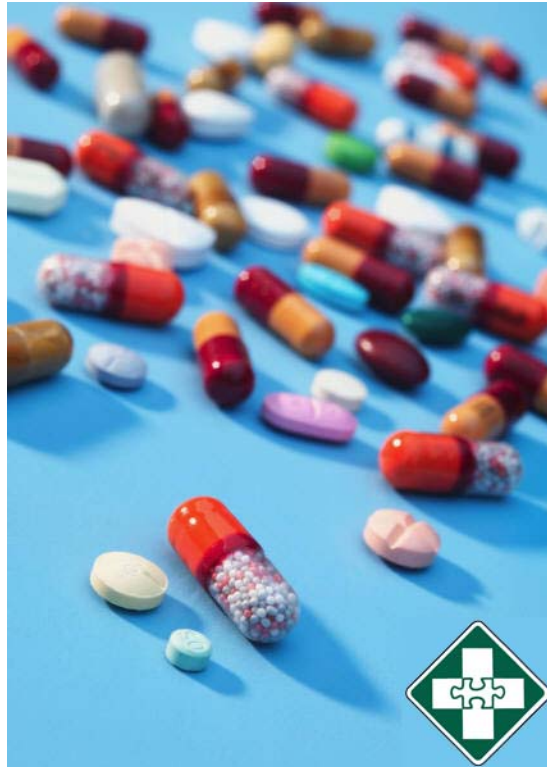


# MORE FOR LESS

## Pharmacare – A National Drug Plan



**Canadian Health Coalition**  
Updated: September 2007



## Forward

Most Canadians believe that Medicare should include Pharmacare. As governments discuss a national pharmaceutical strategy, organizations representing millions of Canadians have worked together to develop a vision of a national drug plan. We are proud to share that vision with you.

*Canadian Health Coalition*  
*Canadian Auto Workers Union*  
*Canadian Federation of Nurses Unions*  
*Canadian Labour Congress*  
*Canadian Union of Postal Workers*  
*Canadian Union of Public Employees*  
*Communications, Energy and Paperworkers Union*  
*Congress of Union Retirees of Canada*  
*Medical Reform Group*  
*National Anti-Poverty Organization*  
*National Union of Public and General Employees*  
*Public Service Alliance of Canada*  
*United Steelworkers*

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## **Summary**

This paper proposes that Canada implement Pharmacare - a national drug plan that would be publicly funded and administered, control costs, provide universal access and ensure the safe and appropriate use of drugs. It would cover essential drug costs in the same way that Medicare now covers hospitals and physicians.

Our current patchwork of public and private drug plans is inequitable, because obtaining coverage for drug costs is not determined by need, but by where you live and work. The present system is also incapable of resisting the negative influence of pharmaceutical companies on cost and safety, and has not ensured that our use of drugs is safe and appropriate. The current rate of increase in drug costs is unsustainable. We urgently need a new system that would be cost effective, accessible, promote the safe and appropriate use of drugs, and be public and affordable.

### **Cost Effectiveness and Controlling Drug Costs**

The main reason for escalating drug costs is the introduction and promotion of new drugs that are more expensive, but most often no better, than existing drugs. In order to reduce costs, the latest most expensive drugs must be used only in situations where they offer a therapeutic advantage over existing drugs and are appropriately used for tested therapeutic reasons. We need a national formulary of essential drugs, approved in a process that considers both safety and cost effectiveness. Patent laws need to be reviewed to allow the earlier introduction of cheaper generic drugs. Advertising and promotion of drugs to consumers and doctors needs to be controlled.

### **Access to Prescription Drugs**

For too many Canadians the cost of drugs is a financial burden and a barrier to access. All Canadians should have access to the drugs necessary for healthy living. The goal of a public Pharmacare plan would be to provide essential drugs approved on a national formulary to all Canadians on a first dollar basis, that is, with all costs covered. Seniors, children, those with disabilities and those on low incomes should be immediately relieved of any drug costs. For a phase-in period, while cost-saving mechanisms would be coming into effect, others would contribute a limited proportion of their drug costs.

## **Safe and Appropriate Use of Drugs**

Drug research, the drug approval process and the prescribing practices of doctors are all influenced by funding and promotion from pharmaceutical companies. A public Pharmacare plan must include an independent agency to approve drugs on a more rigorous basis, set research standards and ensure that research findings are available to health care professionals and to the public. Post-marketing safety must also be strictly monitored. Drug company advertising and promotion to the public and to health care professionals must be replaced with more reliable and independent information. Pharmacare would make it possible for doctors and patients to get objective and up-to-date information about proper prescribing and use of drugs.

## **Public and Affordable**

A national, public Pharmacare plan would have the capacity to undertake the changes outlined above. It would also replace the more expensive private insurance plans, reducing administrative costs and eliminating profits, sales and commissions. As a single payer system, Pharmacare would have the negotiating strength to obtain lower prices for drugs and that capacity to introduce the controls. To fund Pharmacare, the federal government contribution to drug costs should be increased from its current very low level. This change would both relieve the provinces' financial burden and make the federal government financially responsible for its decisions on drug approvals, patents and advertising. The substantial drug costs now paid only by those employers who provide work based plans, should be replaced by an equitable tax on all employers. A Pharmacare plan would benefit employers by removing responsibility for the health care of their workers to an equitable and cost-controlled public system.

