



COST DRIVERS

ANALYSIS OF PRIVATE
DRUG PLANS IN CANADA
2021



Year in review



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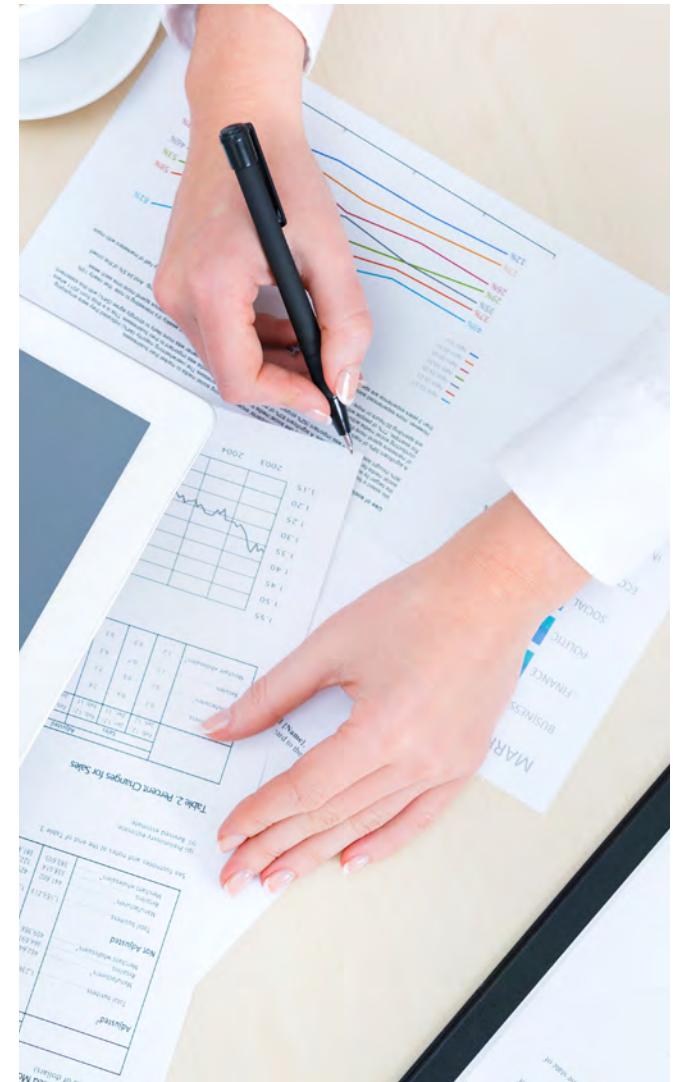
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EXECUTIVE SUMMARY

KEY FINDINGS:

- This year's report highlights that, contrary to popular belief, overall annual cost growth in the Canadian private drug benefits market has been consistently around 5% for the last decade, and most of the growth is due to increased utilization rather than cost increases:
 - Private market drug claims costs grew 5.3% in 2020, consistent with a compound annual rate of 5.3% between 2014 and 2019.
 - Two-thirds (68%) of this growth was driven by increased utilization (more people claiming more drugs due to increased demand), rather than increases in the cost of the drugs.
- Chronic disease continues to be a major cost driver for private drug plans, accounting for the largest share of plan costs (69%). Most of private drug spending is for lower-cost non-specialty drugs (68%), including treatments for modifiable chronic diseases.
- The COVID-19 pandemic changed the composition of drug claims in 2020. Although there were fewer claimants overall, those who made claims received more drugs, mostly for chronic diseases and higher-cost drugs.
- Claims for 30 days of supply or less accounted for 58% of the claims and 43% of the costs for oral solid drugs to treat chronic disease in 2020. Similar trends were observed in previous years, suggesting that this result was due not solely to the 30-day supply limit in the early months of the pandemic but to a longer-term trend.



1. INTRODUCTION AND BACKGROUND



The sustainability of private drug plans has been an ongoing topic of discussion in the private benefits market for the past several years. Publications from the private benefits market have created an impression that private drug plans are unaffordable and unsustainable due to increases in drug prices. To shed further light on this issue, Innovative Medicines Canada has been working since 2018 with IQVIA, a global leader in healthcare market insights, to examine private plan cost growth. To get a solid understanding of cost growth, we examine the key cost growth drivers at the national and regional levels.

The results of this year's report have unique characteristics, as 2020 was an unprecedented year due to the COVID-19 pandemic. In 2020, people were less likely to see their physicians and a 30-day supply limit on medication introduced in April and May had a direct impact on the composition of cost drivers. As a result, this year's report takes a closer look at days supply prescription fill rates by days' supply and compare them with historical trends.

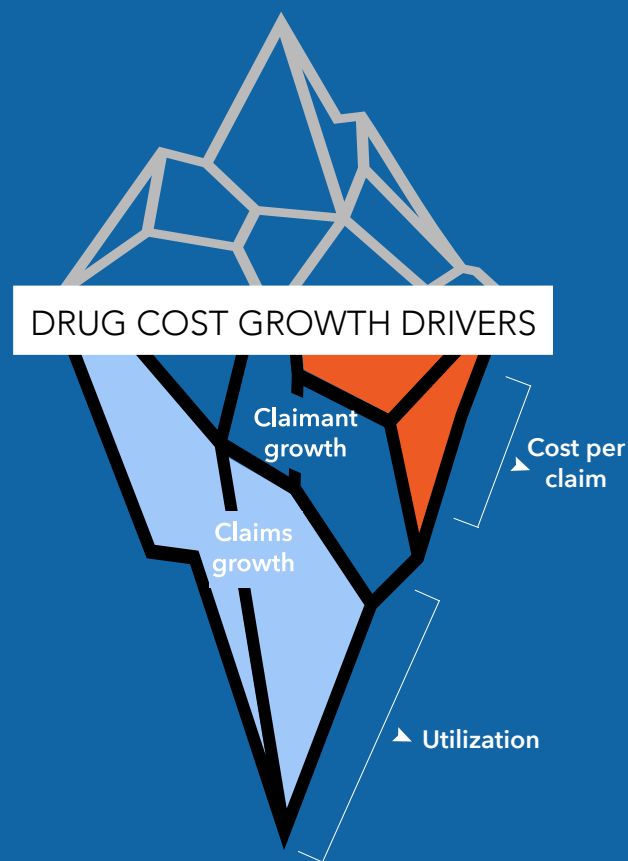
This report shows that fewer patients submitted claims in private plans in 2020 than in 2019, and there was a change in the composition of claimants due to the COVID-19 pandemic. Data shows that, in 2020, fewer patients used acute and low-cost therapies (e.g., anti-infectives) and there was a reduction in newly diagnosed chronic disease patients. As a result, the composition of claimants has shifted towards those claiming chronic and higher-cost drugs.

Private drug plan claims have three main cost drivers

The cost growth of drug claims in private drug plans in Canada can be attributed to three primary drivers: increases in the number of claimants (more people claiming), increases in the number of claims that claimants make (making more claims) and increases in costs per claim due to the adoption of new innovative medicines or to factors such as distribution fees and the frequency of dispensing. The combination of the first two – increases in the number of claimants and the increase in the number of claims – represents utilization.

Private drug plan claims costs represent only one component of the overall cost of private drug benefits plans. Additional costs are added on by insurers, third-party administrators, benefit consultants, wholesalers, and pharmacies (see Figure 21).

Figure 1. Drivers of Drug Cost Growth



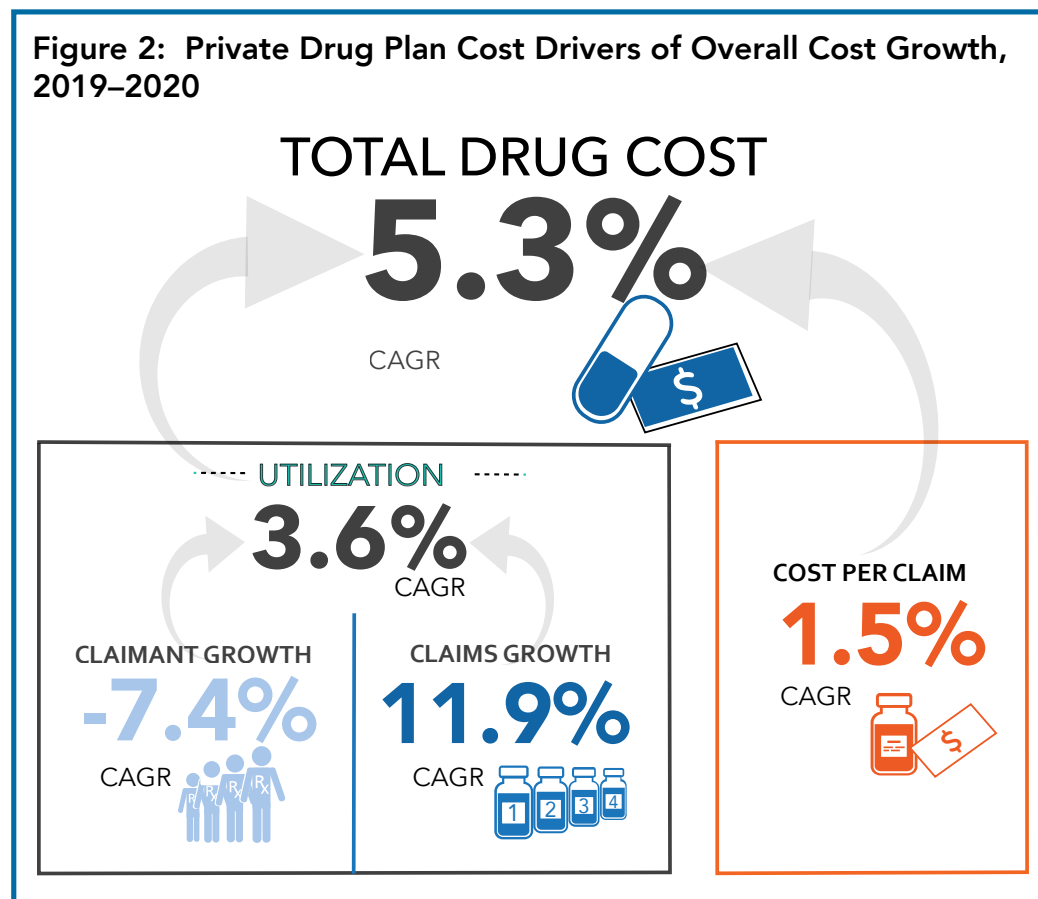
2. OVERALL PRIVATE DRUG PLAN CLAIMS GROWTH

The overall growth in private drug plan claims in 2020 was 5.3% (see Figure 2), which was consistent with the five-year compound annual growth rate (CAGR) of 5.3% for 2014 to 2019 (see Figure 3). This consistent year-over-year growth demonstrates that if these costs were spread equitably among plan sponsors, thus buffering unexpected high-cost claims, private drug plans could be much more affordable.

