

THE ECONOMIC CASE FOR PHARMACARE



By Keith Newman, Board Member
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The Canadian Health Coalition (CHC) was formed in 1979 with the goal of protecting and extending public health care in order to improve the well-being of the population. For nearly 40 years the CHC has advocated for a national public drug plan as a necessary addition to hospitals and doctors.

The CHC is a public advocacy organization dedicated to the preservation and improvement of public health care. Our membership is comprised of national organizations representing nurses, health care workers, seniors, churches, anti-poverty groups, students and trade unions, as well as researchers and affiliated coalitions in 10 provinces and one territory.

Neither the CHC itself, nor any of our affiliated organizations, receive financial or other support from companies that sell drugs, provide insurance for drugs or dispense drugs. The opinions of the CHC are independent of any influence due to financial self-interest.

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Public health care is part of Canada's social infrastructure, much as public roads, bridges, and railways are part of our physical infrastructure. But a key component of that infrastructure is currently missing: pharmacare. Canada needs a national public drug plan that's universal, publicly administered, accessible, comprehensive and portable.¹

This document provides a roadmap for Canada's investment in pharmacare. The economic case in favour of pharmacare is overwhelming. A national public drug plan is affordable, it would improve the health of Canadians, and it would be good for business.

Advantages of a Universal Plan

Universal drug coverage will reduce the burden on the health system. Currently, there are 100,000 needless admissions to hospitals every year resulting from non-adherence to prescriptions due to cost.²

Our complex network of 100 public and over 100,000 private drug plans³ is rife with excessively high drug prices and overprescribing. A national public drug plan will lower drug costs by consolidating bargaining power for drug prices at the national level. It would also reduce the high administration costs charged by insurance companies.

Fair and efficient public drug coverage will also increase our country's productivity and competitiveness.⁴ It will relieve employers of the burden of providing coverage, allowing them to focus on their operations. A healthier population would also mean less time away from work.

Problems with the "Fill in the Gaps" Model

Coverage of prescription drugs has overwhelming support among Canadians. Fiscal conservatives do not oppose a public drug plan per se, but they call for a "fill in the gaps" model. This means leaving the thousands of different drug plans in place and just adding a plan for those who lack adequate coverage. They claim this would be "fiscally responsible".

The evidence contradicts this. For example, Quebec adopted a "fill in the gaps" model in 1997. Drug costs in that province are the highest in Canada and in the developed world (with the sole exception of the United States). Twelve percent of Quebecers can't afford their prescription drugs, a rate that's higher than in any other province.⁵

The "fill in the gaps" model also falsely assumes that workers have good coverage under private plans. That's not always the case. Private plans are linked to specific employers, so if someone loses or changes jobs, they also lose their drug coverage. Work-based plans also often require co-pays that some people can't afford. This problem is getting worse as employers look for ways to lower costs by reducing benefits.

The Federal Government's Contribution

Public funding for a national drug plan should be shared by the federal, provincial and territorial governments. The federal government has much greater spending capacity than the provinces. It

must show leadership, paying a significant share to induce the provinces to participate and follow national standards.

When public health care was introduced fifty years ago, the federal government committed to covering half of the cost of doctors and hospitals. A similar commitment is required here. The federal government should fund at least fifty percent of the new pharmacare program, with the provinces funding the rest.

Last year, the Parliamentary Budget Officer cautiously estimated that pharmacare would cost \$20.4 billion. Significantly lower estimates have been borne out by the reduced drug costs negotiated by the provinces and the price reductions ordered by the Patented Medicine Prices Review Board (PMPRB).⁶ The Canadian Health Coalition (CHC) estimates that the cost of pharmacare would be closer to \$16.4 billion, if Canada experiences the same cost reductions as other countries that have implemented single-payer drug plans.⁷

If the federal government covered 50% of total pharmacare costs, it would have spent \$8.2 billion in 2015-16 (i.e. half of the \$16.4 billion noted above). However, the federal government already spent \$2.3 billion on drug costs that year, including tax credits and direct spending on First Nations peoples and the RCMP.⁸ Therefore, the net new funding required for pharmacare would have been only \$5.9 billion (i.e. \$8.2 billion minus \$2.3 billion).⁹ This spending is very modest compared to the estimated yearly savings of \$9 billion¹⁰ for employers and \$7.1 billion for households if we implemented pharmacare.¹¹

Higher Taxes Aren't Necessary

Higher taxes aren't necessary to cover the costs of pharmacare. The federal government's net new spending for pharmacare would only amount to about 2 % of its overall spending.¹² This is a drop in the bucket compared to other government spending required to keep the economy on an even keel, especially if there is a recession. If the economy is doing well, increased tax receipts would be higher than the additional spending required for pharmacare.