Like Medicare, Pharmacare would benefit all Canadians, be advantageous to employers and bring our health care services up to the standard that exists in almost every other developed country.

## **Introduction**

Pharmacare has long been envisioned as an essential step in the evolution of Medicare, and we have the opportunity to realize that vision.

The First Ministers agreed in September 2004 to develop and implement a national pharmaceuticals strategy (Appendix A) and a Task Force of representatives from federal, provincial and territorial governments was established. The First Ministers released a progress report on the National Pharmaceutical Strategy (NPS) in September 2006. There has been no progress on expanding drug coverage and the overall pharmaceutical strategy appears to be stalled due to lack of federal financial commitment.

In this paper, we offer a framework for a national drug plan that would meet the following criteria:

- **Cost Effective**
- **Accessible**
- **Safe and Appropriate**
- **Public and Affordable**

Canada and the United States are among the very few industrialized countries without a national public drug plan. For Tommy Douglas, the founder of our universal Medicare system, covering hospitals and doctors was supposed to be just the beginning, with drugs and other services to follow. The expansion of Medicare to include universal drug coverage was recommended by Justice Emmett Hall in 1964. It is time to realize that vision and bring Canada up to par with other developed nations.

## **1. Cost Effectiveness and Controlling Drug Costs**

### **What We Have**

Escalating spending on drugs is undermining current drug plans and will threaten the sustainability of any system unless restrained. Prescription drug costs rose 77.4 percent between 1996 and 2006.<sup>1</sup> Adjusted for inflation, the amount that we spend on drugs is now increasing by between seven and eight percent each year – three times the rate of inflation.<sup>2</sup> We spent \$21 billion on prescription drugs in 2006.

Drugs now rank second after hospitals in terms of share of total health care spending, having overtaken spending on physicians in 1997. The share of total health care spending going to drugs rose from 9.5 percent in 1985 to 17.0 percent in 2006.<sup>3</sup>

The rapid rise in drug costs is primarily due to the ongoing substitution of newer, more expensive drugs in place of existing, less expensive products. The newer drugs, in the majority of cases, have no added benefit. Of the 231 drugs with new ingredients introduced in Canada over the ten years from 1996 to 2005 inclusive, only 34 (15 percent) provided a substantial improvement over existing drugs.<sup>4</sup> The rest are “me-too” drugs that offer little or no therapeutic advances over existing therapies, but were found to be responsible for 80 percent of the increased expenditure on drugs in B.C.<sup>5</sup>

Aggressive advertising by drug companies drives consumption of these me-too drugs.<sup>6</sup> Apart from advertising directly to consumers, drug companies spend approximately \$30,000 per year for every doctor in Canada on drug samples, sales rep contact, conferences, trips and giveaways.<sup>7</sup> The influence of pharmaceutical companies on research, education and clinical practice has also been widely documented.<sup>8</sup> Both patients and doctors are influenced by the onslaught,<sup>9</sup> with the result that drug costs are skyrocketing but health outcomes are not necessarily improving.

The federal Patented Medicines Prices Review Board (PMPRB) was established in 1987 by the Mulroney government to create the appearance of price controls, at the time when the government granted increased monopoly patent protection to pharmaceutical companies. The PMPRB reviews the introductory prices of patented drugs and ties increases in the price of these drugs to the consumer price index. However, the PMPRB regulations mean that the price of new products can be as high as those of existing drugs in the same therapeutic class, even if the new drugs are no better or even inferior to the drugs already on the market. Since pharmaceutical companies maintain high prices for their brand name drugs, even when patents expire, new versions entering the market continue to be set at inflated levels.<sup>10</sup> The drug industry points to PMPRB reports and asserts that drug prices are declining. This deflects attention away from the real problem, which is the inflated introductory price of new drugs and their substitution for older less expensive ones.

Patent protection enjoyed by brand-name pharmaceutical companies continues to inflate drug costs. New drugs have patent protection for 20 years from the time a company files an application for a patent – effectively 10 to 13 years after they reach the market. Automatic extensions and legal battles can extend this patent protection by several years further delaying the introduction of cheaper generic drugs. Even though the percent of prescriptions filled by generic medications continues to grow, at the same time the percent of overall drug costs accounted for by brand-name drugs also continues to increase primarily because heavy promotion by the brand-name companies leads to the substitution of newer, more expensive patented medications for existing, less expensive nonpatented ones.<sup>11</sup>

The multiplicity and fragmentation of Canadian drug plans impedes better management of drug costs, including decisions on what drugs get funded and the ability to negotiate lower prices. Once new drugs are approved federally, they are assessed for placement on provincial drug formularies. Drugs are purchased separately by provincial governments, hospitals and individuals, which precludes bulk purchasing and undermines negotiation of lower prices. Australian government drug managers negotiate an acceptable price with manufacturers and pay approximately 9 percent less than Canada pays. New Zealand achieved 50 percent savings using coordinated bargaining methods, such as tendering for generic products and requiring companies to cut prices for drugs already on a government formulary in return for getting new drugs listed.<sup>12</sup> A national Pharmacare program would achieve significant savings.<sup>13</sup>

## **The Problems**

We are paying for many expensive drugs when cheaper existing drugs would provide equivalent and sometimes better treatment. We are also spending on drug therapy when other types of treatment, or no treatment, would be equally or more effective.<sup>14</sup>

Rising drug costs have placed both public and private drug plans under pressure. Provincial drug plans have been cut back in response to rising costs.<sup>15</sup> These plans most commonly cover seniors on low incomes, social assistance recipients and those with high-cost medical conditions. In work place health benefit plans, drugs account for 70 to 80 percent of the cost, and premiums are rising by 15 percent each year. Employers are pressing to contain costs, and health benefits have become a major source of contention between unions and employers.

