The $100 Solution: A Post-Pandemic Path Forward for National Pharmacare in Canada

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Key Points at a Glance

The Government of Canada is seeking to implement a prescription drug coverage policy that leads to universal drug coverage for Canadians – meaning all Canadians have access to a comprehensive, affordable drug insurance plan regardless of their province of residence or financial situation. Whether their coverage is provided by a public drug plan, an employer-based plan, or another form of private coverage is an important consideration but is somewhat beside the point. Ultimately, what matters is that all Canadians have the ability to acquire the medicine they need regardless of their particular financial, geographic or health circumstances.

The challenges of COVID-19 have demonstrated the importance of a strong, sustainable drug supply, as well as the value of our country's pharmacy sector. Further, despite the major impact of COVID-19 on the Canadian economy, it appears the existing "mixed payer" drug coverage model has withstood the test of the pandemic, and is in fact a strong system on which to build the next iteration of prescription drug policy.

This paper presents an achievable policy pathway for the Government of Canada to deliver on the promise of universal drug coverage in Canada, by building on five core principles that address the political, fiscal, and provincial realities that must be navigated. It argues that the federal government should pursue a prescription drug coverage policy that:

- is financially sustainable
- is national in scope, while respecting provincial jurisdiction
- augments existing policy
- addresses the challenge of expensive drugs
- is supported by Canadians.

The Job to be Done – a Path Forward:

- The Government of Canada will negotiate per-capita funding agreements with each province to spend approximately $3.5 billion annually to create universal prescription drug coverage
- The provinces will use the funds to ensure their existing programs are augmented to provide comprehensive drug insurance to all residents who do not have coverage
- The provinces will mandate all residents to acquire drug coverage via their employer (or elsewhere) and will automatically enrol in their public plans those who do not have access to private coverage; provinces will mandate employers of a minimum size to offer comprehensive drug insurance to their employees. The specific details of these mandates and public plans will continue to be determined by the provinces
- The federal government will allocate $500 million annually to provide coverage for rare disease drugs
- Ottawa will work jointly with the provincial governments to establish a minimal national formulary
- The federal government will work with pharmaceutical distributors to mitigate the impact of drug price compression and regulatory costs on the strength and sustainability of the country's drug supply infrastructure, and will investigate the value of a dedicated fund to support the drug supply in rural and remote Canada.

Introduction

In early 2020, when the coronavirus pandemic had not yet arrived in full force in North America, McKesson Canada put the finishing touches on a white paper outlining a path forward for prescription drug coverage policymaking in Canada. *The $100 Solution: A Path Forward for National Pharmacare* described how, for a relatively modest amount of public investment, the Government of Canada could work collaboratively with provincial and territorial governments to implement universal drug coverage from coast to coast to coast.

For approximately $100 per capita – just under $4 billion annually – Canada could ensure that every citizen has access to comprehensive, affordable prescription drug insurance, regardless of their province or territory of residence, their employment status, or their financial situation. In addition, this annual expenditure would also include a dedicated stream of funding to improve access to drugs for rare diseases, which typically cost in the six figures and therefore create tremendous pressure on pharmaceutical budgets.

The white paper argued that this policy approach would ensure three things. First, that the cost of this "national pharmacare" policy choice would be sustainable, ensuring its long-term viability. Second, that provincial governments would continue to exercise their constitutional role in establishing the parameters of public drug plans in their jurisdiction, ensuring that federal-provincial political dynamics would not stand in the way of effective policymaking. Third, and perhaps most importantly, the proposal would build on the existing "mixed-payer" model that is the policy preference of Canadians by preserving the role of employer-based drug coverage while ensuring that no Canadian would be worse off once national pharmacare was implemented.

In short, *The $100 Solution* argued that the Government of Canada, for a relatively modest amount of investment, could extend drug coverage to all those who do not have it without creating systemic disruption or unintended consequences. The proposal was intended to reflect a realistic assessment of current dynamics related to Canadian federalism and healthcare funding, arguing for a policy solution that was neither needlessly expansionist nor unnecessarily grand in scope. For $100 per capita, the federal government could deliver on the promise of universal drug coverage in Canada.

