

Cost Estimate of Election Campaign Proposal

Publication date: 2019-10-11

Short title: Introducing a universal drug plan for Canadians

Description: Introducing a drug plan with universal coverage for Canadians that will fully cover the cost of drugs on an inclusive list (formulary) with no co-payments, co-insurance or deductibles. The federal government will pay for incremental costs above status quo spending by provincial drug programs for drugs on the formulary. This program will not affect the Canada Health Transfer (CHT).

This measure will take effect on January 1, 2020.

Operating line(s): Operating Expenditures

Data sources:	<u>Variable</u>	<u>Source</u>
	Drug expenditures and volume	IQVIA
	Growth rates for drug expenditures	Patented Medicine Prices Review Board (PMPRB) publication series "CompassRX"
	Federal savings	Gagnon, Mark-André. "Pharmacare and Federal Drug Expenditures: A Prescription for Change" in How Ottawa Spends, 2012-2013, 161-171. McGill-Queen's University Press, 2012;
		Finance Canada's Tax Expenditure Report, SPSD/M v. 27.1 ¹
	Formulary (inclusive list of drugs)	PBO cross-reference of three provincial formularies: Alberta, British Columbia and Quebec
	Provincial public drug plan expenditures	IQVIA
	Projected growth rates of Personal Income Tax (PIT) revenues, population, and consumer price index (CPI)	PBO Election Proposal Costing Baseline

¹ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by PBO and the responsibility for the use and interpretation of these data is entirely that of the author.

Estimation and
projection method:

Drug expenditures and markups and fees for 2018 were calculated using data from IQVIA. These expenses were projected separately using growth rates, or an average of these growth rates, as published by PMPRB.

Three provincial formularies were used as the basis to create a public formulary; if a drug appeared on any one of these provinces' formularies, they were included. Only drug expenditures for drugs which appeared on this formulary were projected.

Assumptions of behavioural response, pricing changes and generic substitution were applied.² A confidential rebate, reflecting savings for the federal government, was applied to the medicinal cost (drug expenditure net of markups and fees) of brand name drugs on the formulary, excluding biologics. No additional price reductions, such as those attributable to a stronger position for drug price negotiations, was assumed.

These costs, net of the assumed confidential rebates, were projected based on growth rates published by PMPRB with some modifications. This process was done twice: first to estimate the total, inclusive of provincial drug programs' expenditures, then again to estimate provincial drug programs' expenditures, which were then subtracted from the total. Provincial drug programs' expenditures were approximated.³

Direct federal spending on drug expenditures, the cost of private coverage for federal public servants, the Medical Expense Tax Credit (METC) tax expenditure, and the tax expenditure for Private Health Benefits Deduction represent savings for the federal government. These were subtracted from the cost of this drug plan. The portion of the METC attributable to drug expenditures was estimated using a glass-box modification to a health version of the SPSP/M. The modification resulted in household drug expenses being used to calculate allowable medical expenses based on tax returns which may include more than just drugs. The ratio of the METC tax credit and the original value calculated by SPSP/M was then used to scale down the METC tax expenditure as reported in the Tax Expenditure Report, and the estimated Private Health Benefits Deduction.

Savings of direct federal spending and the cost of private coverage for federal public servants were projected using current personnel costs from the PBO Election Proposal Costing (EPC) Baseline. The METC tax expenditure was projected based on the growth rate in the Department of Finance's estimates of the cost of the METC for the period of 2010 to 2016. Private Health Benefits Deduction were projected using the growth rate for personal income tax revenues in the PBO EPC Baseline.

Uncertainty
assessment:

The estimate has high uncertainty. Drug expenditures have several cost drivers, and the projections are highly sensitive to the assumed growth rate of those cost drivers, and the determination of those cost factors. The assumptions used in the determination of the cost of this policy may not be consistent with future expenditures. The formulary was based on three provinces' published formularies for a specific moment in time. There may be additional drugs included in other provinces' formularies, new drugs added, or several formularies may delist products. The assumed formulary may not

² These assumptions are explained and presented in PBO's publication titled "Federal Cost of a National Pharmacare Program" published September 2017.

³ The method of approximation is explained in the PBO's publication titled "Federal Cost of a National Pharmacare Program" published September 2017.

represent the actual formulary at the time of implementation. This estimate assumed a specific confidential rebate that may not represent the true value. Provincial drug programs' expenditures were approximated according to majority payer in the IQVIA data and may be higher or lower than what provincial programs incur.

Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	3,099	12,520	13,029	13,561	14,120	14,707	15,325	15,974	16,658	17,376

Supplementary information

	Description	Operating line	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
Cost	Drug Plan	Operating and Capital Expenses	3,648	14,735	15,311	15,914	16,547	17,211	17,908	18,639	19,407	20,213
Cost recovery	Tax Expenditures and Direct Spending	Personal Income Tax & Operating and Capital Expenses	-550	-2,215	-2,282	-2,353	-2,427	-2,503	-2,583	-2,665	-2,750	-2,837
Total cost after recovery			3,099	12,520	13,029	13,561	14,120	14,707	15,325	15,974	16,658	17,376

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost