CUPE | Canadian Union of Public Employees

Submission

to the

House of Commons
Standing Committee on Health

Development of a National Pharmacare Program

Canadian Union of Public Employees

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About CUPE:

The Canadian Union of Public Employees is Canada's largest union, with 639,000 members. CUPE workers take great pride in delivering quality public services in communities across Canada through their work in municipalities, health care, social services, schools, universities, and many other sectors. Nearly 150,000 CUPE members are in the health care sector, working in hospitals, long-term care residences, and community health centres or providing home care. Our members include registered and licensed practical nurses, dietary workers, cleaners, operating engineers, secretaries, ward clerks, porters, carpenters, cooks, personal support workers, lab assistants, and many others providing essential health care services on a daily basis.

Introduction

For nearly 50 years, thanks to Canada's cherished public healthcare system, Canadians have been able to access the medical care they need at no cost, no matter where they live, where they work, or how much money they have. Canada's public healthcare system has delivered high quality care and great outcomes for patients. Canadians are rightfully proud of our system and its values of universality, accessibility, and equity.

However, there remains an astonishing exception to these values – access to prescription drugs. When you visit your doctor and receive a diagnosis, all treatments that are deemed "medically necessary" – such as a cast, surgery, hospitalization, or referral to a specialist – are publicly funded because they are covered by the Canada Health Act. However, when the treatment prescribed is medication, there is no universal coverage. Instead, access to prescription drugs in Canada is based on a patchwork system that varies depending on where you live, where you work, how old you are, and what your income is.

Approximately 10 million Canadians have public coverage, meaning they are covered by a federal or provincial drug plan.[1] Even for these Canadians, coverage varies widely from province to province, and may also vary depending on age or income. Approximately 23 million Canadians have some form of private insurance, normally provided by an employer as a workplace benefit.[2] These plans provide wildly varying coverage, with some giving access to almost any drug approved for sale at no cost, and others providing minimal coverage with the patient expected to pay a portion of the cost of every prescription.

The system also leaves a large number of Canadians with no coverage or inadequate coverage:

- 1 in 4 Canadians say they or someone in their household cannot afford to take their medication as prescribed, resulting in skipped doses, split pills, or unfilled prescriptions.[3]
- On an annual basis, approximately 1 in 10 Canadians do not fill their prescription at all because of cost.[4]
- Canadians spend $6 billion a year out-of-pocket on prescription drugs – 22% of total spending on drugs.[5]

This patchwork system results in significant costs for individuals, our healthcare system, and our society. For individuals, the high cost of prescription drugs can literally mean needing to choose between life-saving treatment and paying the rent or the mortgage. But when Canadians are forced to go without their medications or do not take them as prescribed, that has costs for the healthcare system. Conditions that could have been effectively managed with medication can worsen or develop complications, resulting in further healthcare interventions and even hospitalization. In fact, one study estimated that as many as 1 in 6 hospitalizations in Canada could be avoided if prescription drugs were used appropriately.[6] Such complications can also result in increased time away from work or the inability to participate in the labour force at all.

For Canadians, this patchwork system also means much higher drug expenditures because there is no single, powerful buyer to negotiate with drug companies. As a result, Canadians are paying much more for medications than people in other countries. Canada has the second highest drug prices per capita in the world (behind the United States). One expert analysis calculated that Canadians could save $9.9 billion simply by using the competitive pricing strategies adopted by New Zealand.[7] This is funding that

could be spent on other priorities, helping to improve health care, strengthen the social safety net and boost the local economy.

It is clear that the current prescription drug regime is not working and is not living up to the values Canadians expect from their health care system.

Why "patching" the current system won't work

But while everyone agrees the status quo is unacceptable, there is less consensus on the way forward. Some have argued in favour of expanding the current system of private and public coverage, making sure that no one falls through the gaps.[8] However, doubling down on the current approach while trying to "patch" the gaps would simply perpetuate the inequities and shortcomings of the current system.