Although the 2016-2019 cost drivers report showed a temporary decrease in drug cost utilization due to changes to OHIP+ (which offered free medication to Ontarians under age 25 from January 1, 2018, to March 31, 2019, but then required them to migrate back to private health plans), utilization still accounted for more than half of private drug plan claims costs. In 2020, utilization returned to its historical high as the major driver of cost growth (68%) – that is, growth in the number of claimants and number of claims per claimant. In 2020, cost per claim grew by 1.5% (accounting for 28% of total cost growth), in line with annual inflation. Meanwhile, a minimal 0.2% of cost growth was due to cross effects attributable to the impact of the interaction of the main cost drivers, given that they happen simultaneously and not in isolation.

Utilization is primary driver of total growth.

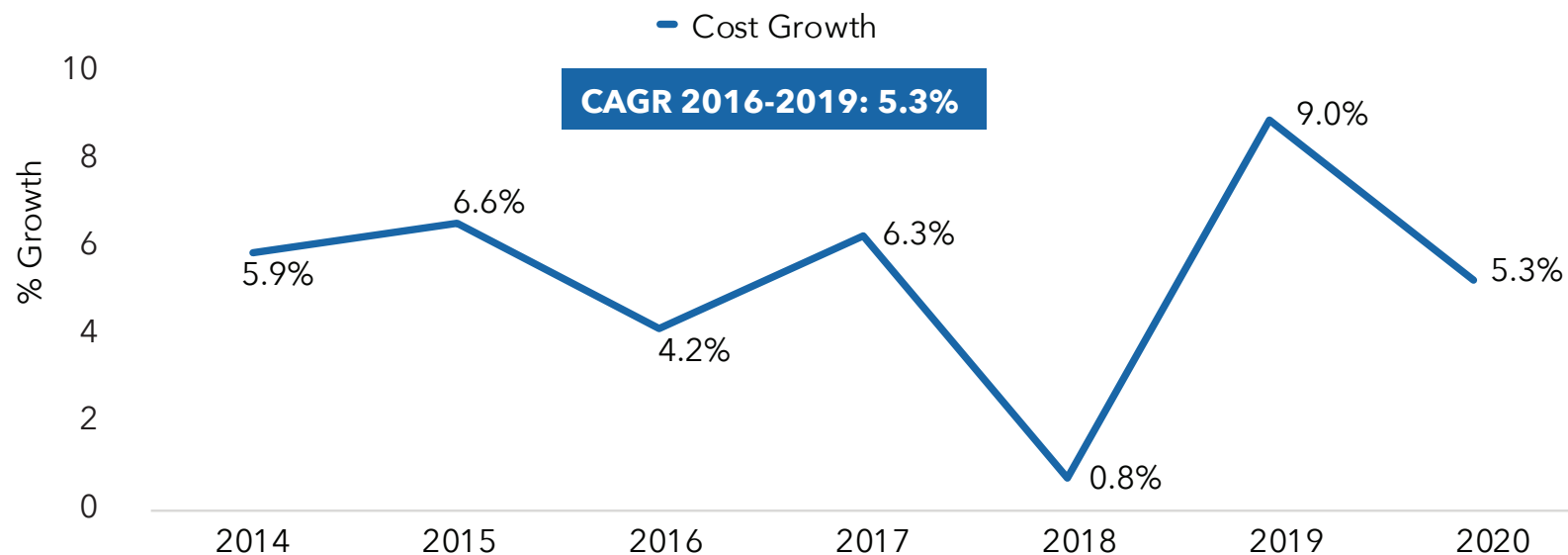
Figure 2: Private Drug Plan Cost Drivers of Overall Cost Growth, 2019–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

Growth in 2020 was consistent with compound annual growth from 2014 to 2019.

Figure 3: Private Drug Plan Cost Growth, 2014–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021
Medicines Canada Cost Drivers Analysis 2016-2019; Innovative Medicines Canada, Costs
Drivers Analysis of Private Drug Plans 2012–2016.

3. IMPACT OF COVID-19 ON PRIVATE DRUG CLAIMS

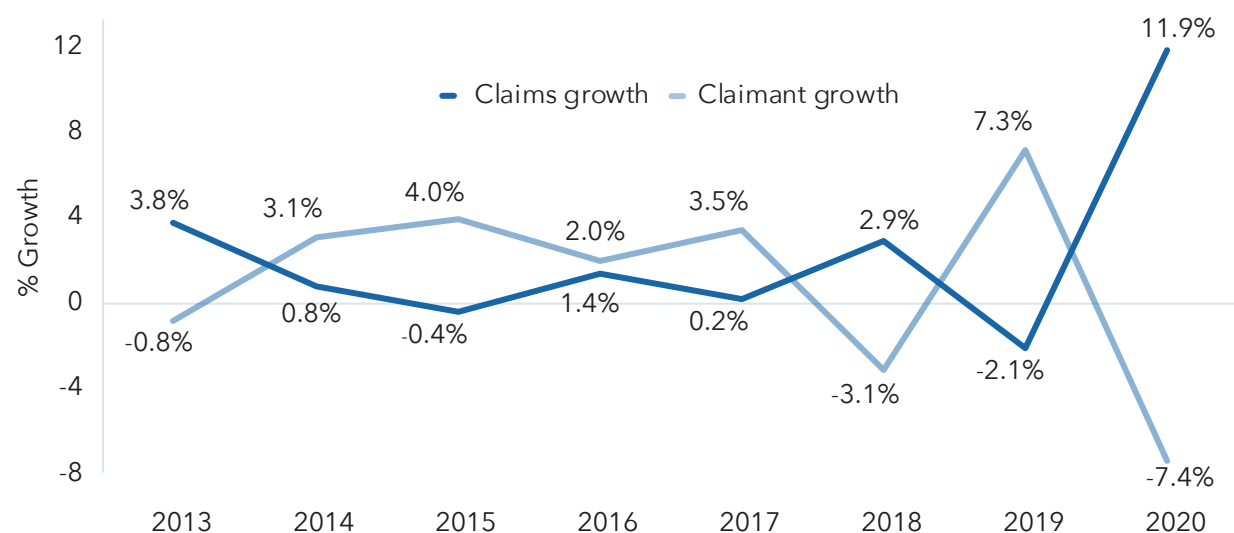
COVID-19 NOTABLE EFFECTS

Growth in 2020 was consistent with compound annual growth from 2014 to 2019.

The COVID-19 pandemic has had some notable effects on private drug plans. In 2020, there were fewer claimants (7.4% decrease). Those who did claim appeared to have more serious health issues, as we saw the average claims per claimant grow by 11.9%. (See Figure 4.)

Patients were also less likely to visit their doctor when they became sick, which resulted in fewer claimants using acute or low-cost therapies, such as anti-infectives, and fewer claimants with newly diagnosed chronic diseases. However, those who made claims used more drugs for chronic diseases and higher-cost drugs, resulting in a higher cost per claimant (up 13.7%) than in the previous several years. (See Figure 5.) It is expected that cost per claimant will shift back to lower historical levels once the COVID-19 pandemic is over.

