- Pursue more aggressive volume discounts
- Consider portfolio pricing?
- “Winner-take-all” competitive agreement model?

Multiple potential integrated solutions, such as:

- Eliminate all allowances, in both public and private markets
- Recalibrate dispensing fees for underserved areas
- Reimburse approved professional pharmacy services, subject to a spending cap
- Allow additional distribution channels to develop over time
- Regulate generic pricing at 25%
- Implement winner-take-all competitive agreement process

Decisions on individual options cannot be made in isolation – must be considered as integrated solutions with trade-offs

In summary

- **We have made significant progress** in making the Ontario drug system more transparent and accountable
- **Ensuring patients have world-class care and access** has been and continues to be our focus
- We believe there is still **significant potential to improve the value for money equation**
 - Better service to patients
 - At lower cost for taxpayers
- We are **committed to making constructive change**, and look forward to **working with the industry** to design these changes in a way that makes the most sense

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Achieving Results Together

**Ron Sapsford
Deputy Minister
Ministry of Health and Long-Term Care**

July 2009

How we can work together to improve the system

Process overview

- Series of discussion tables, starting later this month
- Facilitated sessions
- Each discussion table will have a clear focus on a particular aspect of the system
- Will be organized as a mix of sector-focused themes (e.g., issues that impact pharmacies) and cross-cutting issues (e.g. sustainability of public and private drug plans)
- Will largely work through industry associations given number of individual stakeholders – but will create opportunities for individual input
- Targeting wrap-up forum in September

Discussion tables: Proposed sector-focused themes

Pharmacy

- Drug distribution supply chain
- Professional allowances
- Pharmacy reimbursement model (dispensing fees, mark-up, compounding fees; proposed pharmacy fee schedule; rural pharmacy service fee; remote dispensing fee structure; etc.)
- Chronic disease management initiatives (smoking cessation counselling; diabetes educators; etc.)

Brand manufacturers

- Drug distribution supply chain; alternate distribution channels for chronic medications
- Competitive Agreements
- Chronic disease management initiatives

Generic manufacturers

- Drug distribution supply chain; alternate distribution channels for chronic medications
- Generic pricing; Competitive Agreements
- Professional allowances

Distributors/ wholesalers

- Drug distribution supply chain
- Service fee; distribution/inventory fee

Employers/ Private insurers

- Drug distribution supply chain; Pricing/listing agreements; Generic pricing
- Professional allowances; Pharmacy reimbursement model
- Chronic disease management initiatives
- Extend ODB prices to private payors

Discussion tables: Cross-cutting issues

Patient-focused Outcomes

- New innovative therapies
- Access to services (including expanded pharmacy professional services; alternate distribution channels for chronic medications
- Disease management initiatives)

Sustainability of drug plans

- Value for money in all aspects of drug plan management
- Sustainability for publicly funded plans, private employer plans, and cash-paying consumers

Discussion Tables: Sector-focused

Pharmacy Discussion

Initial discussion table

- Clearly lay out current issues specific to pharmacy with detailed facts and benchmarks re cost of pharmacy, professional allowances, pharmacy services in underserved areas, etc. within current system that needs to be improved
- Discuss the goals and key success factors

Follow-up discussion table

- Listen to input from stakeholders and ask questions
- Explore ideas for expanding pharmacy professional services

Participants

- Ontario Pharmacists' Association, Canadian Association of Chain Drug Stores, Independent Pharmacists of Ontario, Ontario Chain Drug Association
- Selected pharmacy groups

Logistics

- Initial discussion: week of July 27th (meeting invite sent out next week)
- Follow up discussion: week of August 10th

Discussion Tables: Sector-focused

Brand manufacturers' discussion

Initial discussion table

- Clearly lay out current issues specific to brand manufacturers with detailed facts and benchmarks re distribution channels, global pricing issues and commercial agreements, competitive agreements, portfolio pricing, professional allowances, etc. within current system that needs to be improved
- Discuss the goals and key success factors

Follow-up discussion table

- Listen to input from stakeholders and ask questions
- Explore opportunities for chronic disease management, alternate distribution channels, etc.