The fragmentation of drug plans and responsibility undermines effective and accountable planning. The federal government, for example, has control over drug approval, patents and advertising, while paying little towards drug expenditures. It therefore has no fiscal responsibility for the impact of its decisions.

## **What We Need**

### A national formulary of essential drugs

We need a national drug formulary that would focus on providing essential drugs that are both medically and cost effective. This would not cover all of the drugs on the current formularies, but would include essential drugs. The list would be decided by independent pharmaceutical experts on a national formulary committee governed by strict conflict of interest rules. The committee would make allowance for special needs, and there would be an appeal mechanism.

Some provinces are already using various methods to control costs. For example, reference based pricing means paying only for the lowest priced drug among drugs of the same type. The B.C. Reference Drug Program applies to only five categories of drugs and initially resulted in substantial savings.<sup>16</sup> Because the program was not expanded to other drugs the savings have now largely evaporated.<sup>17</sup> Another approach is the first line system, which means prescribing a less expensive drug as a first treatment, and resorting to more expensive drugs only if necessary. These methods should be part of a national system.

### Single-payer public system

Governments in Canada should assume the cost for essential drugs on the national formulary, introducing a single payer system. They would then have the power to negotiate lower prices for the large quantities of drugs they would be responsible for providing.

### Better regulation of drug prices

The Patented Medicine Prices Review Board must be revamped to make it publicly accountable, transparent, and effective. The PMPRB should set the prices of new drugs to reflect their value to patients. New drugs that are no better than existing ones should not command higher prices.

### No advertising

Drugs are not just another commodity like clothes or cars, and advertising is not designed to inform but to encourage purchase. Health Canada should enforce legislation that prohibits drug advertising to the Canadian public, including mandatory filtering out of broadcast ads from the United States. Drug company advertising, promotions and seminars directed at doctors and other health care providers must also be strictly controlled.

### Patent reform

Granting monopoly pricing to pharmaceutical drugs through patent protection should be reviewed. Pending the outcome of the review, patents should be limited to 20 years with no extensions. The government should abandon proposed amendments to Food and Drug Regulations that offer increased data protection and extended monopolies.

## **2. Access to Prescription Drugs**

### **What We Have**

Obtaining drugs is a mix of public and private arrangements.

Drugs provided in hospitals are covered as publicly insured services under the Canada Health Act. Provincial government plans cover drug costs for some people, usually based on age, income and medical condition. Eligibility rules, coverage and cost sharing vary between provinces. Some provinces subsidize the drug costs for patients receiving nursing care at home, but coverage is limited.

On the private side, work based plans, often negotiated by unions, cover 58 percent of workers and their families.<sup>18</sup> These workers are insured in group plans, most commonly through private insurance companies. The plans vary by how much workers contribute to the premiums, what percentage of drug costs are covered, and the deductibles charged. Drug coverage is lost if the worker leaves, retires or is laid off.

Many Canadians get no help with the cost of drugs and must pay the full amount themselves.

### **The Problems**

Our fragmented and inadequate drug plans means unequal access between citizens, both between provinces and within provinces, and can lead to devastating health consequences. As well, people who cannot afford to take their prescription drugs may experience deteriorating physical and mental health and need more expensive health care interventions, causing higher costs for the health care system.

For many Canadians purchasing prescribed drugs represents a significant financial hardship. In a major study on access to prescription drugs, 3.4 million Canadian were found to be either uninsured or under-insured for drug costs. Almost one million Canadians were uninsured, defined as having to pay more than 4.5 percent of their gross family income for drugs. For example, a family with a before tax income of \$35,000 would be paying more than \$1,575 for drugs under this definition of uninsured. Another 2.4 million Canadians (eight percent) were underinsured, defined as having to pay between 2.5 and 4.5 percent of gross family income for drugs.<sup>19</sup> Financial barriers to prescribed drugs are heightened as hospital stays are shortened and health care services are shifted to community and continuing care settings, and ultimately to individuals.

The lack of drug plans in many low wage, part-time or temporary jobs is a major barrier for people on social assistance wanting to find work, because if they move into paid employment they lose their access to prescription drugs.

Provincial plans provide different levels of coverage, with a complex mix of eligibility rules, deductibles and co-payments.<sup>20</sup> Coverage is especially limited in the Atlantic provinces. For example, take the case of a couple aged over 65 with an income of \$35,000 and in need of \$1,000 of drugs per year. This couple would pay the entire costs in New Brunswick and Newfoundland, two-thirds of the cost in Quebec, one-third in Ontario and B.C., and nothing in the Yukon or Northwest Territories.<sup>21</sup>

Those most likely to have inadequate insurance are 18 to 24 years old and 55 to 64 years old. These age categories are less likely to have drug coverage through work or be eligible for provincial plans.