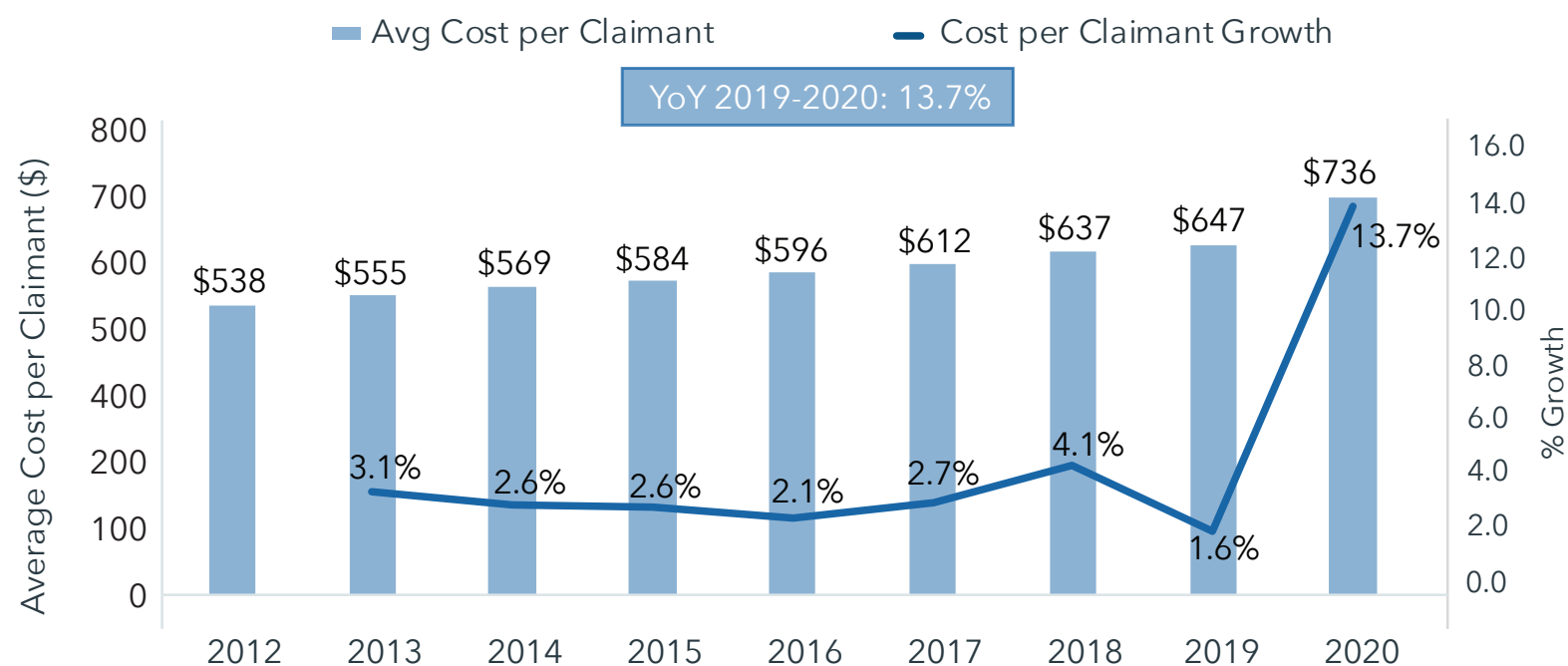
Figure 4: Total Private Drug Plan Claims and Claimant Growth, 2019-2020.



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021; Innovative Medicines Canada Cost Drivers Analysis 2016-2019; Innovative Medicines Canada, Costs Drivers Analysis of Private Drug Plans 2012-2016.

Average cost per claimant was higher in 2020 due to the COVID-19 pandemic.

Figure 5: Total Private Drug Plan Average Cost per Claimant, 2012-2020

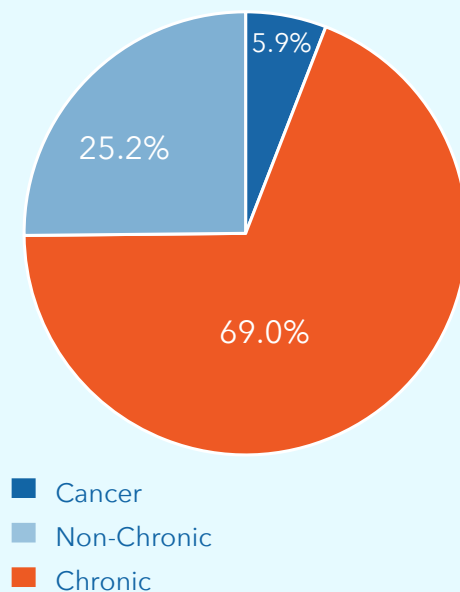


Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021; Innovative Medicines Canada Cost Drivers Analysis 2016-2019; Innovative Medicines Canada, Costs Drivers Analysis of Private Drug Plans 2012-2016.

4. IMPACT OF CHRONIC DISEASE

Chronic disease drugs account for the largest share of plan costs.

Figure 6. Share of 2020 Private Drug Plan Cost by Chronic, Non-Chronic, and Cancer Therapies



¹Chronic diseases are defined as non-communicable diseases that can be treated but not cured and that are persistent and generally slow in progression.

Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

In 2020, chronic disease continued to be a major factor in driving increases in utilization and overall plan costs. Chronic diseases are defined as non-communicable diseases that can be treated but not cured and that are persistent and generally slow in progression.

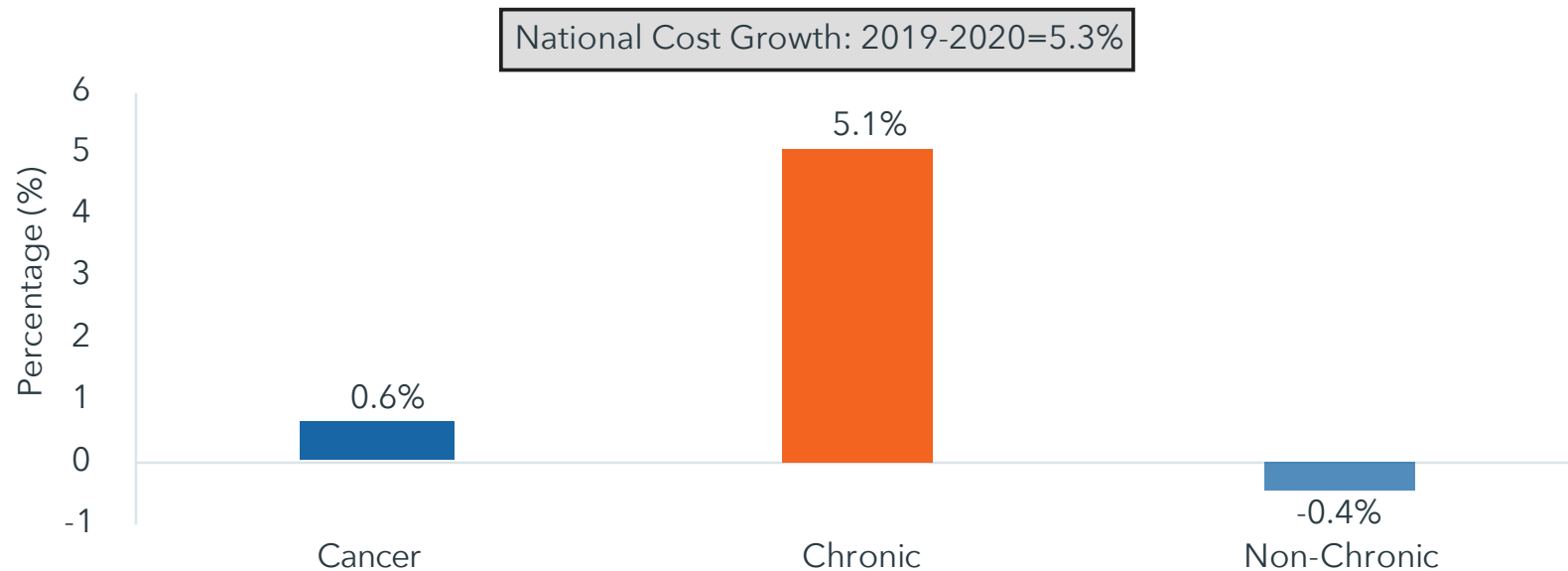
To assess the impact of one-time versus ongoing claims, this analysis compared drugs that treat chronic diseases and drugs that treat non-chronic conditions. For this analysis, cancer medications were kept as a separate category and not classified as either chronic or non-chronic. In 2020, chronic disease drugs accounted for the largest share of plan costs, at 69% (see Figure 6), and contributed the most to 2020 growth, at 96% (see Figure 7).

Utilization accounted for most of the 2020 changes for drugs that treat both chronic and non-chronic conditions. Costs for drugs for both chronic and non-chronic conditions were primarily affected by the increase in claims per claimant, although the growth in utilization was tempered by a decline in number of claimants for drugs that treat non-chronic condition. (See Figure 8 .)

It is important to note that some chronic diseases, such as rheumatoid arthritis and multiple sclerosis are unavoidable and may require treatment with specialty or biologic drugs to better manage the natural progression of the disease. However, 68% of private drug spending is for low-cost drugs (see Section 8, Impact of Treatment Costs), including treatments for many modifiable chronic diseases, such as type 2 diabetes, high cholesterol, and high blood pressure – chronic diseases that can be prevented or better managed through programs to improve the overall health of plan members.

Chronic disease drugs contributed the most to annual growth.