Access to private insurance is fundamentally inequitable. Canadians either have private insurance because they work for an employer who provides coverage or because they have sufficient income to purchase a plan themselves. But statistics show that the lower a person's income and the more precarious their work, the less likely they are to receive benefits from their employer:

- Nearly all (94%) employees earning more than $100,000 receive health benefits, compared to 32% of those earning between $10,000 and $20,000 and 17% of those earning $10,000 or less.[9]
- Only 27% of part-time employees receive health benefits from their employer, compared to 73% of full-time employees. [10]

Since lower income is also correlated with a greater risk of health problems, such as cardiovascular disease, depression, and diabetes, this has the unfortunate effect of rendering those who are ***more likely*** to need prescription drugs ***less likely*** to have employer-provided prescription drug coverage. As the proportion of precarious work in our economy is increasing, this trend risks becoming more pronounced in the future.

Unionized workers are more likely than non-unionized workers to receive employer-provided prescription drug benefits, although coverage is still far from universal. And even among unionized workers, higher paid workers are more likely to receive more comprehensive coverage than lower paid workers.

However, while CUPE and other labour unions have been highly effective at achieving prescription drug coverage and other health-related benefits for our members, the solution to Canada's prescription drug problem does not lie at the bargaining table. As a labour union, we want our members to have the healthcare they need, including prescription drugs, but ideally decisions about what medications people have access to should not depend on negotiations between employers and unions. These should be decisions made by patients and their healthcare professionals, not by labour unions, not by employers, and not by private, for-profit insurance companies.

Getting employers and labour unions out of the business of providing insurance for medically necessary healthcare to employees will also relieve some of the pressure on employers and unions related to the cost of benefits, allowing us to focus on other priorities at the bargaining table and potentially improving labour relations by eliminating one of the most contentious issues from bargaining.

This is especially the case due to the rising cost of prescription drugs and the increasing burden this represents for employers and for those employees who share the cost of premiums. Prescription drugs generally represent the largest portion of the cost for employer-provided benefits. As drug prices continue to rise, so do the cost of drug plans. A 2015 survey by the Conference Board of Canada found that more than half of employers had seen their costs rise in the previous year, with an average increase of 6.2%.[11] In response to a survey by *Benefits Canada,* 83% of plan sponsors said they believe that the cost of new drugs coming to market are too high for the sustainability of their plans.[12]

Part of the problem is that the very nature of private insurance plans makes it difficult to reign in costs. With 24 separate companies each negotiating with large pharmaceutical companies for each individual drug price, private insurers have very limited leverage to use in negotiating. They also have no incentive to reign in costs, since the costs of drugs are simply passed on to employers and employees in the form of premiums, co-pays and deductibles. In fact, insurance companies face a perverse incentive to see the cost of prescription drugs increase, since many charge for administrative services on the basis of a percentage of drug costs.

Our current patchwork system also allows drug companies and pharmacies to play individual actors against one another. For instance, there is some evidence that pharmacies have passed along the cost-savings demanded by the public system to participants in the private system. In Quebec, leaked documents revealed that pharmacies compensated for a publicly negotiated decrease in the price of generics by increasing the dispensing fees for private drug plans. As a result, the average cost to the public plan for generics decreased by 5.5%, but the average cost for private drug plans increased by 6.4%.[13] The impact of this move was demonstrated by a study conducted by a Quebec magazine, which looked at the price of 5 generic drugs. They found that the dispensing fee for the public plan was only $8.44, while private plans paid an average dispensing fee of $25.76, triple the public fee.[14]

But the cost of drugs is not the only factor contributing to the rising cost of private insurance plans. Inefficient administration and the imperative of providing profits to shareholders also play a role. According to one estimate, private insurers in Canada have overhead expenses ten times greater than the public system.[15] Since 1997, the conversion of many insurance companies from mutual companies to publicly-traded, for-profit companies has also created pressure for increased profits.