Our multi-payer system of drug coverage and high reliance on out-of-pocket spending leads to neglected health needs and ultimately higher overall health care costs. Even small increases in individual payments for drugs among those on low incomes can discourage their use, leading to the need for more expensive health care services such as physician care, emergency department visits, and hospitalization.<sup>22</sup>

## **What We Need**

### Universal coverage for essential drugs in a public plan

All Canadians should be publicly insured for essential drugs, with the costs shared between the federal and provincial governments. The goal would be a universal plan, providing first dollar coverage to all Canadians. This means the entire cost of drugs on the formulary would be covered. There is a precedent for such a plan in the six drug benefit programs run by the federal government and the Northwest Territories' plan, which are all first-dollar universal public plans.

Such a plan would be a public plan similar to the provision of other health services, like visits to doctors and hospitalization, providing essential care to everyone. If necessary given an examination of the finances (see below), first dollar coverage for all Canadians would be phased in. In this scenario, first dollar coverage would be provided for a broad definition of those most in need, including seniors, those on low incomes, people with disabilities, children and those with medical conditions requiring high-cost drugs. Others would pay a reasonable and affordable premium, adjusted for different income levels. This would provide for additional financing for the new system during its introductory period, while savings from the cost control mechanisms come into effect.

With such a public system, work-based plans would be unnecessary for basic drug coverage but could supplement the public service. This would be done in the same way as additional health services such as semi-private hospital rooms and physiotherapy are currently negotiated.

## **Problems With Catastrophic Drug Coverage**

The public Pharmacare plan we are proposing would not be a catastrophic drug plan. The Romanow Report proposed that the federal government share costs with the provinces for drugs that cost more than \$1,500 per year, per person. While Canadians certainly need help in the event of very high drug costs, there are serious drawbacks to focusing on just catastrophic drugs.

Although federal government cost sharing for this component of drug costs would help relieve provincial finances, nothing else would change. It is not a step towards a more fair and universal public system. Injecting more government financing without cost controls or quality measures would not improve the future prospects for drug coverage. More public money would be funneled to pharmaceutical companies, costs would continue to rise, and government drug plans might be further eroded.

Catastrophic coverage is essentially a deductible, where individuals pay \$1,500 or some other rate before financial help is provided. Those who cannot afford to pay the deductible would receive no new support. Moreover, in order to obtain federal cost sharing, provincial health dollars might be diverted to catastrophic coverage and away from first dollar coverage for those now covered by provincial plans.<sup>23</sup>

Another critical concern is that the catastrophic coverage envisioned would only provide federal support to provincial plans, and does nothing for work-based plans. It would not relieve employers from their responsibilities for catastrophic drug coverage, or help reduce the pressure on the work-based plans that cover 16 million Canadians.

## **3. Safe and Appropriate Use of Drugs**

### **What We Have**

Health Canada's Therapeutic Products Directorate (TPD) determines the safety of drugs and approves their use. In 1995, a new "cost-recovery" approach meant that drug companies began paying fees for the approval process. Pharmaceutical companies now pay half the running costs of the agency that evaluates and approves their drugs. The percentage of new drug applications getting a positive decision has risen, and Health Canada is no longer enforcing the legislation that prohibits prescription drug advertising to the public.

Health Canada does not share the drug evaluation research with the public or with doctors, pharmacists and others in the health care profession. When a new drug is approved, there is often very limited information available to doctors.

The threshold for approvals is too low. In order to receive approval, a drug does not have to be better than an existing drug. It only has to be better than a placebo. The approval process does not consider cost-effectiveness.

As part of the Smart Regulation initiative, Health Canada is revising food and drug safety regulations and legislation. In this process, it is considering faster, not safer, ways of approving drugs.

## **The Problems**

Health Canada approves expensive me-too drugs that provide no improvement over existing drugs.

Health Canada and its approval procedures are not adequately protected from influence by pharmaceutical companies. The Canadian Medical Association Journal has stated that Health Canada is biased towards approving drugs too quickly and without adequate proof of safety.<sup>24</sup>

Pharmaceutical industry influence also extends to research. A number of studies have exposed the push by drug companies to get their products approved and marketed by using biased and unreliable research methods.<sup>25</sup> Eleven leading medical journals issued a joint statement that market values were compromising medical science, because huge grants from pharmaceutical companies to universities and research hospitals are biasing research outcomes.<sup>26</sup>

There is a remarkable lack of information about drugs, especially new drugs, even for the doctors who prescribe them. One doctor has described how “obtaining even the barest form of clinical information from the TPD about drugs is exceedingly difficult”, even in situations where the drug treatment is controversial.<sup>27</sup> Doctors are left to rely on drug companies for information.

Drug scandals are common. Millions of women were prescribed hormone drugs for menopause symptoms, often to be taken for life. These drugs are now recommended only in severe cases, at low doses and for the shortest possible time, since they are linked to increased risk of strokes, heart attacks, breast cancer, blood clots and gallstones.<sup>28</sup> The widely prescribed pain killers Vioxx and Bextra were found to cause heart attacks.<sup>29</sup>

Currently, the most prescribed drug in Canada is a cholesterol-lowering statin called Lipitor, at 9.7 million prescriptions per year.<sup>30</sup> Three million people, one out of every eight Canadians over 15 years old, are taking statins to lower cholesterol. While proven effective for people with actual heart problems, it is widely used as a preventative treatment. Its value for prevention is disputed. Health Canada has determined that potential side effects warrant warnings to consumers with each prescription.