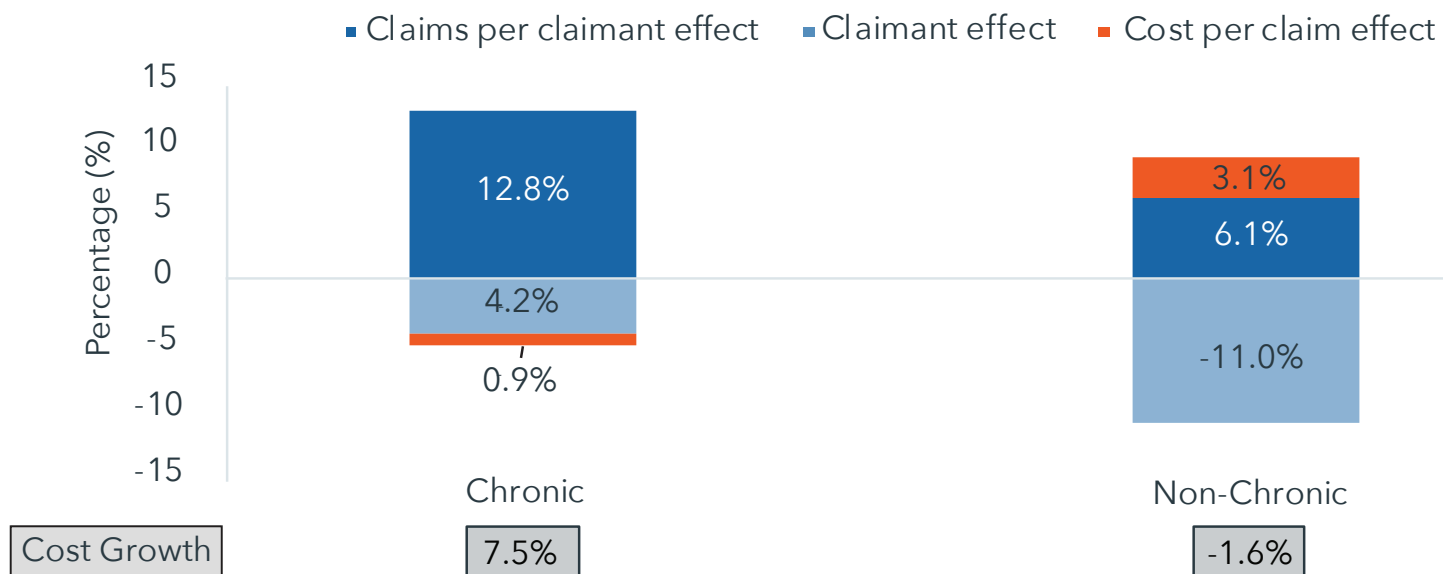
Figure 7. Contribution to Cost Growth by Chronic, Non-Chronic, and Cancer Therapies, 2019–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

Utilization accounts for most of the growth for chronic and non-chronic.

Figure 8. Cost Growth Drivers by Chronic and Non-Chronic Therapies, 2019–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

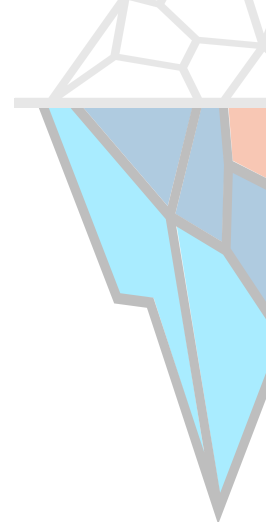
5. IMPACT OF DAYS' SUPPLY LIMITS

In 2020, COVID-19 led to concerns about the available supply of commonly used drugs, many of which are available in generic versions. To prevent some patients from stockpiling medication and ensure drug access to all patients provincial governments restricted pharmacies from dispensing more than 30 days of supply at one time. Private plans followed by temporarily removing plan requirements that chronic medications be filled with a 90-day supply to save on dispensing fee costs.

Given the nature of many chronic diseases, once patients are stabilized on a treatment regime, overall prescription costs can be reduced if chronic medications are dispensed with a 90-day supply instead of a 30-day supply. Indeed, some insurers now require patients to fill 90-day supplies of chronic medications to lower plan costs.

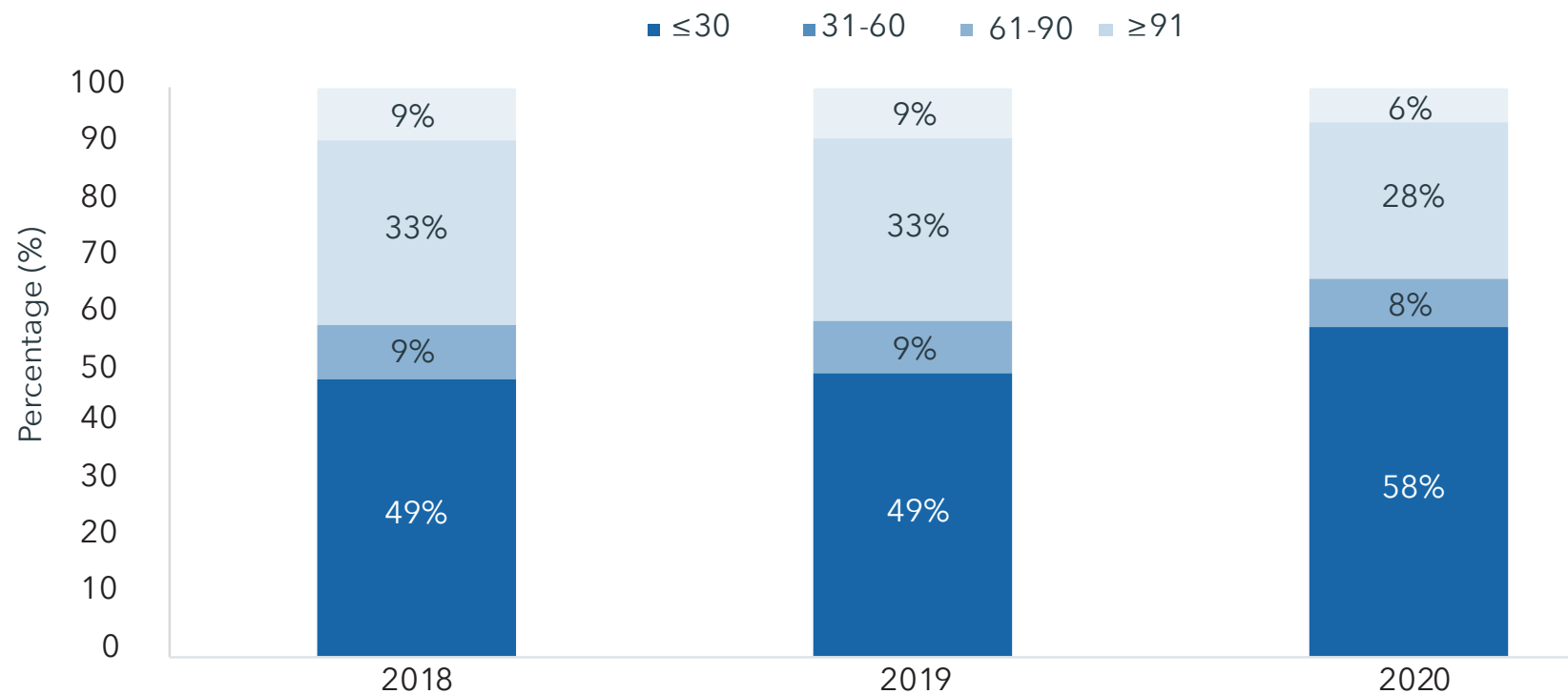
To assess the impact of such requirements, we analyzed the costs of the most common lower-cost medications for chronic diseases, such as oral solids that treat cardiovascular disease, diabetes, or depression. In 2020, claims with 30 days of supply or less accounted for the majority of claims, at 58% (see Figure 9). They also accounted for 43% of costs (See Figure 10). Some of this was driven by COVID-19 restrictions on days' supply between March and June 2020. (See Figure 11.) However, in previous years, drugs that were dispensed with a 30 days' supply represented the highest percentage of claims for oral solids (pills, capsules, etc.), suggesting that the impact is a long-standing issue, and not as a result of the pandemic. (See Figure 9.)






In 2020, 30-day supply claims accounted for the most claims and cost.

Figure 9. Private Drug Claims by Share of Days Supply, 2019-2020



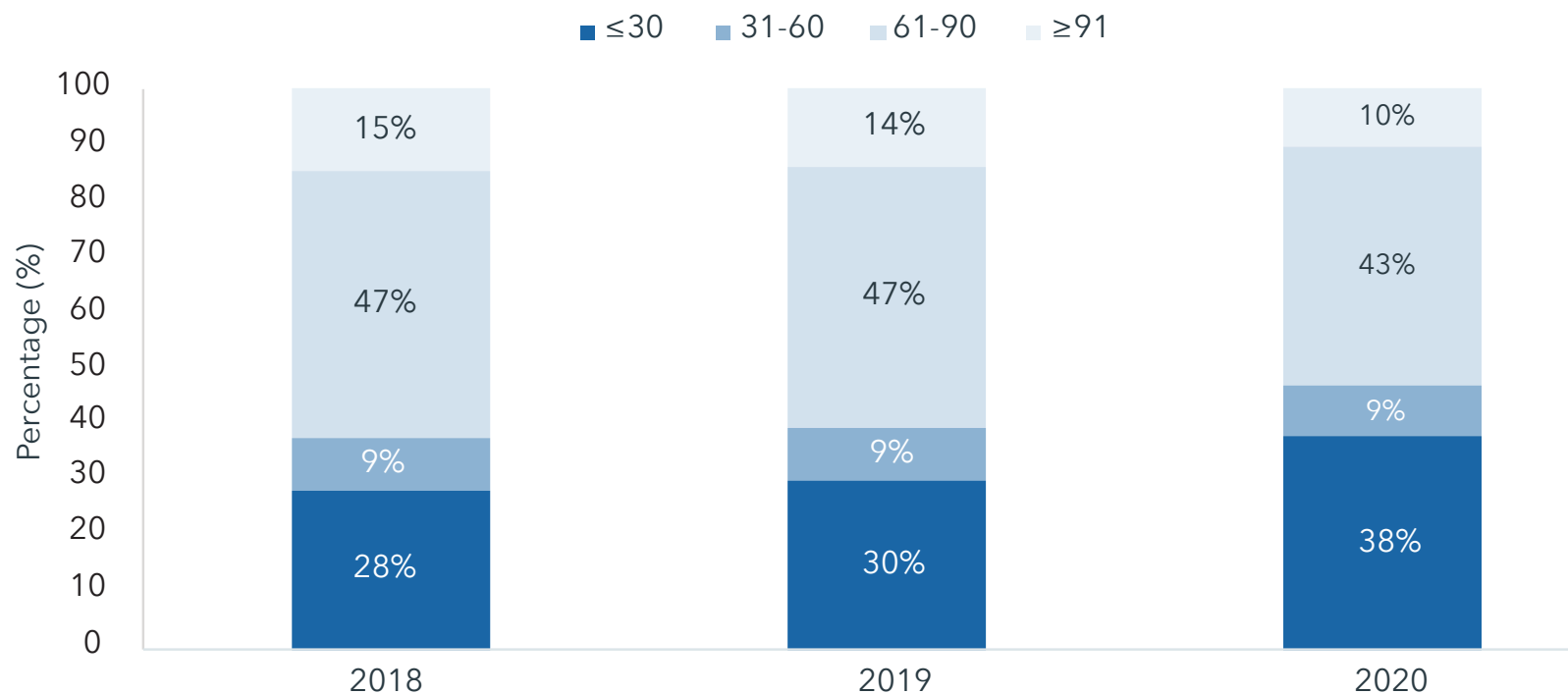
Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021