In mid-March 2020, our lives were upended by the sudden increase of COVID-19 cases in Canada. As governments scrambled to reduce all unnecessary contact between individuals, huge sectors of the economy were shut down overnight. **As unemployment spiked, healthcare policy observers worried that a significant portion of the Canadian population would find themselves without drug coverage as we collectively entered an indefinite period of lockdown. As the pandemic-induced economic shutdown grew longer, it became clear that COVID-19 would serve as a "stress test" of Canada's mixed-payer drug coverage system.** Would the millions of Canadians who relied on employer-sponsored medication insurance see their coverage upended by the pandemic? What impact would COVID-19, which exposed fault lines throughout our healthcare system, have on the prospects for improving access to medication in Canada via *The $100 Solution*?

For $100 per capita, the federal government could deliver on the promise of universal drug coverage in Canada

This updated paper attempts to answer these two questions. **It begins by examining the impact of COVID-19 on drug coverage in Canada and on Canadians' attitudes and preferences for pharmacare policymaking in our new reality, concluding that the mixed-payer system remains worthwhile as a foundation for future policymaking and is consistent with Canadians' desires.**

It then re-examines the case for *The $100 Solution*, paying particular attention to the estimated cost associated with it, arguing that $100 per capita remains a viable and adequate funding amount to achieve Canada's broad pharmacare objectives. This exposition includes a detailed description of the proposal, as well as the arguments in its favour. Throughout the paper, specific concerns related to "underinsured" Canadians, single-payer drug coverage, and the broader pharmaceutical ecosystem are engaged with directly.

Ultimately, the paper concludes that *The $100 Solution* offers Canadian policymakers a viable policymaking option, demonstrating that federal pharmacare policy can be a net positive for all Canadians.

What COVID-19 Means for Drug Coverage Policy

The coronavirus pandemic has exposed significant challenges in our healthcare system, substantially altered Canada's economic situation, and served as an unintended "stress test" for our mixed-payor prescription drug coverage system. It has also caused a re-evaluation of the principles and evidence in support of the policy proposal articulated in the first version of this paper. **We find that, despite – or perhaps, *because of* – the significant impact of COVID-19 on healthcare policy in Canada, *The $100 Solution* policy proposal offers a comprehensive, achievable, and sustainable pathway for the Government of Canada as it embarks on the development of a national pharmacare program.** Prior to articulating the details of *The $100 Solution*, it is worth exploring how drug coverage policymaking can best occur in the context of COVID-19.

Within weeks of the COVID-19 pandemic's arrival to North America, the Canadian economy had suffered an unprecedented blow; the unemployment rate in April 2021 was more than double that recorded two months earlier. While government programs were able to stave off economic catastrophe, a little more than one year later many segments of the economy remain decimated by the pandemic. Initial concerns that the pandemic would lead to millions of Canadians losing their prescription drug coverage, however, did not come to fruition. To the contrary, it appears that the pandemic has underscored the fundamental challenge facing drug coverage policymakers, as Canadians who did not have coverage prior to the pandemic are likely to have borne the brunt of the economic impact of the pandemic. All the more reason to focus pharmacare policymaking on ensuring those who lack coverage be the focus of any new federal program.

As the Canadian Life and Health Insurance Association first reported in September 2020, "Industry-wide data collected over the past six months shows that 98.5 per cent of the 27 million who had coverage through their health benefit plans in March continue to be covered."[1] Further, CLHIA indicated that health plan insurers had implemented temporary premium reductions and deferrals to ensure that employers could continue to provide drug coverage to their workers.

Further, a November 2020 survey of 4,120 Canadians conducted by Pollara Strategic Insights on behalf of Neighbourhood Pharmacy Association of Canada revealed that drug coverage had indeed remained constant throughout the pandemic. Respondents were asked if their coverage at the time of the survey had changed since late February (just prior to the onset of the pandemic). Pollara determined that 88% of Canadians had drug coverage pre-COVID, while 86% had coverage six months later.[2]

While COVID-19 has had a profound impact on healthcare in Canada, it does not seem to have significantly increased the number of Canadians who lack access to a prescription drug plan. It has, by contrast, revealed significant gaps in Canada's healthcare system, notably related to public health, long-term care for the elderly, and drug supply and vaccine production and distribution capacity. Moreover, the deferral of many elected or non-urgent healthcare procedures due to social distancing measures will likely strain healthcare budgets as the country emerges from the pandemic.

Two things, therefore, should help guide pharmacare policymaking: the knowledge that major economic contraction did not have much of an impact on the strength of the existing drug coverage model and, as described below, Canadians' policy priorities, including those directly related to healthcare, are decidedly not in favour of prioritizing a major single-payor pharmacare program.

What do Canadians want?