Pre-marketing trials test drugs on selected groups of patients. However, when the products are released on the market they are aggressively promoted and often prescribed to patients with health conditions not covered by the clinical trials. This heavy prescribing takes place long before the full safety profile of new drugs is known, exposing patients to potentially serious problems. Half of the drug withdrawals in the United States between 1975 and 1999 occurred within the first two years of a drug being introduced.<sup>31</sup>

## **What We Need**

### Drug regulation that puts safety and efficacy first

We need an accountable and transparent regulatory agency to approve drugs, free of conflict of interest and with no funding from the pharmaceutical industry. The government should replace Health Canada's Therapeutic Products Directorate with this new agency, which would report to the federal Minister of Health and be guided squarely by the public interest, including cost effectiveness.

The new drug approval agency would also monitor and regulate the quality and effectiveness of pharmaceutical industry research to ensure independent analysis and publication of all results. There should be a single set of national rules governing the conduct of Research Ethics Boards to help ensure ethical conduct in clinical trials and health research. Government should also establish mandatory registration of clinical trials before they begin that would identify: funders, sponsors, researchers, number and characteristics of patients, research objectives and methods, as well as proposed research sites. This registration system must be publicly available.

The government should also mandate information about proper usage of the drugs, proper safety warnings in plain language, and listing possible alternatives to the drug where appropriate. Warnings must be given out with all prescriptions and must be approved by the regulatory agency.

### Appropriate prescribing and use of drugs

A universal, public system would enable government to have more impact on prescribing practices, including the ability to inform doctors and others through expert opinion and medical research. Improved prescribing would also be achieved by making better use of pharmacists, nurse practitioners, and other health professionals working together in teams.

Governments should fund the development of a national, unbiased, evidence-based drug information system for all health care professionals and patients. This information system would include a computer-based record of a patient's medical history and independent comparative information on drug and non-drug treatments. National coordination and the controlled listing of new drugs would help the government to regulate early use.

### Drug safety board to investigate safety issues post-marketing

An independent agency should actively assess all possible adverse drug reactions once a drug is on the market. It would make all information on investigations public - while exempting information that would identify individuals - allowing easy access through a vehicle such as a searchable web-based database.

### Accountable and transparent decision-making

Both health care practitioners and the general public should have access to all information used to make decisions on drug approvals, including unedited pre-clinical and clinical trial data and summaries of the trial data. The government should establish expert advisory panels to hear evidence on new medications before the drug is approved. Panel members would be subject to strict conflict-of-interest rules. It should also provide opportunities for public input into the drug approval and review process.

## **4. Public Pharmacare is Affordable**

### **Who Pays for Drugs Now?**

In 2006, prescription drug costs in Canada totaled \$21 billion. As presented in the table below, funding comes from both public and private sources. According to this table, public funding covered 46 percent of this cost, while private payments were made for the other 54 percent.

Public funding is divided between the federal and provincial governments. While the provinces accounted for 38 percent of total costs, the federal government contributed only 3 percent.

Private funding is divided into two categories: insurers and individuals.

- a.** Insurers pay for 36 percent of all drug costs. This is the segment of drug costs paid for by employers and workers through premiums to insurance companies to cover their group health plans. In 2000, 55% of workers were required to contribute to the cost of premiums for group drug plans, while employers paid the full amount for 45% of workers.<sup>32</sup> Workers may contribute anywhere from 10 to 50% of premium costs. A reasonable estimate would be that employers pay at least 80% of the premium costs.
- b.** Payments by individuals, called out of pocket expenditures, make up 19 percent of total drug costs. These are the amounts paid for drugs at the pharmacy counter, by those who have no drug coverage or only partial coverage.

<b>Prescription Drug Costs in Canada, 2006</b> (forecast)		
	<b>\$ millions</b>	<b>%</b>
<b>Public expenditures</b>		
Provincial/territorial	8,100.3	38.4
Federal	670.6	3.2
Social security funds*	847.7	4.0
Subtotal	<b>9,618.6</b>	<b>45.6</b>
<b>Private expenditures</b>		
Insurers (employers/workers)	7,558.3	35.8
Out of pocket (individuals)	3,913.5	18.6
Subtotal	<b>11,471.8</b>	<b>54.4</b>
<b>Total Drug Costs</b>	<b>21,090.3</b>	<b>100.0</b>
*Workers Compensation Board and the Quebec Drug Insurance Plan for those otherwise not covered.		
<i>Source: Canadian Institute for Health Information, "Drug Expenditure in Canada, 1985-2006", Ottawa, 2007, Table A.1.</i>		

It is important to note that the table above and the discussion thus far are misleading with regard to the division between public and private expenditures. These figures from the Canadian Institute for Health Information are the most comprehensive that we have and are widely used in any discussion of drug costs. However, they understate the amount currently paid for drugs by governments.