As a result, there is a significant and growing gap between what Canadians pay in premiums and what they receive in benefits from private, for-profit insurance providers. In 2011, this gap was nearly $6.8 billion. For insured group plans alone, the percentage of premiums paid as benefits dropped from 92% in 1991 to 74% in 2011. This means that Canadians were paying $3.2 billion more in 2011 than they would have if the ratio between premiums and benefits had stayed constant since 1991.[16]

As costs increase, private plans aren't moving to contain costs, but to shift them to workers instead. A study of 113,000 different private insurance plans found that between 1998 and 2010, as drug expenditures tripled, the use of cost-shifting measures increased significantly. The number of plans with a lifetime maximum expenditure (an amount beyond which no costs will be covered for an individual) doubled, while the number of plans with an annual maximum quadrupled. The proportion of employees required to make co-payments (paying a percentage or fixed cost of each prescription) as part of their plan also increased, with the number of plans requiring employees to cover the dispensing fee jumping from 3% to 27%.[17] This is of particular concern, since studies have found that any barrier to accessing

prescription drugs, no matter how small, makes it more likely Canadians will not fill a prescription or will not follow the dosing instructions given by their doctor.

In its survey, Benefits Canada also found that 30% of employers now have maximum limits on their drug plans as a way to try and contain the challenge of new, higher cost drugs coming onto the market.[18] Many of the employers expressed concerns about new specialty drugs, such as biologics, which have extremely high annual costs – sometimes in the range of hundreds of thousands of dollars a year – but are limited to a small target population. Because of this growing market, the cost of drugs for the 1% of claimants with the highest costs (accounting for 28% of overall spending) has more than doubled over the past five years.[19] But putting limits in place to deal with these high costs effectively means that those who need drug coverage the most are the ones who are targeted and cut off, forcing these people to turn to public plans for catastrophic coverage or leaving them on their own to manage exorbitant costs.

In their efforts to contain costs, employers are also turning to other options to reduce benefits. Some employers have introduced flexible plans, which require workers to guess at what level of coverage they will need in the future and pay premiums accordingly. This leaves some workers, who suffer an unexpected health condition, having "guessed wrong" and paying out of pocket for their prescription drugs. Other employers have chosen to cut off benefits for certain employees, often part-time or contract workers, or for retirees (as US Steel Canada recently did to pensioners in Hamilton).

Smaller employers in particular struggle to cover the costs of benefits, meaning once again, access to drugs is decided on the basis of whether your employer is large or small and not based on need.

The public solution: Universal pharmacare

It is clear that relying on private insurance to cover drug costs is not sustainable. Coverage is highly inequitable, inadequate, and needlessly expensive. As employers move to contain costs, more workers are finding themselves paying out-of-pocket or cut off entirely.

In contrast, introducing a comprehensive public drug plan that covers all Canadians would be a win-win-win-win scenario, for Canadians, for employers, for workers, and for our healthcare system.

For Canadians, a national pharmacare program would mean every Canadian would get access to the prescription drugs they need, regardless of where they live, where they work, their age or their income.

A national pharmacare program would also remove a significant cost for employers, making them more competitive and allowing them to provide higher wages or other forms of benefits. Under the current system, businesses also face very different costs for the benefits they provide their employees, based on what underwriters consider to be the future cost and risk faced by the plan. But this means that businesses also face very different scenarios when making decisions to hire and fire. Creating a universal plan that is not tied to workplaces would remove these artificial parameters for human resource decisions and create greater efficiency in the labour market.[20]

The current system downloads considerable costs to workers. Workers pay directly through shared premiums, co-pays, deductibles, and through lower wages. A national pharmacare program should provide first dollar coverage for necessary drugs, instead of forcing Canadians to pay for these costs out-of-pocket. Because the program would be paid for through tax revenues, contributions to the program

would be based on ability to pay, rather than – as under the current system – placing a greater burden on lower income households.