The November 2020 Pollara survey of more than 4,000 Canadians described above provides additional insight into perspectives on national pharmacare policy options. The findings are revelatory. While Canadians identify pharmacare as an important objective, there is no consensus on what form it ought to take, and there is considerable concern that a new federal pharmacare program will make many Canadians worse off.

- Unsurprisingly, the survey found the COVID-19 pandemic to be the most top-of-mind priority, with one-quarter of respondents calling it their first choice issue and another 6% calling it a second choice (among a total of 17 issues, not all of which are related to healthcare), followed by healthcare generally (15% citing it as a first or second priority) and both the economy and climate change (13%).
- National universal pharmacare program ranked last among the 17 issues, with just 3% of respondents citing it as a public policy priority.
- Among healthcare priorities, pharmacare came seventh, with 9% of respondents citing it as a priority, behind COVID-19 (28%), mental health, seniors care, access to family doctors, reduced wait

[1] Canadian Life and Health Insurance Association. September 16, 2020. "Statement: Prescription drug benefits have remained resilient during COVID-19." Accessed March 22, 2021.

[2] Only 79% of respondents reported having drug coverage pre-COVID, however demographic information obtained as part of the survey make it clear that a significant proportion of those who reported having no coverage or being unsure were extremely likely to be covered under provincial health plans (e.g., respondents who qualified for coverage plans for senior citizens may have incorrectly responded to the question,). Thus Pollara reclassified certain respondents to better reflect the actual extent of drug coverage in Canada.

times, more nurses/staff, and better access to affordable medication.

- A single-payer pharmacare program was found to be least deserving of federal funding than all other healthcare priorities.
- Fully 80% of respondents reported being satisfied with their current drug plan.
- While 82% of respondents supported the concept of national pharmacare, only 25% would prefer a federal program that replaces existing coverage, while 29% preferred a model that provided coverage only to those without any existing coverage, and 28% opted for a plan whereby those with private coverage could bill the government after filing a claim with their private provider. In short, there is nowhere near a consensus on what "national pharmacare" actually means.

Source: Public Opinion Polling Commissioned by the Neighbourhood Pharmacies Association of Canada, November 2020

The $100 Solution 2.0 in Detail

Principles

The $100 Solution is based on several principles in service of a single goal: ensuring that all Canadians have access to affordable, comprehensive prescription drug insurance. In other words, **it is a proposal that targets *universal* drug coverage in Canada – arguing that the public policy imperative is that all Canadians have access to medications, not that all medication be paid for in the exact same way.** This proposal is more concerned with a quick and effective solution to the problem of uninsured Canadians; there is reason for concern that a more sweeping reform (such as transitioning from a mixed-payer to a single-payer system) will present unnecessary obstacles and unintended consequences that exacerbate rather than alleviate things (for example, a shift to a single-payer system would almost certainly mean many Canadians would lose coverage for medications they currently take that are covered by a privately funded plan).

The proposal is based on the following five principles:

1. A new federal prescription drug program should be **financially sustainable**, operating within the government's fiscal framework and ensuring that future governments not be saddled with new healthcare commitments that further burden the existing system. This is particularly true given that new federal initiatives in healthcare typically create administrative and financial obligations for provincially funded healthcare programs.
2. Federal investment in prescription drug coverage should be **national in scope, while respecting provincial jurisdiction** in healthcare. Comprehensive access to medication should be available to all Canadians when they get sick, regardless of where they live. Successful policy implementation requires active participation and policymaking by provincial governments. Moreover, a federal policy course that ignores the existing differences among the provincial health systems is unlikely to meet the needs of most Canadians.
3. New funding should **augment existing policy**, building on and enhancing the existing system of drug coverage, rather than displacing it. National pharmacare should begin with investments already announced by the Government of Canada, including the formation of the Canadian Drug Agency.

   Further, the federal government should ensure that **no Canadian is worse off** by the implementation of any national pharmacare plan, especially since drug costs have been increasing at rates greater than inflation in recent years.
4. In addition to ensuring universal access to drug coverage, a new federal pharmacare initiative should explicitly **address the challenge of expensive drugs**, particularly those for rare diseases, which can provide transformative benefits to patients but can cost in the tens or hundreds of thousands of dollars.
5. Federal investment in prescription drug coverage should be **supported by Canadians**, most of whom are satisfied with their insurance and are concerned that major policy changes could lead to an unintended erosion of the quality of their coverage.