The reason for this understatement is that federal and provincial governments are also employers and cover their own workers by paying for their benefits through insurance companies. This is a substantial figure. In 2006, there were 3.1 million public sector workers (federal, provincial, and municipal) out of a total of 16.5 million workers, that is 19% of all workers.<sup>33</sup> As far as payment for drug coverage is concerned, public sector workers are more often unionized and more often covered for such benefits than workers in the private sector. Even among unionized workers, employers contribute to drug plans for 59% of public sector workers compared to only 39% in the private sector.<sup>34</sup> This question needs further analysis, but it is likely that up to one-third of the \$7.6 billion under the category of "insurers" is actually paid for by tax dollars through different levels of government. To give one specific example, the drug plan for federal government workers covers over one million people, about half workers and their families and half retirees and their families.

The fact that governments pay not only the “public” expenditures on drugs, but also a substantial proportion of the so-called “private” expenditures means that moving to a national Pharmacare plan would be less onerous for government budgets than has been suggested. Governments may in fact be paying as much as \$2.5 billion of the \$7.6 billion attributed to “private” funding. It also means that governments as employers will benefit from the same advantages in a national drug plan as other employers (see below).

This analysis also means that private employers contribute considerably less than the \$7.6 billion usually attributed to them. If governments as employers do pay a roughly estimated \$2.5 billion for drugs purchased through work based insurance plans, then private sector employers are paying \$5.1 billion.

## **What We Need**

### Paying for drugs: direct government funding

At 46 percent of total drug costs, the direct contribution of combined federal and provincial to drug expenditures is low in Canada compared to the public contribution in other countries, and should be increased.<sup>35</sup> An increase in overall public funding should be used to reduce the amount paid by individuals.

Clearly, the federal government makes a very minimal direct contribution to drug costs, at just 3 percent of the total. Prescription drug coverage should be funded on the same basis as federal-provincial cost sharing for other health care services, with the federal government contributing 25 percent of the public share of costs. Such an increase in the percentage of drug costs paid for by the federal government would reduce the amount paid by provincial governments. On this basis, in 2006, the federal government would have contributed 11.4 percent of the total drug costs (25 percent of the public share of 46 percent), instead of only 3.2 percent, an increase from \$671 million to \$2.4 billion. This is an entirely feasible contribution.

This paper proposes that the government take over payment for all drug costs in a publicly funded and administered plan. However, we recommend that private sector employers continue to make an appropriate contribution through the tax system (see below).

### Paying for drugs: insurers, employers and workers

For all employers, public health care is a major advantage. It relieves them of responsibility for workers’ health care costs, and it averts the serious expenses and disputes experienced in the U.S.<sup>36</sup> Drugs are not part of the universal health care system in Canada, and employers find that private drug plans are expensive, complex to negotiate, and a source of increasing disputes and strikes. A public and universal drug program, as with other public health services, would be advantageous to both private and public sector employers.

Canada's publicly funded universal health care system provides our private businesses with a competitive advantage over businesses in the United States. A national public drug plan would strengthen that advantage. Our public system operates much more efficiently than the largely private system in the U.S. Health care spending in the U.S. is well over \$5,000 per person – almost two and a half times Canada's per capita spending.<sup>37</sup> Taking just one example of how this translates into a competitive business advantage, General Motors in the U.S. reports that private health care plans cost them more than they spend on steel - about \$1,500 per vehicle. GM Canada pays only \$500 per vehicle.<sup>38</sup>

With public health insurance, Canadian employers also enjoy more workplace stability. In the United States, every significant strike or bargaining conflict involves health insurance costs.<sup>39</sup> If we fail to address rising drug costs, labour-management conflicts over workplace benefit plans will also intensify in Canada.

The Conference Board of Canada found that large private employers expect to continue contributing to health costs, but are concerned about cost containment and reduction.<sup>40</sup> The following proposals address these concerns.

Pharmacare would equalize contributions for drug coverage among employers. As of 2000, only 58 percent of workers (7.6 million) are covered by work-based plans.<sup>41</sup> Often part-time workers and those who work in small businesses (25 or fewer workers) have no insurance for drug costs. One serious problem in the current private insurance system is that it is often too expensive for small workplaces to obtain drug benefit coverage. While the average administration fee for privately insured drug plans is eight per cent, insurance companies charge small groups up to 25 percent for administration.<sup>42</sup>

Of the 42 percent of workers not covered by work-based drug plans, some are paying for drugs themselves as individuals, some are covered by provincial government plans, and many are covered by the work-based plans of their family members. While 7.6 million workers have drug coverage, their plans also cover another four million adult family members under the age of 65 years and 4.4 million children.<sup>43</sup> A total of 16 million Canadians were covered by work based plans in 2000.

It is clear that some employers pay towards the \$7.6 billion price tag for drugs purchased through insurance companies, while others pay nothing. Indeed, those employers who do contribute are often subsidizing their workers' family members, who are employed but have no insurance at their work place. A more equitable system would be a tax applied fairly to all employers on a progressive basis.

Also important is that employers and workers pay substantially more in premiums to insurance companies than the amount paid by insurers for drugs. “Typically, the actual cost of prescriptions (i.e. the medication and the professional fee) makes up 75 percent of prescription drug plan costs for an employer. The remaining 25 percent of costs are generated by the insurer’s administration costs (including adjudication transaction costs), plan reserves, taxes and commissions or fees for the benefits consultant or broker.”<sup>44</sup> In other words, the \$7.6 billion paid by insurers for drugs in 2006 is only 75% of the amount paid by employers and workers for drug insurance premiums. By this estimate, employers and workers, in both the public and private sectors, actually paid \$10.1 billion in insurance premiums to obtain \$7.6 billion worth of drugs. Of this amount, employers paid a roughly estimated 80%, while workers paid the remainder through their contributions to premium costs.