We would expect that common medications for chronic disease would be more likely to be dispensed in 90 days' supply, resulting in lower dispensing fee costs than if they were dispensed in 30 days' supply. However, half or more of these chronic drugs are dispensed in 30 days' supply, with an accompanying higher proportion of dispensing fees (see Figure 12). Figure 11 shows that among oral medications for chronic diseases, cardiovascular and antidiabetic oral drugs had higher average days' supply than antidepressants and antipsychotics. There is a significant opportunity for private drug plans to leverage 90 days' supply for chronic treatments to generate savings by reducing the significant proportion of non-drug related claims costs. The share of dispensing fees in claims costs, for example, could be reduced from 33% to 16%. (See Figure 12.)

In 2020, 30-day supply claims accounted for the most claims and cost.

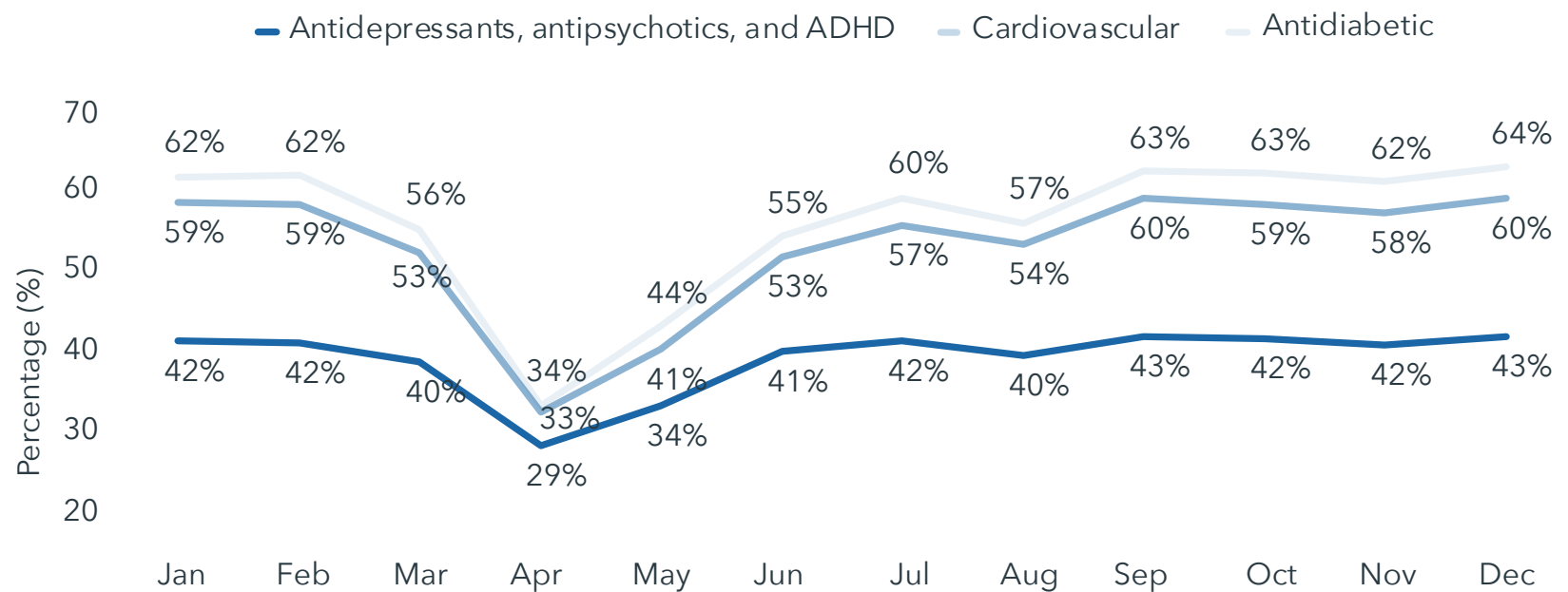
Figure 10. Private Drug Costs by Share of Days' Supply, 2018–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

In 2020, 30-day supply claims accounted for the most claims and cost.

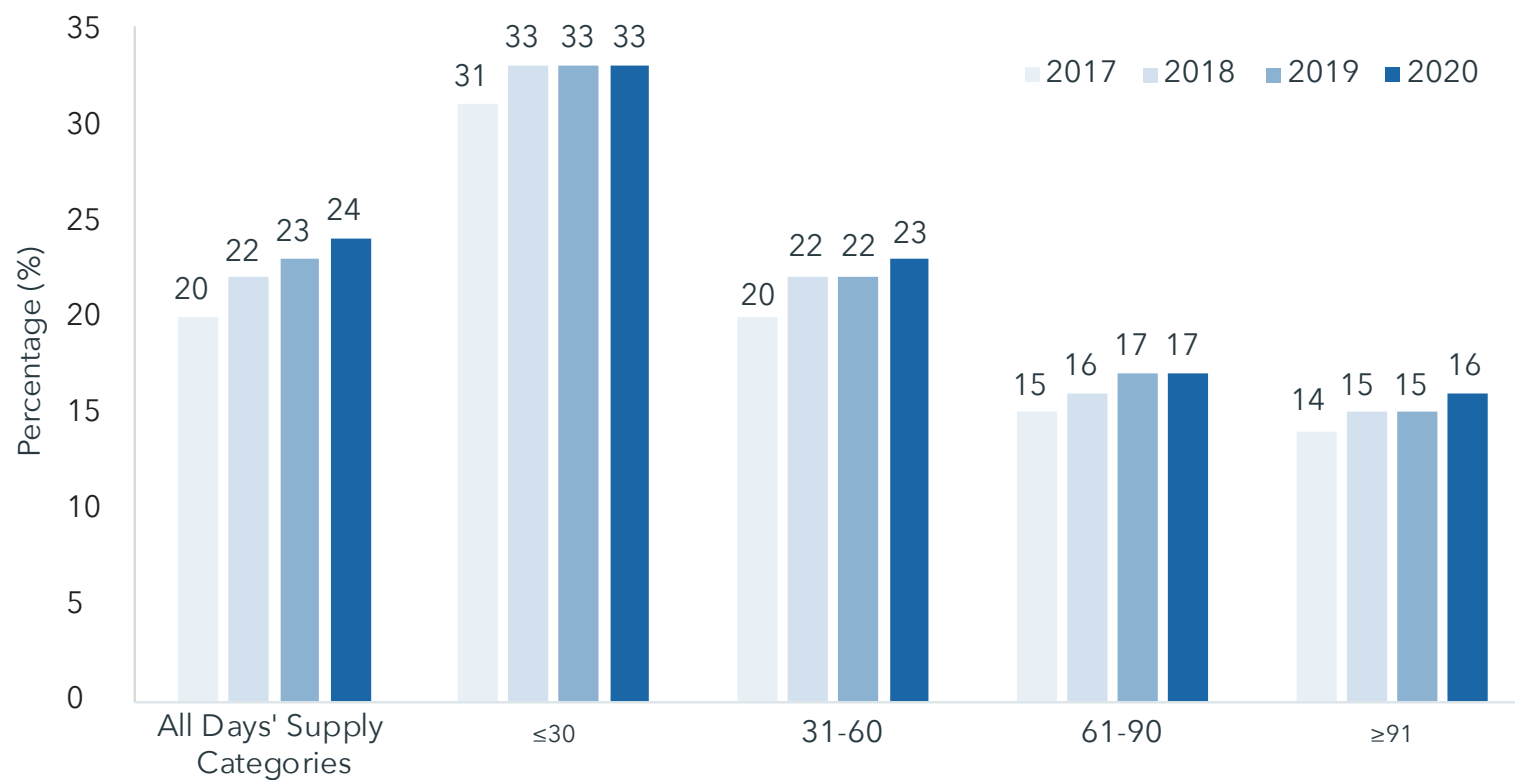
Figure 11. Average Days of Supply per Claim, Oral Solids, 2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

In 2020, 30-day supply claims accounted for the most claims and cost.