Figure 1: Principles of the $100 Solution for National Pharmacare

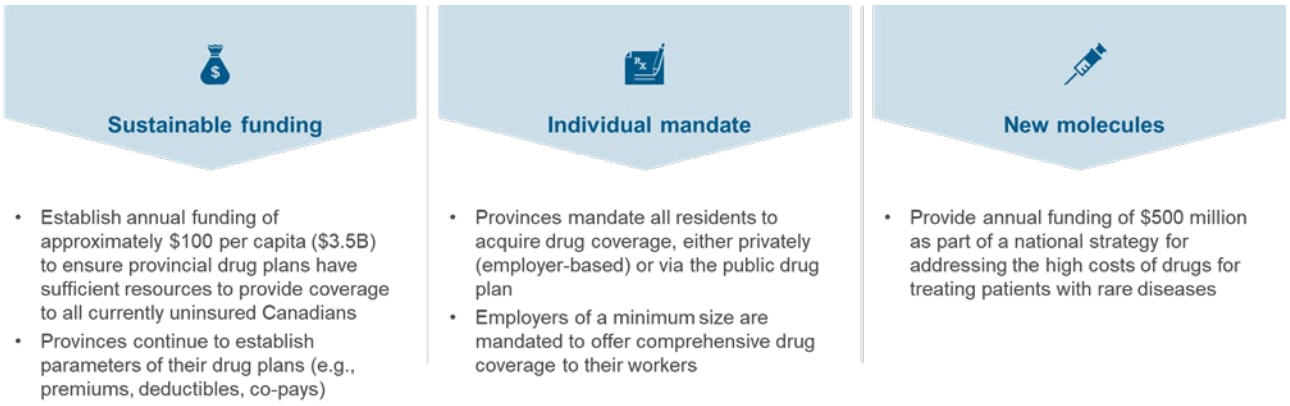

Figure 2: The Key Components of the $100 Solution for National Pharmacare

Achieving Universal Drug Coverage

One of the main challenges facing the federal government in achieving its objective of ensuring all Canadians have access to prescription drug coverage is the rate of Canadians who currently lack coverage, because it varies considerably from province to province. At the national level, it is assumed that between 5% and 10% of Canadians lack prescription drug coverage.[3] Also to be considered, and discussed below, are the "underinsured" – those who have some coverage but lack the financial means to pay for their prescriptions.

According to a thorough analysis conduced by the Mowat Centre, using data from the Conference Board of Canada and the Canadian Institute for Health Information, the proportion of individuals in any given province without drug coverage ranges from a low of none in Quebec (where drug coverage is mandatory and individuals without employer-provided coverage are required to enrol in the provincial drug plan) to as high as nearly 30% in Alberta, Manitoba and New Brunswick.[4]

More recent survey data, collected by Pollara, suggest the drug coverage gap is somewhat smaller, with the highest incidence occurring in B.C. (20%).[5] Furthermore, it is helpful to keep in mind that the population of uninsured Canadians will continue to fluctuate, meaning any policy pathway designed to fill this gap be flexible enough to accommodate significant shifts.

It is notable that some provinces, such as Alberta, could theoretically have universal prescription drug coverage through their public programs, which are open to all citizens (though they must pay a premium to participate). The Conference Board estimates that there are 1.1 million Albertans under the age of 65, for instance, who are eligible for public coverage but choose not to enrol.[6]

The availability of "backstop" public programs, to provide coverage for those who do not have access to more typical employer-based plans, is inadequate to ensure universal drug coverage – it is likely that a mandate to acquire drug insurance will be necessary in addition to the provision of publicly funded, open-enrolment programs.

The Quebec experience can be instructive in this regard: the province issues two mandates, one to all citizens to acquire drug insurance and the other to employers to offer an adequate drug insurance plan. Individuals who do not have access to an employer plan enrol in the public plan via their tax return. To ensure that employers would not offload their employees onto the provincial drug plan, the province forbade businesses from providing sickness benefits, dental insurance, or disability insurance to their employees unless they also offered a drug plan. As a result, the proportion of Quebecers who are covered by a private insurance plan has not changed significantly since the introduction of this policy in the late 1990s, staying between 56% and 58%.[7]

While the Quebec model is not perfect (its patient contributions have been criticized as excessive) it represents the most straightforward and cost-effective approach to arriving at universal coverage.