Participants

- Rx&D – Canada's Research-based Pharmaceutical Companies
- Selected brand name drug manufacturers

Logistics

- Initial discussion: week of July 27th (meeting invite sent out next week)
- Follow up discussion: week of August 10th

Discussion Tables: Sector-focused

Generic manufacturers' discussion

Initial discussion table

- Clearly lay out current issues specific to generic manufacturers with detailed facts and benchmarks re generic pricing, professional allowances, limited competition, etc. within current system that needs to be improved
- Discuss the goals and key success factors

Follow-up discussion table

- Listen to input from stakeholders and ask questions
- Explore ideas for chronic disease management initiatives, alternate distribution channels

Participants

- Canadian Generic Pharmaceutical Association
- Selected generic manufacturers

Logistics

- Initial discussion: week of July 27th (meeting invite sent out next week)
- Follow up discussion: week of August 10th

Discussion Tables: Sector-focused

Wholesaler/ Distributors' discussion

Initial discussion table

- Clearly lay out current issues specific to distributors with detailed facts and benchmarks re drug distribution supply chain, service fees, inventory levels, etc.
- Discuss the goals and key success factors

Follow-up discussion table

- Listen to input from stakeholders and ask questions
- Explore ideas for alternate distribution channels

Participants

- Canadian Association of Pharmacy Distribution Management
- Selected distributors

Logistics

- Initial discussion: week of July 27th (meeting invite sent out next week)
- Follow up discussion: week of August 10th

Discussion Tables: Sector-focused

Employers/private payors discussion

Initial discussion table

- Clearly lay out current issues specific to employers and private insurers with detailed facts and benchmarks re drug pricing, professional allowances, pharmacy reimbursement models, chronic disease management initiatives
- Discuss the goals and key success factors

Follow-up discussion table

- Listen to input from stakeholders and ask questions
- Explore ideas for alternate distribution channels

Participants

- Employer Committee on Health Care in Ontario (ECHCO); private benefit consultants
- Selected employers and union representatives; selected private insurers

Logistics

- Initial discussion: week of July 27th (meeting invite sent out next week)
- Follow up discussion: week of August 10th

Discussion Tables: Cross-cutting Issues

Patient-focused Outcomes

Discussion table

- Clearly lay out value of investing in drugs and services that provide clear patient-focused and/or health system-focused outcomes: innovative outcomes-based therapies; professional pharmacy services that improve patient outcomes; disease management initiatives
 - Specifically discuss role of pharmacists within integration of care and patient-focused outcomes
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Participants

- Selected pharmacy groups
 - Selected brand name & generic drug manufacturers
 - Selected employer/private payor plans
 - Selected patient groups
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Logistics

- Half-day discussion table week of August 3rd

Discussion Tables: Cross-cutting Issues

Sustainability of drug plans

Discussion table

- Clearly lay out issues related to sustainability of public and private drug plans, as well as accessibility of drugs and services for cash-paying consumers.
- Explore cross-cutting issues with respect to drug pricing, professional allowances, pharmacy reimbursement models, etc.
- Explore scale of investments in life sciences in Ontario and contribution (positive and negative) to sustainability of drug plans

Participants

- Selected pharmacy groups
- Selected brand name & generic drug manufacturers
- Selected employer/private payor plans
- Selected patient groups

Logistics

- Half-day discussion table week of August 3rd

Forum #2: Mid- to late-September

- Objective**
- Summarize feedback from discussion table participants
 - Paint picture of some of the key “pressure points”, and ability of Ministry to address them
 - Outline elements of the proposed ultimate solution
 - Map process and timelines of next steps
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- Participants**
- All
-

- Logistics**
- Half-day forum week of September 21st

How we can work together to improve the system

What we expect from you

- **Participation** – this is your opportunity to shape the direction, we need to hear your voices
- **Openness and creativity** – the status quo is not an option, so we will need to work together to find new solutions
- **Focus** – sole goal is to improve value for money while improving or at least maintaining patient care
- **Pace** – we will start implementing changes in the fall, so will need your input in a timely manner