Figure 12. Proportion of Dispensing Fee in Overall Cost, 2017–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

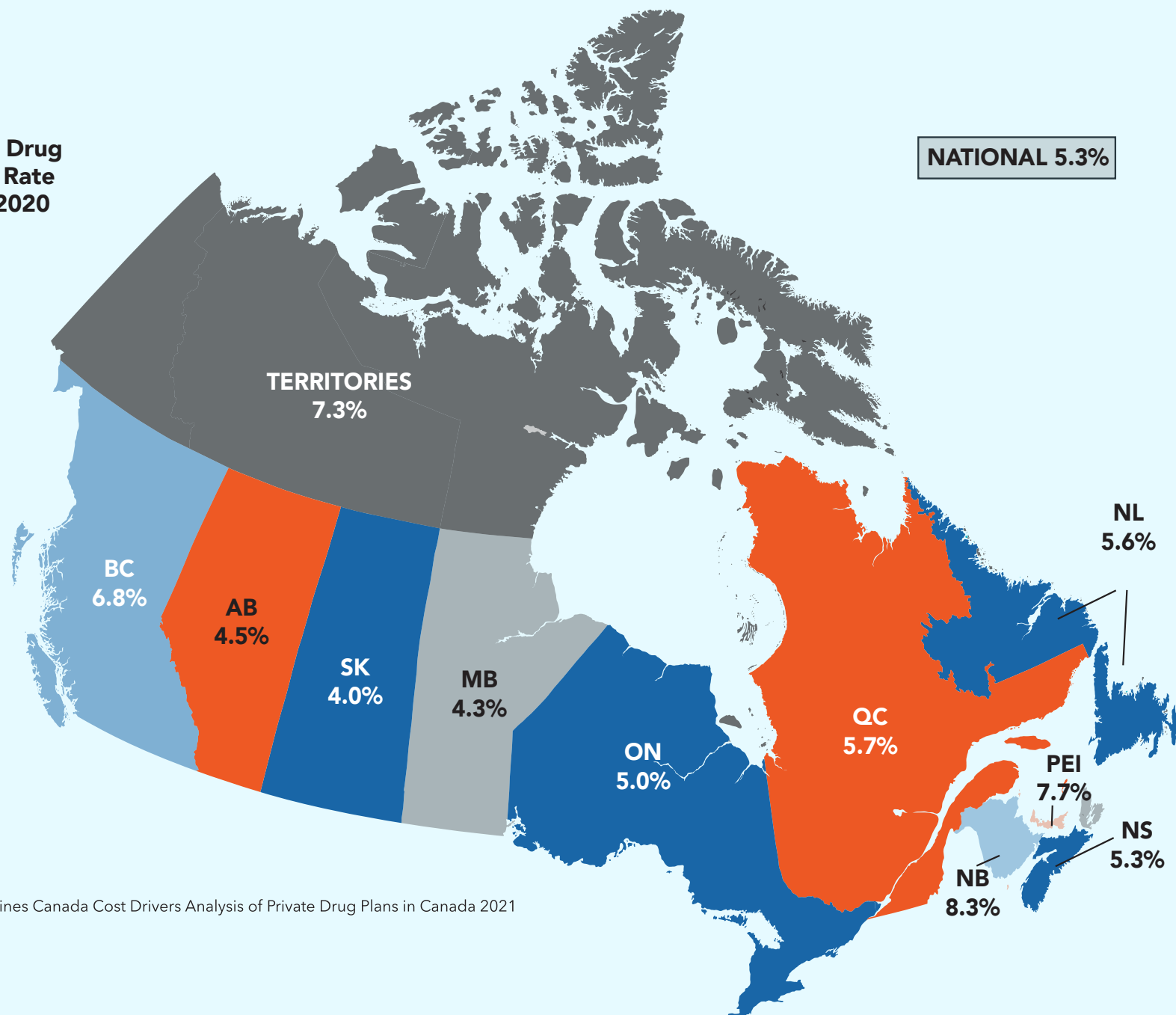
6. REGIONAL GROWTH ANALYSIS

Analyzing the cost growth for drug plan claims by region sheds light on differences across Canada that are likely due to variations in regional population, employment, and provincial drug plans.

In 2020, New Brunswick, PEI, and the territories had the highest growth rate among the provinces. Ontario's growth was slightly lower than the 5.3% national average growth, while Quebec's growth was slightly above the national rate, at 5.7%. (See Figure 13.) Ontario and Quebec contributed to the lion's share of 2020 cost growth – together they accounted for 74% of national growth. (See Figure 14.)

Utilization was the main driver in all provinces. A reduction in claimants slowed growth but that was offset by a higher than historical growth in the number of claims. (See Figure 15.)

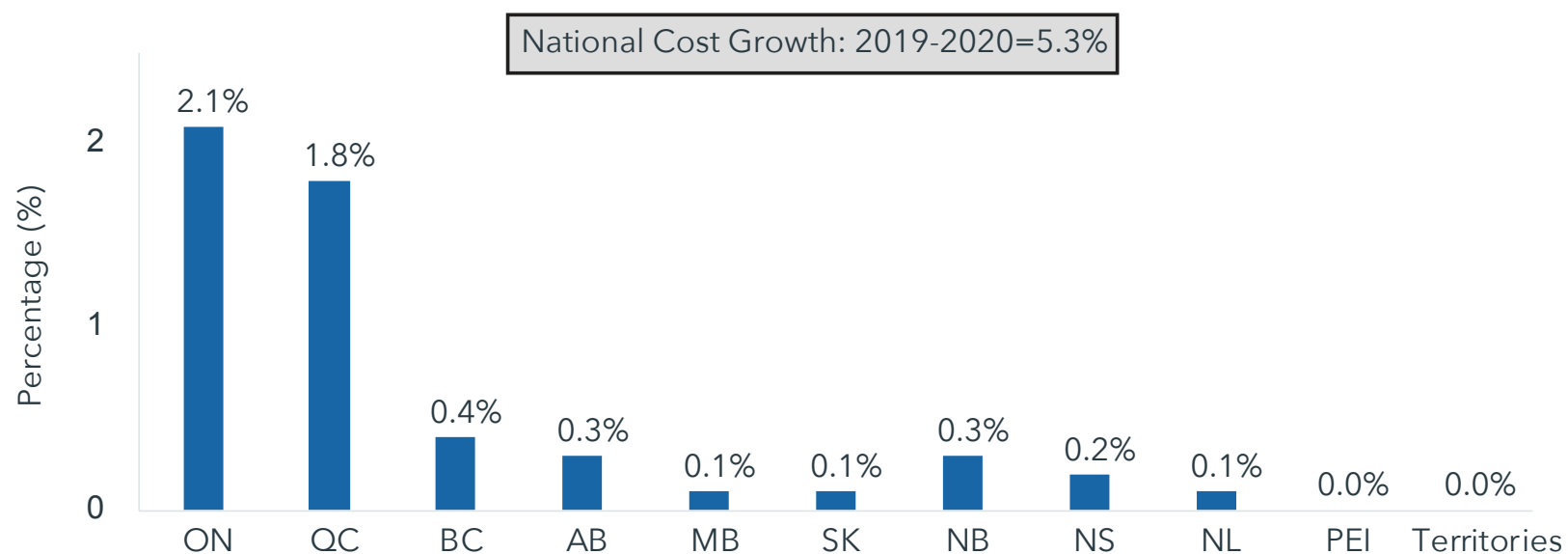
Figure 13. Private Drug Plan Cost Growth Rate by Region, 2019–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

In 2020, 30-day supply claims accounted for the most claims and cost.

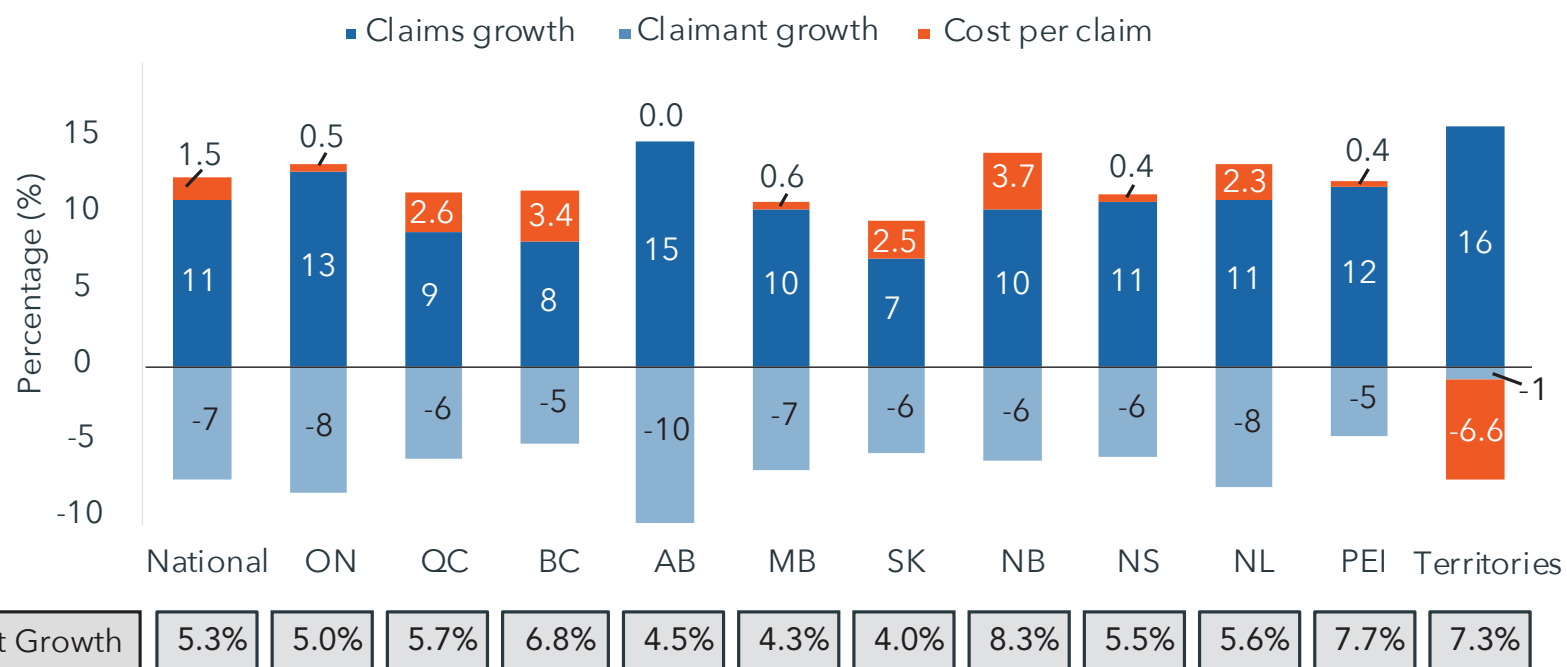
Figure 14. Contribution to Private Drug Plan Cost Growth by Region, 2019–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

In 2020, 30-day supply claims accounted for the most claims and cost.