The Model: A $4 Billion Annual Federal Investment

In order to achieve universal prescription drug coverage in a manner that is fiscally sustainable, incremental, and targeted in its allocation of resources; equitable to all Canadians; and

[3] It is worth keeping in mind, however, that this group is not necessarily homogeneous. It is likely to include those who are experiencing a short-term, recent drop in coverage (e.g., after losing a job) as well as those whose lack of coverage is more long term.
[4] Hartmann, Erich, Adrienne Davidson, and Kiran Alwani. (2018.) *Prescribing Federalism: The intergovernmental implications of a national pharmacare program*. Toronto: Mowat Centre.
[5] Pollara surveyed 4,120 Canadians in November 2020 on behalf of Neighbourhood Pharmacy Association of Canada.
[6] Sutherland, Greg, and Thy Dinh. (2017.) *Understanding the Gap: A Pan-Canadian Analysis of Prescription Drug Insurance Coverage*. Ottawa: Conference Board of Canada.
[7] Labrie, Yanick. (2019.) *Lessons from the Quebec Universal Prescription Drug Insurance Program*. Vancouver: Fraser Institute.

respectful of provincial jurisdiction in healthcare, the federal government is encouraged to provide annual funding of approximately $4 billion to the Canadian Drug Agency (CDA). The CDA will be given the following mandates:

1. Work with provincial drug plan managers to establish a minimum national formulary that all drug plans in Canada (public or private) must adhere to – ensuring a minimum level of drug coverage for all Canadians. The CDA and the provincial drug plan managers shall develop a regular review process to ensure the minimum formulary requirements remain up to date. The first iteration of this formulary can be arrived at simply if it is politically expedient to do so: it may consist of only those drugs that are currently included in each of the existing provincial formularies.

   The CDA shall also continue its aims to unite the various prescription drug pricing, purchasing, and review organizations under one umbrella (working in partnership with the provinces), to identify ways to generate savings within the system.

2. Provide approximately $3.5 billion in annual funding to the provinces on a per capita basis. The provinces shall use these funds to enact three policies:

   a. Mandate all their residents to acquire prescription drug coverage, without exception.

   b. Mandate employers to offer prescription drug coverage that is significantly subsidized by the employer.

   c. Automatically enrol all residents who do not have prescription drug coverage from a private source in the provincial drug plan.

3. Manage an annual fund of approximately $500 million to provide coverage for expensive drugs for rare diseases, working collaboratively with provincial drug managers to how to best use these funds, ensuring that the "end-to-end" model that includes patient support programs, specialty drug distribution, and specialty pharmacy are taken into consideration.

In practice this means the federal government will provide two critical roles in prescription drug coverage: first-dollar support to all those who currently slip through the cracks, and a robust backstop for those who are financial stretched by high-cost drugs. This approach ensures that limited federal resources build on, without wholly replacing, existing provincial expenditures to achieve the fundamental objective of ensuring that every Canadian has access to affordable, comprehensive prescription drug coverage.

How We Arrived at $100 Per Capita

The per-capita amount of approximately $98 was determined by the Mowat Centre, which calculated that this amount would be sufficient "to extend coverage to populations not enrolled in either public or private coverage."[8] In practice, this means that the province with the largest "coverage gap" (Manitoba) would require a $98/capita investment to ensure its public drug plan could accommodate all residents without drug insurance.

As indicated earlier, a Pollara survey of 4,120 Canadians conducted in November 2020 provides an update on the size of the population of uninsured Canadians on a provincial basis. After correcting for mis-reported responses (e.g., senior citizens who report having no coverage despite also reporting participating in a public drug plan), Pollara found that the province with the largest gap in coverage was not Manitoba, but B.C., with 20% of the population lacking drug coverage. Using the same methodology as the Mowat Centre report, we can infer that the cost of extending coverage to all B.C. residents would be approximately $68/capita.

Every other province will benefit from more funding than it needs to "close the gap," with Quebec being the most significant case, since its de facto universal coverage means it has no gap to close.

If the Pollara figures are correct, a $68/capita fund would total $2.6 billion in funding to the provinces on an annual basis. **McKesson Canada's recommendation is that the federal government proceed with the $3.5 billion fund described above, increasing the likelihood that all provinces will have adequate funding to close the gap in coverage and expand their public drug plan programs to provide more comprehensive and affordable coverage for citizen.**

Specifically, provincial governments could use the full amount of funding to reduce the problems associated with underinsured individuals described below, by investing to enhance the accessibility of their drug plan programs, such as reducing co-payments, premiums and deductibles, or expanding drug formularies. Additionally, this funding could help support efforts to ensure the sustainability of the country's drug supply, ensuring residents of rural and remote Canada have equal access to medication as do those in urban centres.