The administration of private drug plans is an enormous expense. Millions of workers are making claims for themselves and their families, and the plan at every work place differs with regard to eligibility, deductibles, co-payments and prescription coverage. Each claim must be assessed under the plan for that workplace and reimbursed or rejected individually. In a universal public plan, administrative costs would be drastically reduced. One study found that average administration costs in private plans are eight percent compared to only two percent in large public plans.<sup>45</sup> This does not include other costs of private insurance, such as profits, brokers’ fees, and commissions - costs that would not apply in a public system.

Moving to a national, public Pharmacare plan would save a significant amount of money, as does our Medicare system compared to private health insurance. The role of insurance companies in providing prescription drugs would be greatly reduced. The loss of jobs that would result should be recognized and a transition program designed to help those affected. However, concern over job loss in the insurance industry should not prevent the introduction of a more cost effective, public Pharmacare program that would benefit all Canadians.

#### Paying for drugs: individuals

Individuals currently pay 19 percent of all drug costs themselves, that is \$3.9 billion as of 2006. This places a significant burden on many Canadians. In this Pharmacare proposal, additional funding would be available from controls on the cost of drugs, increased government funding, contributions from additional employers, and savings of money now going to insurance companies for administration, profits and marketing.

These funds could be applied to substantially reduce out-of-pocket expenses for individuals. This would provide, if not for immediate first dollar coverage for everyone, at least for much broader first dollar coverage for drugs than now exists.

## **Universal Public Pharmacare is Affordable**

In a universal drug plan, there would be increased costs because more Canadians would have access to prescribed drugs. For those who are now uninsured or under-insured and who therefore fail to obtain drugs prescribed for them, drug consumption would increase.<sup>46</sup>

However, higher consumption costs would be far outweighed by savings from Pharmacare. Our analysis suggests four additional sources of funding in a national drug plan:

1. Reductions in the costs of drugs, including new drugs under stricter scrutiny, a national drug formulary, improved prescribing, controls on advertising and promotion, negotiation of lower prices, direct price control mechanisms, and restricted patents.
2. Additional overall public funding relative to private funding, including a particularly substantial increase in the contribution from the federal government;
3. Contributions from employers for the large number of workers not covered in work based plans;
4. Savings from the current administration, profits and marketing costs of insurance companies.

We estimate that a public system as outlined above could finance the additional costs of increased usage by those now without adequate insurance, reduce the amount currently paid by contributing employers and substantially decrease payments by individuals.

We propose that government fund a thorough and reliable research project on funding for Pharmacare to analyze these possibilities in more detail.

## **Conclusion**

We call on governments to take responsibility for the provision of prescription drugs, an element of health care no less critical than hospitals and physicians.

We need Pharmacare - a national drug plan that would be publicly funded and administered, control costs, provide universal access and ensure the safe and appropriate use of drugs.

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## Glossary

Catastrophic coverage:	See: Last-dollar coverage
Common Drug Review:	A single common process for reviewing new drugs to assess potential coverage under Canadian public drug benefit plans, established in September 2001 by federal, provincial and territorial Health Ministers (except Quebec).
Co-payments	Some benefit plans require that you pay part of the cost of each benefit or service. This is called a co-payment. It can be the same amount each time, like \$5, or it can be a percentage of the total cost, such as 20%.
Deductible:	A patient or user pays 100% of prescription drug costs until an annual maximum is reached. Once you reach the deductible amount, further eligible costs may be covered for the remainder of the calendar year. In some plans co-pays are added up until they reach the deductible, e.g, if the co-pay is \$5 per prescription and the deductible is \$100 then after you've filled 25 prescriptions you don't pay the co-pay any more.
Evergreening	Tactics used by brand name pharmaceutical manufacturers to extend the duration of a drug's patent. It includes, for example, a company bringing out a new once-a-day version with its own patent when the patent on the three-times-a-day version is due to expire.
Formulary	A list of prescription drugs established by a regulatory body. Governments can define formulary drugs covered by public insurance. Private insurance plans also have a formulary.
First dollar coverage	A drug insurance plan that pays for all of the drug costs covered starting with the first prescription and with no co-payment, deductible, or out of pocket payment.

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Last dollar coverage (Catastrophic)	A drug insurance plan that only covers a person's drug costs beyond a large annual deductible (e.g. \$1,500). Also called a catastrophic drug insurance plan.
First-line treatment	The drug therapy that should be tried initially in the treatment of a disease. If this fails to work, you move to a second-line treatment.
OECD	The Organization for Economic Co-Operation and Development, a Paris-based organization that acts as a meeting ground for 30 countries which believes strongly in the "free" market system but supports monopoly patents on medicines to prevent competition.
Pharmacare	A national government operated prescription drug insurance plan.
Reference based pricing	Setting a maximum reimbursement price for a group of drugs considered to be equally as effective and the most cost effective in a therapeutic category

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## APPENDIX A

2004 Health Accord (Federal/Provincial/Territorial)

### **National Pharmaceuticals Strategy**

The founders of Medicare a half-century ago established the principle of equity of access to hospitals and doctors' services for all Canadians. First Ministers agree that no Canadians should suffer undue financial hardship in accessing needed drug therapies. Affordable access to drugs is fundamental to equitable health outcomes for all our citizens.