Figure 15. Cost Growth Drivers by Region, 2019–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

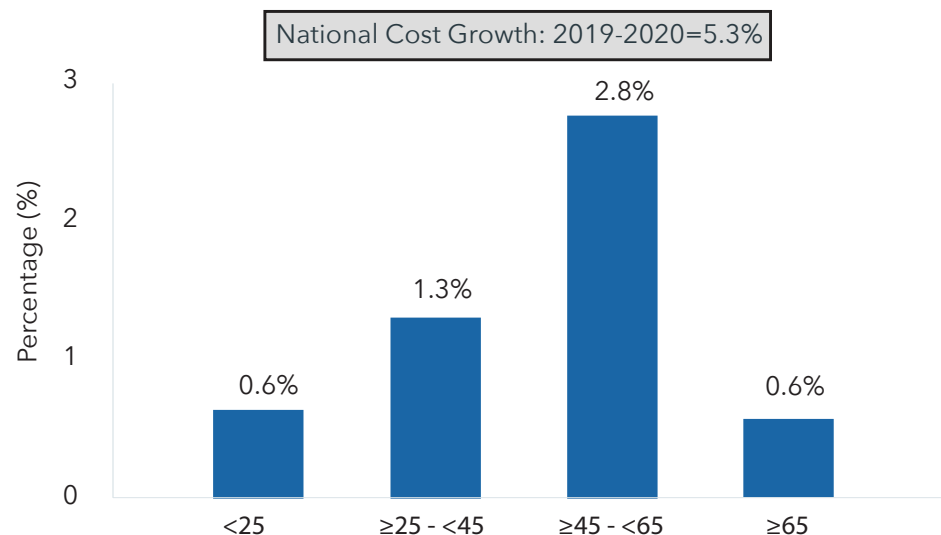
7. IMPACT OF AGE

POSITIVE CLAIMANT GROWTH

Claimants aged 45-65 years drove most of the cost growth.

Consistent with prior years' reports, the 45-65 age group drove most (53%) of the 2020 private drug claims cost growth. (See Figure 16.) Utilization accounted for the majority of the growth in all age groups. The 65+ age group was the only age band with positive claimant growth, whereas the number of claimants decreased the most for the under 25 years age group. (See Figure 17.)

Figure 16. Contribution to Cost Growth by Age Group, 2019-2020



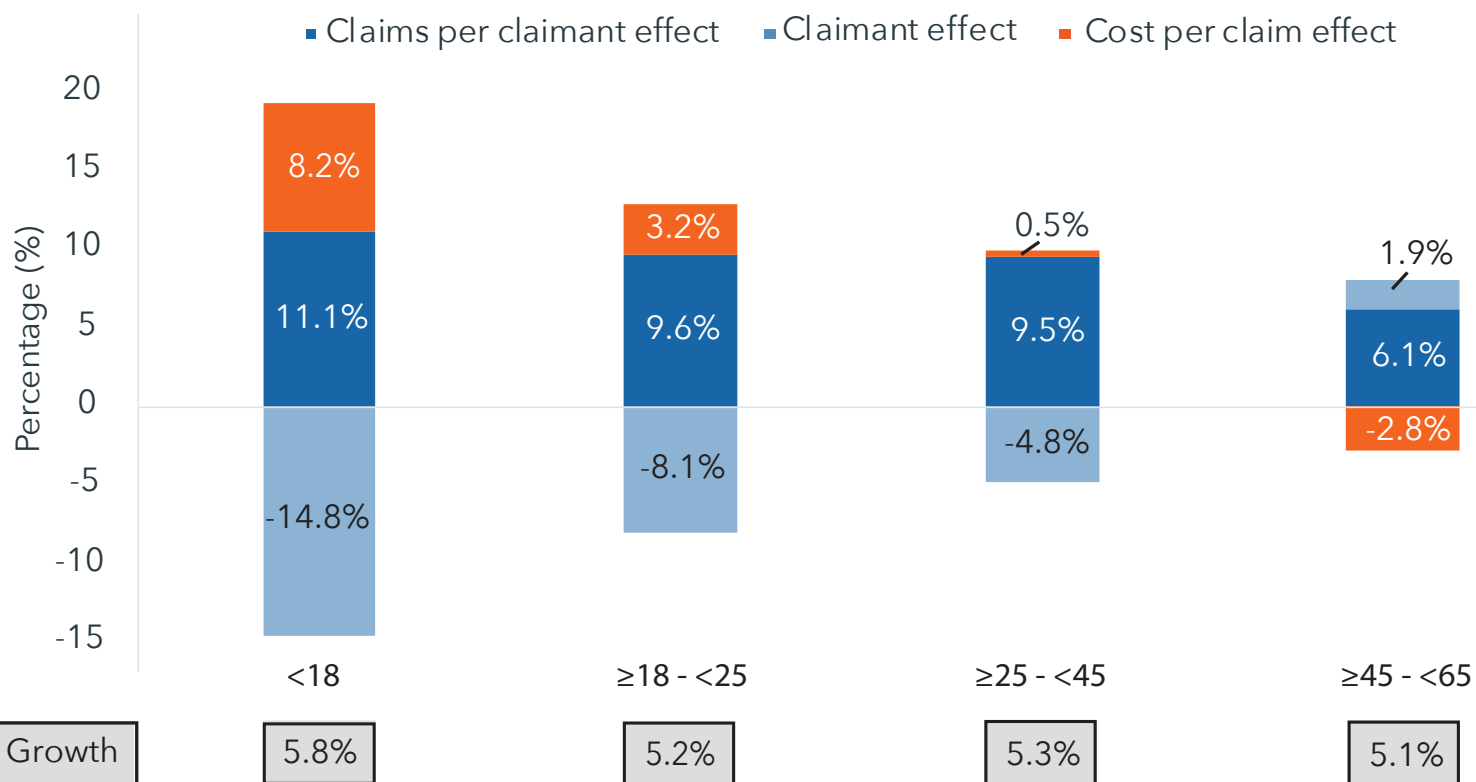
Source: Innovative Medicines Canada Cost Drivers Analysis 2019-2020

As shown in Section 3, "Impact of COVID-19 on Private Drug Claims," fewer patients claimed drugs for acute and low-cost therapies in 2020, and there were fewer newly diagnosed chronic disease patients. It is likely that due to the COVID-19 pandemic, many younger plan members chose not to seek medical care.

Most of the cost growth attributed to the 45-65 age group was likely due to patients with chronic conditions diagnosed prior to the pandemic. The older age groups (45+) are also the most likely to have more chronic conditions, make more claims, and use higher cost drugs. This would explain the higher cost per claimant and cost per claim in 2020 compared with previous years.

Utilization accounted for most of the growth in all age groups.

Figure 17. Cost Growth Drivers by Age Group, 2019–2020

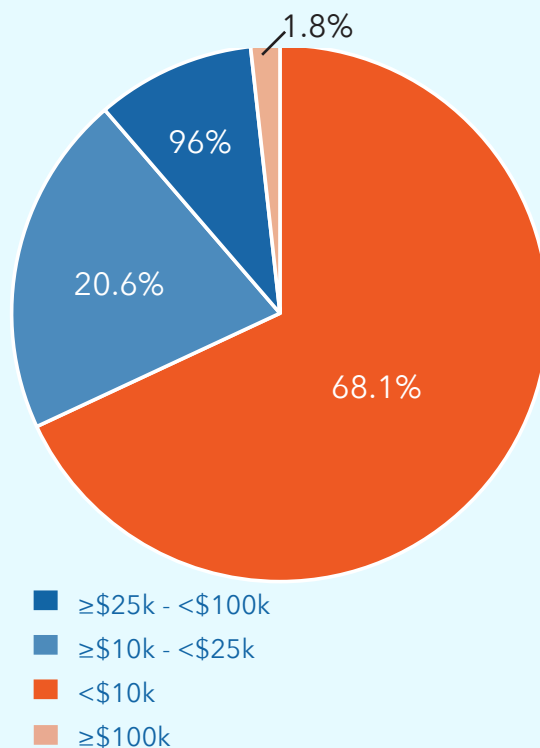


Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

8. IMPACT OF TREATMENT COSTS

Non-specialty drugs make up 68% of total drug costs.