[8] Hartmann *et al., 34.*

Advancing the $100 Solution

Implementation of the $100 Solution would require a series of bilateral or multilateral agreements between the federal government and each province, with the Government of Canada allocating an annual transfer of approximately $100 per capita in exchange for a provincial commitment to ensure universal coverage via a mix of publicly and privately funded insurance programs, as described above. Given that, in almost every case, the amount of the transfer will exceed the amount needed by the province to expand its public drug insurance program to cover all citizens who currently lack drug insurance, the federal government may seek to negotiate commitments from each province to reinvest the additional funds – either to improve the drug plan (via expanding the formulary, reducing patient co-payments, etc.) or to invest in other priorities, particularly those related to access to healthcare.

As Figure 3 demonstrates, using data prepared by the Mowat Centre, the proportion of funding that is needed to close the gap in coverage is largest in Manitoba, followed by Alberta and New Brunswick, whereas the "equity top-up" – the additional amount provided to ensure provinces that have more comprehensive drug coverage are not penalized – is largest in Quebec (which already has universal coverage), followed by P.E.I. and B.C. The actual amounts transferred, shown in Figure 4, reflect the distribution of the Canadian population.

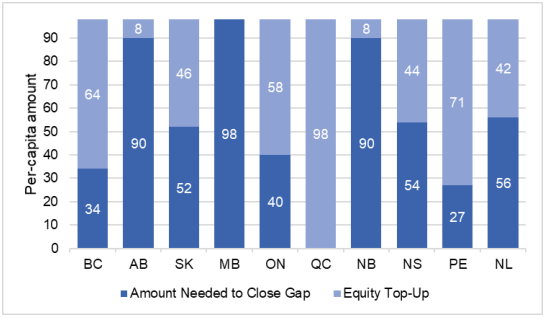

Figure 3: Funding Components of the $100 Solution

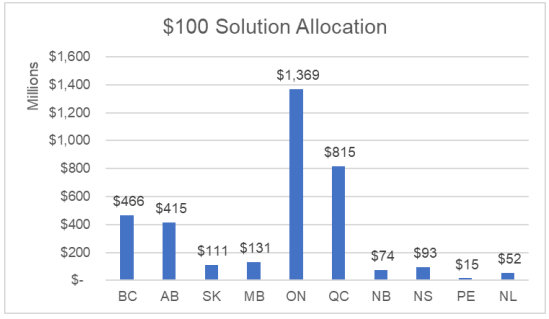

Figure 4: $100 Solution Provincial Allocation

[9] House of Commons. (2018.) *Pharmacare Now: Prescription Medicine Coverage for all Canadians: Report of the Standing Committee on Health*. Ottawa: Government of Canada

The Problem of Underinsured Canadians

Despite the considerable attention paid to the issue of national pharmacare in recent years, researchers and policy analysts have had trouble quantifying the exact number of Canadians who lack adequate prescription drug coverage. While the proportion of Canadians with no coverage whatsoever (those who pay out of pocket for their drug expenses) has been quantified, we are left with estimates when considering the number of Canadians whose coverage does not meet their needs – the underinsured.

Keep in mind that the notion of "underinsured" is somewhat subjective – for some it means "my plan doesn't cover the drug I need" while for others it means "my share of drug spending is too expensive" (via co-payments, deductibles, etc.).

Estimates on the number of underinsured – i.e., the proportion of those with coverage who lack the financial means to pay for their prescriptions – are around 10%.[9] To the extent that publicly funded drug coverage programs are less comprehensive than privately funded ones (more restrictive formularies, higher premiums/deductibles/copayments), considerable efforts could be made to reduce the incidence of underinsured Canadians by devoting a portion of the funding provided to the provinces via *The $100 Solution* to making existing public drug programs more comprehensive, less expensive, or both.

The federal government, in providing this funding, shall recognize that its provision of a minimum level of funding to "top up" provinces that currently have gaps in coverage will not penalize those that have invested in more robust public programs, and will instead encourage them to use these new funds to expand access to drug coverage, reduce patient contributions, or address other pressing needs, in healthcare or other areas of provincial priority. Thus, a significant proportion of the new funds made available via this plan can be directed to reducing the number of "underinsured" Canadians in addition to ensuring no Canadian will continue to be completely uninsured.

Recognizing the existing imbalance in drug coverage from province to province and the jurisdictional issues involved is a key element of this plan, and it will require the federal government to accept that it will be providing funding for services already being provided by other levels of government.