First Ministers direct Health Ministers to establish a Ministerial Task Force to develop and implement the national pharmaceuticals strategy and report on progress by June 30, 2006.

The strategy will include the following actions:

- develop, assess and cost options for catastrophic pharmaceutical coverage;
- establish a common National Drug Formulary for participating jurisdictions based on safety and cost effectiveness;
- accelerate access to breakthrough drugs for unmet health needs through improvements to the drug approval process;
- strengthen evaluation of real-world drug safety and effectiveness;
- pursue purchasing strategies to obtain best prices for Canadians for drugs and vaccines;
- enhance action to influence the prescribing behavior of health care professionals so that drugs are used only when needed and the right drug is used for the right problem;
- broaden the practice of e-prescribing through accelerated development and deployment of the Electronic Health Record;
- accelerate access to non-patented drugs and achieve international parity on prices of non-patented drugs; and
- enhance analysis of cost drivers and cost-effectiveness, including best practices in drug plan policies.

[It is understood that Quebec will maintain its own Pharmacare program.]

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## **APPENDIX B**

### The Canadian Health Coalition's 10 Elements of a National Strategy for Pharmacare

#### **1. Universal public drug insurance**

- Expand first-dollar coverage according to the principles of the Canada Health Act: no user fees, co-payments or premiums for insured first-line therapeutic treatments.
- Fully fund the insurance plan through the public sector. Governments self-insure to control costs. No partnerships with the private sector.
- Options for “catastrophic” drug coverage (covering costs that exceed high thresholds) must not become a means of limiting the current first-dollar programs.

#### **2. National formulary for essential drugs**

- Insure first line therapies on a national formulary based on evidence of efficacy, safety, and comparative cost-effectiveness.
- Decisions would be made by a national formulary committee governed by strict conflict of financial interest rules.
- The public plan pays only for what works and is cost-effective.
- The committee would make allowance for special needs, and there would be an appeal mechanism.
- Use nationally integrated cost-management methods, including: bulk purchasing, cost-volume price negotiations, and reference based pricing.

#### **3. Drug regulation that puts safety and efficacy first**

- Replace Health Canada's Therapeutic Products Directorate with an accountable and transparent regulatory agency that reports to the federal Minister of Health and that receives no funding from the industry it regulates.
- Mandate information on proper use of drug as well as safety warnings in plain language, listing possible alternatives to the drug where appropriate. Warnings must be given out with all prescriptions and must be approved by the regulatory agency.
- Create an independent agency to monitor and investigate the safety of drugs after they reach the market, modeled on the Transportation Safety Board.
- Make all information on investigations publicly available and easy to access, using a searchable web-based database with personal identifiers removed.

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#### **4. Reform of the Patent Medicine Prices Review Board**

- Change the Patent Medicine Prices Review Board regulations in order to prohibit new drugs with moderate, little or no therapeutic improvement to be priced as high as existing therapies in the same class of drugs.
- Change the regulations governing the PMPRB's methodology so that the introductory price of new drugs reflects the OECD countries that have a similar level of industry activity as Canada.

#### **5. Accountable and transparent decision-making**

- Guarantee public access to all information used to make decisions on drug approvals and formularies, including unedited pre-clinical and clinical trial data, summaries of the trial data, and financial assumptions used to decide what drugs get listed on the formulary.
- Establish expert advisory panels to hear evidence on new medications. Panel members would be subject to strict conflict-of-interest rules.
- Provide opportunities for public input in the drug approval and review process.

#### **6. Patent reform**

- End the “evergreening” of patents by repealing the Patented Medicines (Notice of Compliance) Regulations. By evergreening, companies keep a monopoly position on drugs past the time when the patent should have expired.
- Abandon proposed amendments to Food and Drugs Regulations that offer increased data protection and extend monopolies.

#### **7. Regulation of drug promotion and marketing**

- Improve and enforce sanctions that prevent prescription drug advertising aimed at the public.
- Establish strict rules and sanctions governing industry promotion and marketing to health professionals.
- Establish an independent body to oversee regulation of drug promotion and marketing - based in legislation, with representatives nominated from health professional groups and consumer/patient groups, independent of the drug or advertising industries.

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## **8. National prescribing service**

- Make better use of pharmacists, nurse practitioners and other health professionals working in teams.
- Work through the Royal College of Physicians and Surgeons, College of Family Physicians, and national and provincial pharmacists' organizations to promote better prescribing practices.
- Consider establishing an independent body along the lines of the Australian National Prescribing Service. This service would work through national and provincial health professional associations to develop and fund prescribing strategies.

## **9. Establish a public drug information system**

- Develop a national, unbiased, evidence-based drug information system for physicians, pharmacists and patients.
- This information system would include independent comparative information on drug and non-drug treatments.

## **10. Regulation for ethical conduct in clinical trials and research**

- Monitor the quality and effectiveness of pharmaceutical industry research.
- Establish and enforce national rules for ethical conduct in clinical trials and health research.
- Institute mandatory registration prior to clinical trials as a precondition for drug approval consideration. Registration of clinical trials would identify: funders, sponsors, researchers, number and characteristics of patients, research objectives and methods, and research sites.