Deficit Spending

The money allocated to pharmacare should be budgeted and spent judiciously, but it will have little impact on the fiscal balance. The fiscal balance depends on the state of the overall economy, not on a specific program. Although funding for pharmacare might increase the deficit slightly, this isn't cause for concern. It certainly isn't an argument against proceeding with this new program. The current fiscal deficit is low, and there is no economic reason that it couldn't be higher. Indeed, it could easily be much larger than the currently budgeted \$18 billion without triggering excessive inflation (which is the only real danger of federal government spending being too high). There's no need to target a lower deficit.

In the 2015 election campaign, the federal Liberals promised deficit spending to invest in our country. They won the election on that basis.¹³ Our government should therefore invest in the health of Canadians by implementing pharmacare through deficit spending.

Income Taxes

The federal government should pay for pharmacare through its general spending. If the economy is booming and taxes do need to be raised to slow it down, the taxes to cover spending on pharmacare should only come from a small increase in personal and corporate income taxes. Personal income tax is the most progressive form of taxation on individuals. Since employers would gain financially by no longer funding drug plans, it makes sense that they would contribute through a small increase in their income taxes. These are the fairest sources of taxation, since those who benefit the most would contribute more than others.

Sources of taxation that are unfair and counterproductive should not be considered. These include an increase in the GST, co-pays, deductibles or a payroll tax.

Conclusion

There is no economic reason preventing us from joining all the other OECD countries that include prescription drugs in their universal public health care plans. Pharmacare would only require a 2% increase in federal spending, and it would save Canadian households and employers over \$16 billion annually.¹⁴ Every study over the last 50 years has recommended we do this. Once in place we'll wonder why it took so long and we hadn't done it sooner.

¹ *Pharmacare Consensus Principles*, October 2018: www.healthcoalition.ca/wp-content/uploads/2018/10/2018.10.26-Consensus-Principles.pdf.

² Michael R. Law, et al., "The consequences of patient charges for prescription drugs in Canada: a cross-sectional survey", *CMAJ Open*, February 2018, 6:1 E63-E70: <http://cmajopen.ca/content/6/1/E63.abstract?cited-by=yes&legid=cmajo;6/1/E63#cited-by>

³ Government of Canada, *Towards the Implementation of National Pharmacare*, June 2018, p.4.

⁴ Canadian Auto Workers, *Big Three Auto Joint Letter on Publicly Funded Health Care*, 2001: www.caw.ca/en/campaigns-issues-past-campaigns-issues-big-three-auto-joint-letter-on-publicly-funded-health-care.htm.

⁵ Léger Marketing and Commissaire à la santé et au bien-être Québec, *Rapport de recherche, Étude sur les médicaments*, projet 14850-001, May 2012, p.22

⁶ Marc-André Gagnon (2014), *A Roadmap to a Rational Pharmacare Policy in Canada*, Canadian Federation of Nurses Unions: https://nursesunions.ca/wp-content/uploads/2017/05/Pharmacare_FINAL.pdf; Steve Morgan et al. (2015), "Estimated cost of universal public coverage of prescription drugs in Canada" *CMAJ*: www.cmaj.ca/content/cmaj/early/2015/03/16/cmaj.141564.full.pdf

⁷ This estimate is based on 2015-16 figures. Spending by single-payer plans in Europe on a per capita basis for 2015 were as follows: Norway spent about half the amount spent by Canada. Sweden and the U.K. spent one third less, and Australia spent about 20 % less. We therefore expect costs in Canada to decrease by around one third. See: OECD (2017), *Health at a Glance 2017: OECD Indicators*, Figure 10.2, p.187. Calculations by the author.

⁸ Office of the Parliamentary Budget Officer (PBO), *Federal Cost of a National Pharmacare Program*, September 28, 2017, p.11. The sum of direct spending would be 0.645B plus medical tax credits: 1.480B and 0.150B.

⁹ These figures would need to be adjusted for 2019-20.

¹⁰ PBO, p.1

¹¹ PBO, p.19. This number includes premiums.

¹² \$5.9 billion divided by \$298.3 billion. Total federal spending in 2015-16 was \$298.3 billion.

¹³ Justin Trudeau, *Global TV*, December 18, 2015: <http://globalnews.ca/news/2410464/thats-probably-the-election-right-there-trudeau-reveals-turning-point-in-liberal-campaign/>

¹⁴ This is the sum of \$7.1 billion and \$9 billion. PBO, pp.1 and 19.