While it may be tempting to view this as an inefficient use of new resources, the alternative is politically infeasible and fundamentally inequitable, as it would require Ottawa's investing relatively more in provinces with the least robust drug coverage programs and relatively less in provinces that have been national leaders in pharmacare.

Myth and Reality: Only Single-Payer Pharmacare Can Bring Down Drug Costs

As the news release announcing the members of the Advisory Council on the Implementation of National Pharmacare states, it is taken for granted by most observers that drug prices in Canada are relatively high in an international context: "Canadians pay among the highest prices for and spend more on prescription drugs than citizens of almost every other country in the world."[10] While the primary objective of a national pharmacare program is ensuring that all Canadians have access to some form of comprehensive drug coverage regardless of their ability to pay out of pocket, many observers have insisted that the federal government pursue a separate but related goal: reducing the price of prescription drugs in Canada.

Further, it is often taken for granted that the only reliable way of bringing down the cost of drugs is via the enactment of a single payer pharmacare program run by the Government of Canada. There are two reasons why this inflexible thinking is unlikely to lead to the Government's desired policy outcome.

The price *of drugs is more than the* cost *of drugs*

The cost of a drug is obviously more than the price of the medicinal and non-medicinal ingredients for a few dozen pills in a plastic vial. The price of a drug reflects the ingredient costs in addition to the money spent on research and development that led to the drug. For patented drugs, which represent the latest innovative – and therefore most expensive – therapies, the price can be quite high, particularly when there is no alternative treatment for a particular disease or condition. This is already well known – that there is a trade-off between access to new therapies and low drug prices.

What is less well know is the extent to which the price of a drug reflects other costs to the pharmaceutical system, particularly the cost of maintaining the supply of drugs in Canada. In most of the country, there is no dedicated, transparent fee paid by coverage providers to cover the cost of ensuring the safe, efficient, and timely delivery of prescription drugs to pharmacies & hospitals in all ten provinces and three territories. In most provinces, manufacturers pay a fee-for-service that is bundled into the price of the generic drug paid by the pharmacy and, ultimately, the insurance company (or patient, for those who lack coverage). For brand drugs, this fee-for-service is replaced by an added markup or upcharge.

Only Quebec, and Saskatchewan and, as of recently, Manitoba, mandate a transparent distribution fee to cover the cost of sustaining the drug supply chain. The lack of transparency around drug prices, particularly around distribution fees but also around pharmacist's dispensing fees, obscures the true price of drugs in Canada, particularly when making comparisons to other countries that fund their pharmaceutical supply chains differently. Moreover, Canada's unique combination of vast geography and a small population means that the there really is no equivalent drug supply comparator to use as a comparison.

Canadians already benefit from systems designed to significantly reduce drug prices

In April 2018, Canada's 10 provinces announced that, acting together under the umbrella of the pan-Canadian Pharmaceutical Alliance, they had negotiated an agreement with the producers of Canada's generic medication to reduce the price of drugs by up to 40%, generating savings of up to $3 billion over five years. The most commonly prescribed generic drugs would be priced at just 10% of the cost of the equivalent brand-name drug.

According to a Government of Canada report, the provincially-led effort to bring down drug prices has already had a major impact: "Although generic use has increased, spending levels in 2018 were virtually the same as in 2010 due to the implementation of pricing policies."[11]

On the brand drug side, in 2018 the federal government announced that the Patented Medicine Prices Review Board (PMPRB), which regulates the cost of brand drugs, would be implementing regulations designed to reduce the price of drugs. The implementation of these regulations, which is slated for January 2022, will have the eventual effect of reducing the price of both brand drugs and, correspondingly, the price of their generic equivalents (as patents expire). To do so, the PMPRB plans to change the list of countries it uses to compare the prices of new brand drugs, and to force drug companies to reveal the confidential price agreements they negotiate with each province.

Taken together, the actions of the pCPA and the PMPRB have demonstrated that the tools and processes needed to reduce the price of drugs in Canada already exist – and that the federal and provincial governments can work in collaboration to compress the cost of both patented and generic drugs without structurally disrupting the existing drug coverage infrastructure, such as resorting to drug tendering that can generated unintended consequences like drug shortages or fewer new drug launches.

Securing the pharmaceutical supply chain

While the primary focus of any federal pharmacare program ought to be ensuring all Canadians have affordable access to the medication they need, there is a related issue that

[10] Health Canada. 2018. "Government of Canada launches Advisory Council on the Implementation of National Pharmacare."