By removing barriers to accessing prescription drugs, and promoting safe and effective prescription drug use, a national pharmacare program would also save money and make our healthcare system more efficient. It simply makes sense to have one insurer paying for all parts of the healthcare system, integrating the diagnosis of illnesses with the availability of and access to the prescription medications required to treat those conditions. Ensuring everyone has access to prescription drugs will also help to alleviate the pressure on our hospitals, many of which are under-resourced and overstretched.

Trade deals: Putting public policy for the common good at risk

Unfortunately, trade deals recently negotiated by the Canadian government put the ability of the federal government to contain prescription drug costs, as well as to ensure the safety of Canadians, at risk. The Comprehensive Economic Trade Agreement (CETA) with Europe and the Trans-Pacific Partnership (TPP) agreement have both been finalized but not yet ratified by Canada. If they are ratified, these agreements will benefit pharmaceutical companies while costing Canadians millions of dollars and making it more difficult for the federal government to control the evaluation, marketing, and distribution of prescription drugs. [21]

The TPP requires the federal government to move towards harmonization of the regulatory regime for pharmaceuticals, with no guarantee that harmonization will be to the highest possible standard. It will also make it more difficult for the federal government to shut down deceptive advertising by a pharmaceutical company.[22] Both agreements will allow pharmaceutical companies to challenge government decisions made in the public interest in secretive, unaccountable tribunals whose decisions will be binding on the federal government. The current attempt by pharmaceutical giant Eli Lilly to use Investor-State panels under NAFTA to overturn the Supreme Court of Canada's decision that it had not provided sufficient evidence to support its patent claims is an example of how these processes can be abused.[23]

The requirement under both agreements to extend patent provisions will also significantly increase drug costs for Canadians. An internal government document suggests the cost could be as much as $2 billion per year. Experts Joel Lexchin and Marc-André Gagnon calculate the costs will range between $850 million and $1.645 billion annually. The federal government has promised to compensate the provinces for these additional costs, but Canadians with private plans or who pay for drugs out-of-pocket will just have to swallow the cost increase.[24]

These trade deals will therefore limit the federal government's power to contain costs and protect the safety of Canadians and make it more difficult to create a national pharmacare program.

CUPE's recommendations:

1. **Create a national pharmacare program:** We recommend that the federal government work with the provinces and territories to create a national drug plan that provides Canadians with universal, equitable access to prescription drugs. The program should provide coverage from the first dollar and should not require co-pays or deductibles, which represent a barrier to access. The program should also be publicly administered and publicly delivered. Creating such a

program will require bold, progressive leadership from the federal government and federal funding in order to be successful.

The Liberal platform promised to "make prescription drugs more affordable" and to "improve access to necessary prescription medications." The Prime Minister's mandate letter also instructed the Minister of Health to work with provincial and territorial governments to make prescription drugs more affordable. The provinces have already been clear that they believe a national pharmacare program is in the best interest of Canadians but that they can't do it alone without federal participation.[25] Working with the provinces and territories to create a national drug plan is the perfect way for the government to deliver on its promise to Canadians.

2. **Create a national formulary:** Formularies have been shown to be one of the most effective measures in containing costs and ensuring safe and effective drug use while delivering value for money. The formulary should be established by a non-partisan expert group that works at arms-length from government to evaluate prescriptions for safety, demonstrated improvement over existing treatment, and cost-effectiveness.

   While some have raised concerns that a national formulary could restrict drug choice, evidence from other countries shows that formularies can be constructed in a way that respects choice and the need for access to a range of drugs.

3. **Don't ratify the Trans Pacific Partnership or CETA:** These trade agreements will increase drug costs while also making it more difficult for Canada to ensure drug safety and control the evaluation, marketing and distribution of drugs. The relevant provisions of these agreements provide clear benefits to pharmaceutical companies while sacrificing the best interests of Canadians. CUPE opposes ratification of CETA and the TPP and strongly urges the government to reject them.

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End Notes

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