THE COMMONWEALTH FUND

# *In the Literature*

## WHITHER SENIORS' PHARMACARE: LESSONS FROM (AND FOR) CANADA

**Steven G. Morgan**
**Morris L. Barer**
**Jonathan D. Agnew**

***Health Affairs***
**May/June 2003**
**22 (3): 49–59**

Copies of the full article are available online at:

www.healthaffairs.org

For more information about this study, please contact:

**Steven G. Morgan**
Centre for Health Services and Policy Research
University of British Columbia
E-MAIL morgan@chspr.ubc.ca
TEL 604-822-7012

or

**Robin Osborn**
Director, International Program in Health Policy and Practice
The Commonwealth Fund
E-MAIL ro@cmwf.org
TEL 212-606-3809

Commonwealth Fund Pub. #648

*In the Literature* presents brief summaries of Commonwealth Fund-supported research recently published in professional journals. To read or learn more about new publications as soon as they become available, visit **www.cmwf.org** and register to receive Commonwealth Fund e-mail alerts.

**THE COMMONWEALTH FUND**
ONE EAST 75TH STREET
NEW YORK, NY 10021-2692
TEL 212.606.3800
FAX 212.606.3500
E-MAIL cmwf@cmwf.org
http://www.cmwf.org

Although Canada's national health care system does not provide outpatient prescription drug coverage, Canadian provincial governments have developed a range of plans that have historically provided generous coverage to seniors. Yet, ongoing spending increases and cost-sharing requirements are threatening the public drug subsidies. A new study supported by The Commonwealth Fund suggests that the Canadian experience underscores the need for comprehensive management and political will to confront spiraling drug costs.

"Whither Seniors' Pharmacare: Lessons from (and for) Canada," by three researchers from the University of British Columbia, former Harkness Fellow Steven G. Morgan, Morris L. Barer, and Jonathan D. Agnew, was published in the May/June issue of *Health Affairs*.

In the article, the researchers trace the rise of drug costs in provincial drug benefit plans—which have approximately doubled since 1995—and the consequent erosion of drug benefits through increased eligibility requirements and user charges.

Even though provincial plans together represent 42 percent of national prescription drug expenditures, the plans generally do not seek to negotiate prices with drug suppliers. A federal Patented Medicine Prices Review Board monitors drug costs by comparing patented drug prices with those in seven other nations. The cap on costs for patented drugs is the median price charged in France, Germany, Italy, Switzerland, the United Kingdom, and the United States. Yet, the authors find, there is no provincial or federal oversight of the cost-effectiveness of different drugs, and the price controls have had only minimal effects.

### Utilization

All provincial drug plans use a formulary and require some user charges in the form of co-payments or deductibles. In addition, British Columbia has implemented reference pricing to encourage the use of cheaper drugs in a therapeutic class. There is evidence that the policy has reduced drug spending in the province without affecting access to high-quality care. Even so, a backlash from the pharmaceutical industry (including successful legal challenges, a public relations campaign, and threats to reduce research spending) has discouraged other provinces from adopting the price control technique.

The authors find that the tension between health needs and industrial policies has hampered effective prescription drug regulation in Canada, and would likely affect policies in the United States and abroad. They conclude that a sustainable pharmaceutical benefit program—whether in Canada or abroad—requires effective pricing and utilization management. Policies must ensure that prices reflect therapeutic value and that patients and prescribers have information and incentives to balance potential benefits and actual costs.

The Canadian experience also suggests that political leadership is needed to ensure that a U.S. Medicare prescription drug benefit includes management systems to control costs. Without such control, the researchers suggest, a Medicare drug benefit would face rising costs and diminishing benefits.