[11] Patented Medicine Prices Review Board. 2018. *Generics 360: Generic Drugs in Canada, 2018*. Ottawa: Government of Canada.

warrants further consideration and attention from the federal and provincial governments: the sustainability of Canada's drug supply system. As described earlier, the medication supply infrastructure is funded via fee-for-service or distribution funds that are a function of drug prices. As governments have implemented drug price reduction measures, such as the aforementioned 2018 generic price reduction or the upcoming federal brand drug price reforms, there has been an unintended corresponding reduction in funding for the drug supply system.

At the same time, the cost of maintaining Canada's drug supply continues to increase, due in part to increased regulatory requirements and in part to the growing share of medications that require expensive storage, handling, and transportation to ensure their safety and quality. This simultaneous reduction in supply funding and increase in distribution costs is compounded by the resources required to manage the increasing number of drug shortages in Canada.

The Canadian Association for Pharmaceutical Distribution Management estimates that the accumulated impact of this policy-driven price compression and regulatory and operating cost increases is $100 million per year or more, which is challenging the ability of pharmaceutical distributors to manage the country's drug supply.

At specific risk is the ability of distributors to maintain existing service levels in rural and remote parts of the country, which are the most expensive to support. In order to mitigate this risk, a national pharmacare plan would benefit from dedicated funds to strengthen and sustain the drug supply in rural and remote Canada, offering dedicated funding to distributors in exchange for a commitment to a minimum community service model, similar to the program implemented in Australia.

Ultimately, a national pharmacare program will require strong and sustainable drug supply infrastructure to ensure that all Canadians, regardless of their geography, have affordable access to the medications they need.

Conclusion

For decades, policymakers and politicians at different levels of government have tried to "complete" Canada's healthcare system, by ensuring that all Canadians have affordable access to the treatment they need to stay healthy, no questions asked. The current system mixes employer-provided private insurance with publicly funded programs to create extensive – but not universal – prescription drug coverage for Canadians. While it may be tempting for some to shift to an entirely publicly funded system, the objective of ensuring that all Canadians can afford the medicine they need can be achieved without requiring a massive new fiscal undertaking or disrupting the system – a system Canadians by and large are very satisfied with.

For approximately $4 billion annually, the Government of Canada can provide equitable funding to each province (approximately $100 per capita) to ensure that the existing provincial public plans can be augmented to provide coverage to all residents whose needs are not currently being met by the mix of private and public drug insurance plans. In addition, this allocation will ensure the federal government takes a leadership role in tackling the increasing challenge of affording expensive drugs for rare diseases.

This path forward will ensure that all Canadians have access to comprehensive drug insurance, that provincial jurisdiction in healthcare is preserved, that all provinces and their residents are treated equitably, that new resources augment rather than replace existing programs, and that all Canadians have access to a "backstop" of coverage in the event they require the most expensive therapies.

As this paper is written, Canada is still in the midst of the COVID-19 pandemic, which has exacerbated many existing challenges to our healthcare system and identified some new ones. **In particular, during the first wave of the pandemic, two things became clear: first, our national drug supply is not nearly as robust as many Canadians had assumed, and second, that our system of mixed publicly- and privately-funded drug insurance is in fact stronger than many had feared. As policymakers begin to turn their attention to the post-pandemic era, these two observations should be top of mind.**

The policy proposal outlined above would ensure that all Canadians have access to comprehensive, affordable drug coverage regardless of where they live or how wealthy they are. By building on the strengths of the existing system, it would provide incremental benefits to the Canadian public without the unintended consequences of disruptive systemic change. Alternative approaches, by focusing exclusively on savings at all costs, are likely to lead to further weakening of the Canadian drug supply, and will make Canada a less attractive market for the launch of new medicines and therapies. ***The $100 Solution*** **offers a direct route to an important policy objective – drug coverage for all – without doing harm to our well-functioning system.**

About McKesson Canada

Founded more than 100 years ago, McKesson Canada is dedicated to delivering vital medicines, supplies and information technologies that enable the health care industry to provide patients better, safer care.

Our solutions empower pharmacies, manufacturers, hospitals, and other health care institutions by enabling them to get closer to the millions of patients they serve every single day, while contributing to the quality and safety of care in Canada.

Since the start of COVID-19, McKesson Canada's thousands of employees across the country have been focused on ensuring the continued availability of vital medications and personal protective equipment despite volatile demand and supply, as well as ensuring patients have access to the services they need close to home, and working with governments across the country to support the distribution and administration of COVID-19 vaccines.

For more information, please visit www.mckesson.ca.