

Cost Estimate of Election Campaign Proposal

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Short title: Universal drug plan for Canadians

Description: Introducing a drug plan with universal coverage for Canadians that will cover the cost of expenditures on drugs listed on Quebec's public drug program formulary, with a \$5 co-payment for brand-name drugs when a generic substitute is available. Certain populations are exempt from this \$5 co-payment. 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 April 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 <i>How Ottawa Spends, 2012-2013</i> , 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)	Quebec formulary as of December 2016
	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 (EPC) 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.

Number of prescriptions exempt from co-payments SPSD/M v. 27.1
IQVIA
Employment Insurance Monitoring and Assessment Report for the fiscal year beginning April 1, 2017 and ending March 31, 2018
PBO Pharmacare report, 2017

Estimation and projection method:

Drug expenditures, 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.

Quebec's drug formulary was used for the universal drug plan; only drug expenditures for drugs which appeared on this formulary were included and 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 SPSD/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 SPSD/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.

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.

Co-payment revenues were calculated by multiplying the \$5 co-payment amount by the number of prescriptions associated with brand-name drugs that were consumed when a generic was available.

Exemptions for these co-payments were calculated using two methods. For age-based exemptions, the number of prescriptions were calculated directly from the IQVIA data. For pregnant or post-partum women, recipients of Employment Insurance (EI), Social Assistance, or Disability benefits, the exemptions were determined by estimating the base number of total prescriptions in SPSD/M using the same method as in the PBO's 2017 pharma care report and the proportion of the prescriptions requiring co-payment and then multiplying the proportion by the base number of total prescriptions.

Net co-payments were calculated by taking the total copayments less the calculated exemptions. They were projected using population projections from the 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 expenditure patterns. The formulary was based on Quebec's public drug plan's formulary as of December 2016. There may have been additional drugs added or delisted. The assumed formulary may not 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	-	10,203	10,582	10,978	11,393	11,829	12,287	12,767	13,273	13,804

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	-	12,465	12,912	13,379	13,869	14,382	14,919	15,482	16,073	16,692
Cost recovery	Tax Expenditures and Direct Spending	Personal Income Tax & Operating and Capital Expenses	-	-2,215	-2,282	-2,353	-2,427	-2,503	-2,583	-2,665	-2,750	-2,837
Revenues	Net Copayment Revenues	Operating and Capital Expenses	-	-47	-47	-48	-49	-49	-50	-50	-51	-51
Total cost after recovery			-	10,203	10,582	10,978	11,393	11,829	12,287	12,767	13,273	13,804

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