



Trends

NO BLANK CHEQUES

Private payers must be proactive to handle rising drug costs

BY HELEN STEVENSON

There have been significant changes in the landscape of public sector drug plans over the past five years. Faced with rapidly escalating costs, provinces have begun leveraging their purchasing power and law-making ability to impose a measure of

restraint on their drug systems. The Ontario government in particular has demonstrated that these measures can result in hundreds of millions of dollars in savings in public drug spending. The question in the private sector, then, is, Can the same initiatives work here?

The problem of containing costs in private sector drug plans is rooted in a “blank cheque” mentality that has led to prescription drug spending outpacing that of the public sector—in 2009, annual growth rates were 7% and 4%, respectively, according to the Canadian Institute for Health Information. The good news is that plan sponsors can implement several strategies now to bring their costs under control, including obvious but important aspects such as carefully monitoring plan performance and encouraging employees to be more astute consumers. And there are even more important solutions for plan sponsors.

Manage formularies - This is really where the blank cheque problem resides. Many private sector plans seem to have an “open-door” formulary policy, which

includes covering new and sometimes more costly drugs that offer little or no more clinical benefit than those already covered. Plan sponsors should mandate that both existing and new drugs must be evaluated based on their clinical effectiveness and cost-effectiveness and must demonstrate added benefit over existing drugs. In cases where employees insist on a more expensive drug that is not deemed to provide added benefit, they should be required to pay a higher co-payment.

Promote appropriate use of generics -

Plan sponsors should consider mandating payment for the lowest-cost product, which is often a generic drug. According to data from the Canadian Generic Pharmaceutical Association, based on generic pricing of 30% to 35% of the brand equivalent, if all public and private plans in Canada mandated the substitution of the lowest-cost drug, the cumulative estimated three-year savings from generic products launched between 2011 and 2013 would be \$6.8 billion.

Build buying power -

Individual companies do not enjoy the same kind of buying power that a province such as Ontario might have. However, private sector organizations in Canada can leverage their collective influence by banding


together to manage formularies and negotiate agreements with drug companies.

Implement pay-direct drug plans - It's time to disregard the long-held belief that reimbursement plans are less expensive. Whatever savings may be generated from employees who forget to submit their receipts are typically more than offset by the fact that pharmacies can charge more when claims are not submitted directly to insurers. Pay-direct plans can help plan sponsors create cost savings.

Drive consumerism - Employees, as plan consumers, should be aware that some drugs cost much more than others yet have virtually the same effectiveness. Part of the problem is indifference: since consumers

typically pay very little toward their drugs, they often don't pay attention to what they cost.

That's why it's so important to educate employees about the price of drugs and the resulting effects on their group benefits plan. Ultimately, the private sector mindset needs to shift from a mentality of entitlement to one of empowerment.

Private sector drug plans provide vital coverage to millions of people and offer companies a means to attract and retain employees. There is no reason why they can't continue to do so, as long as sponsors manage their plans effectively. And that starts with putting an end to blank cheques. 

Fact File

Helen Stevenson is president and CEO of Reformulary Group Inc. helen.stevenson@reformulary.com

EDUCATION
McGill University

Boston University,
Brussels, Belgium

PAST EMPLOYER
Ontario Public Drug
Programs, executive
officer

EXTRA-CURRICULAR
Board member of the
Auto Sector Retiree
Health Care Trust