Benefits CANADA

Increase in Drug Spending Expected to Continue

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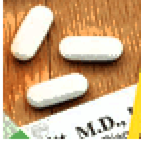

National drug spending is expected to continue to rise after a 7.1% increase last year, according to John Herbert, director of business development at ESI Canada.

Speaking on Tuesday at the annual ESI Canada conference in Mississauga, Ontario, Herbert said 2007 saw a drug spend increase of $44 per claimant to $665, more than double the spend in the year 2000. “While the ESI trend is 7.1%, we anticipate carrier renewals to continue to be well into the double digits,” said Herbert. Nationally, the drug spend is lowest in the Western provinces with $607 per claimant annually, and highest in Ontario, at $690. However, the highest upward spending trend in Canada belongs to Quebec, at 7.9%

Herbert said the rising cost of claims is due to a combination of claim intensity—with a greater number of claims per claimant and an aging population—and increasing cost per script due to inflation and therapeutic mix of drugs. “Utilization has increased 30% since the beginning of the decade,” said Herbert. He said the increase is partly due to marketing efforts by drug companies, noting that a study by two York University researchers found that drug companies in the U.S. spent twice as much on marketing and promotions than they do on R&D. “Much of this marketing spills over to Canada, as we know, increasing demand here as well.”

The cost of producing and distributing drugs is increasing, according to Herbert. The average fee allowable is up 24 cents to $8.38 per script, and the ingredient cost is up $1.73 to $49.93 per script. Also, there is an increase in the use of high-cost medications, which accounted for 13.3% of the national drug spend in 2007, up from 11.8% in 2006. Biologics and specialty items, which are used to treat a very small portion of the population, make up less than 1% of claims, but account for 13.3% of spending. “High-cost meds are growing at a rate of 20%,” he said.

Herbert identified six tools plan sponsors can utilize to lower costs: coordination of benefits, member payment, dispensing fee cap, generic substitution plan, managed formulary, and prior authorization. Coordination of benefits can result in a reduction of spousal spend, with savings of 10% to 15%. Member payments can reduce utilization as well as cost per script to the tune of 10%. A cap on dispensing fees can encourage smart shopping, resulting in savings of 6%, and should be adjusted by specific region, according to Herbert. Generic substitution plans and managed formulary plans can reduce the cost per script with savings of 2% and 5%, respectively. Finally, prior authorization can reduce both utilization and cost per script for savings of 3%. “Together these tools can contribute to savings of 35%,” he said.

Another factor in the rise in drug spending is the increasing frequency in high-cost claimants. “Those spending more than $5,000 represented one percent of claimants in 2006,” said Herbert. “We’re up to 1.5% in 2007.” High-cost claimants now account for 23.7% of the drug spend, up from 19.4% in 2006. The prevalence of chronic conditions figures heavily in this area, with cardiovascular conditions, mental health, and diabetes influencing 38.3% of claimants and accounting for 76.2% of the spend.

Herbert identified three main issues with regards to high-cost claimants, and presented strategies to deal with each of them. First, the increasing frequency of high-cost claimants can be countered by wellness programs. “A wellness program can do more than improve morale,” he said. “It can actually affect drug spend.” He identified several companies in the U.S. which offer financial incentives to employees for health issues such as smoking cessation, weight loss, and increased physical activity. The large prevalence of chronic conditions with high co-morbidity can be tempered by disease state management, diabetes and mental health in particular. Finally, the large range in claimant utilization proves that one size does not fit all, according to Herbert, and costs can be lowered by switching to consumer-driven healthcare.

“We don’t have all the answers here,” said Herbert. “However, we need to give some more thought to managing the claimant as opposed to just the individual claims so that we’re properly positioned in the future.”

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