Figure 18. Share Private Plan Costs, by Treatment Cost Category, 2020



Source: Innovative Medicines Canada
Cost Drivers Analysis of Private Drug Plans
in Canada 2021

When private drug plan costs were analyzed by treatment cost categories, non-specialty drugs (drugs that cost less than \$10,000 annually per patient) were found to have made up the majority (68%) of total private drug plan costs in 2020 (see Figure 18). Drugs that cost between \$10,000 and \$25,000 annually per patient contributed the most to overall cost growth (2.8% of cost growth of 5.3% – that is, 58% of total growth) (see Figure 19).

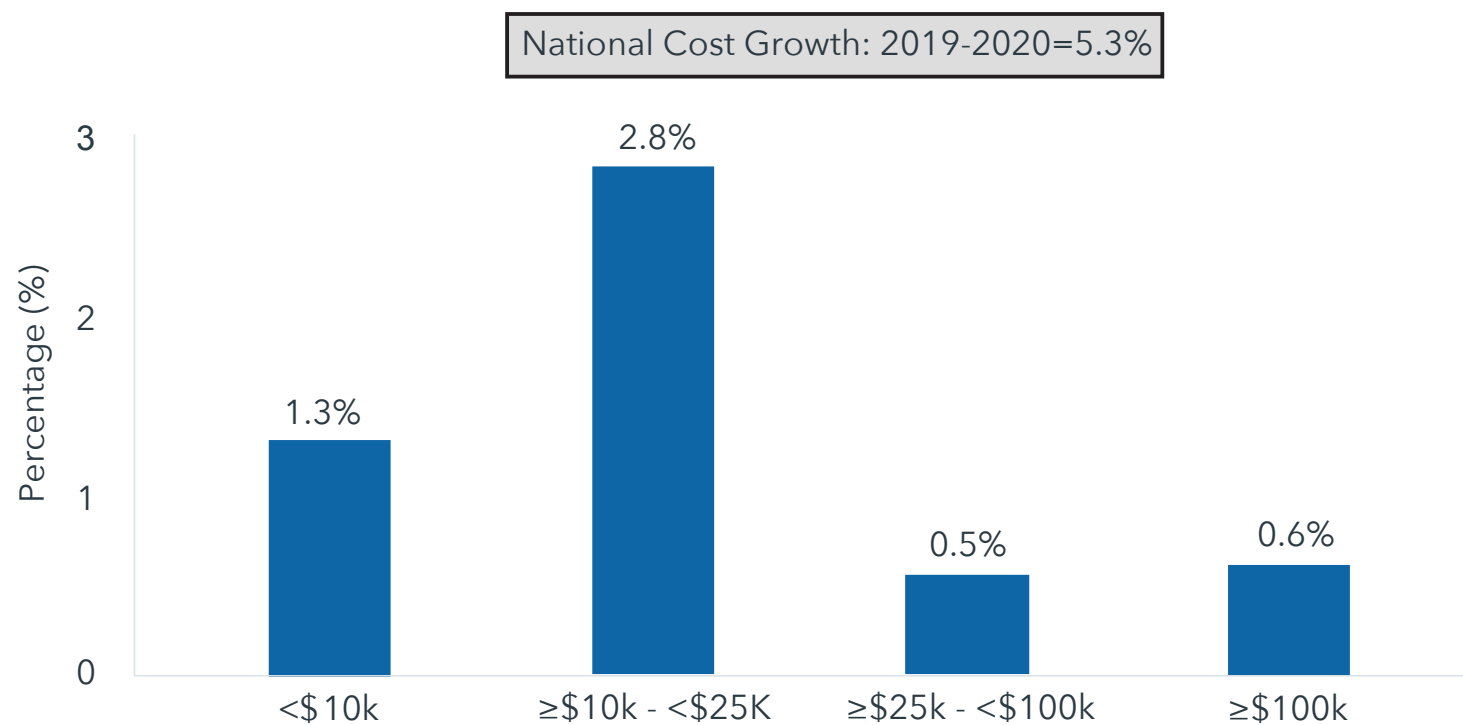
As newer and potentially life-saving therapies are developed to treat conditions that previously lacked effective treatment options, patients are accessing medicines that significantly improve their health, prevent further disability, and allow them to live a more productive life. Unfortunately, some of these benefits are not captured in the cost of the drug plan but instead materialize in reduced absenteeism, long-term disability, or the use of other therapies that manage symptoms but are not curative.

Some publications suggest that higher-cost drugs are becoming more dominant in Canada, making private drug plans unaffordable and unsustainable. Although innovative, higher-cost treatments continue to grow, private drug claim cost increases remain approximately 5% annually, and utilization and chronic diseases continue to be the principal drivers of cost growth.

The main issue facing today's private payer market is specific to the fully-insured benefits plans, which are typical for small to medium-sized plan sponsors. This issue can also impact larger plans that purchase pooling insurance. The current insurance model and pooling mechanisms are unable to spread the risk broadly enough to buffer these full-insured plans from high-cost claims. Although overall cost growth remains manageable, the underlying risk-sharing model has been notable to effectively insure these types of plans.

Drugs costing \$10K–\$25K had the greatest impact on overall cost growth.

Figure 19. Contribution to Cost Growth by Treatment Cost Category, 2019–2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

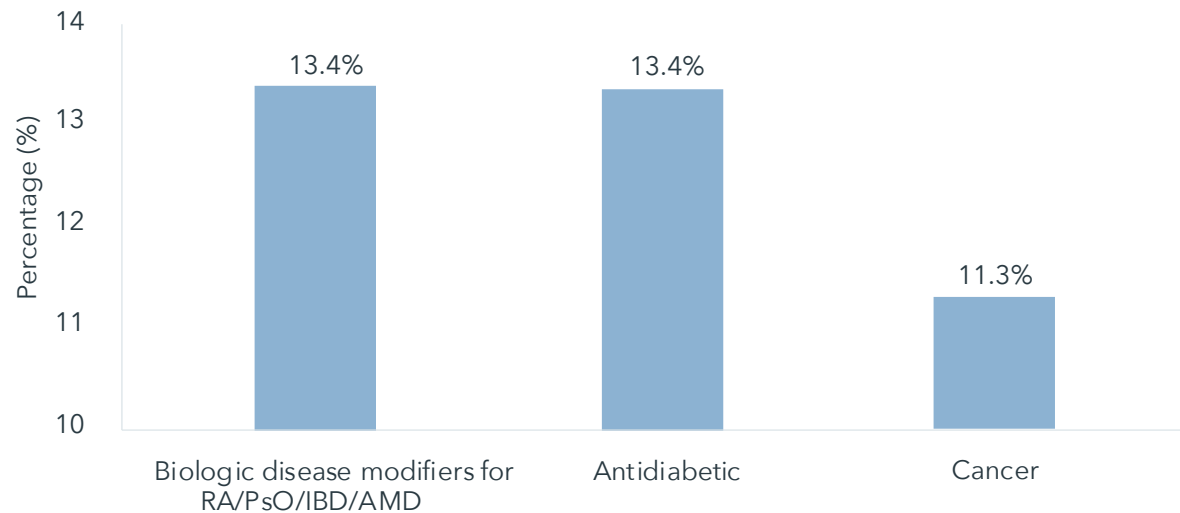
9. GROWTH BY THERAPEUTIC CLASS

BIOLOGICS FOR AUTO-IMMUNE DISEASES

Biologic, diabetic, and cancer drugs are the top-growing therapeutic classes.

Similar to the findings in our previous report, the three fastest-growing therapeutic classes in private drug plan costs in 2020 were biologics for auto-immune diseases (e.g., rheumatoid arthritis, psoriasis, inflammatory bowel disease, and age-related macular degeneration), diabetes drugs (including diabetes glucose meters and test strips), and cancer drugs (see Figure 20). It is important to note that inclusion of glucose meters and test strips in the diabetes drugs category adds to the claims growth attributed to this disease condition.

Figure 20. Three Top-Growing Therapeutic Classes in Private Drug Plan Costs, 2019-2020



Source: Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2021

10. SUMMARY AND IMPLICATIONS

- Private drug claim costs have grown at a consistent level of approximately 5% annually for many years. Private drug claim cost growth demonstrates that there is a need for better risk management to distribute costs more equitably among plan sponsors to ensure private drug plans remain affordable.
- Private drug claims growth continues to be driven by utilization and lower-cost chronic disease drugs rather than newer drugs or increased cost per claim. The price increase portion of the overall cost increases have been consistent with annual inflation in the past several years. In addition, lower-cost drugs (less than \$10,000 per patient annually) continued to make up the majority (68%) of total private drug plan costs in 2020, while drugs to treat chronic diseases accounted for the largest share of plan costs (69%) and contributed the most to 2020 growth representing 5.1% of the total 5.3% growth (96%).
- COVID-19 was likely the reason for the reduced number of claimants and for the higher cost for those who claimed in 2020. Provincial supply restrictions due to COVID-19 increased private drug claim costs – but also highlighted a savings opportunity for private drug plans to leverage 90 days' supply refill requirement for chronic treatments.





11. RECOMMENDATIONS

1. Chronic disease continues to be the largest contributor to overall costs and claims growth. There is an opportunity for employers to offer programs to improve plan member health and reduce the risk of their plan members developing chronic diseases. Reductions in the prevalence of chronic disease could have a significant impact on future drug trends by freeing up dollars for future new medications.
2. There is an opportunity to reduce the cost of claims by encouraging the use of plan designs that require 90 days of supply for chronic medications. This will lower claims costs by reducing the other charges of a claim not related to the drug costs, such as dispensing fees and markups as a percentage of each claim.
3. Although drug plans represent a significant cost to plan sponsors, there needs to be an equal measure of the value of the coverage and the outcomes the drugs deliver to plan members, their families, and the organization.

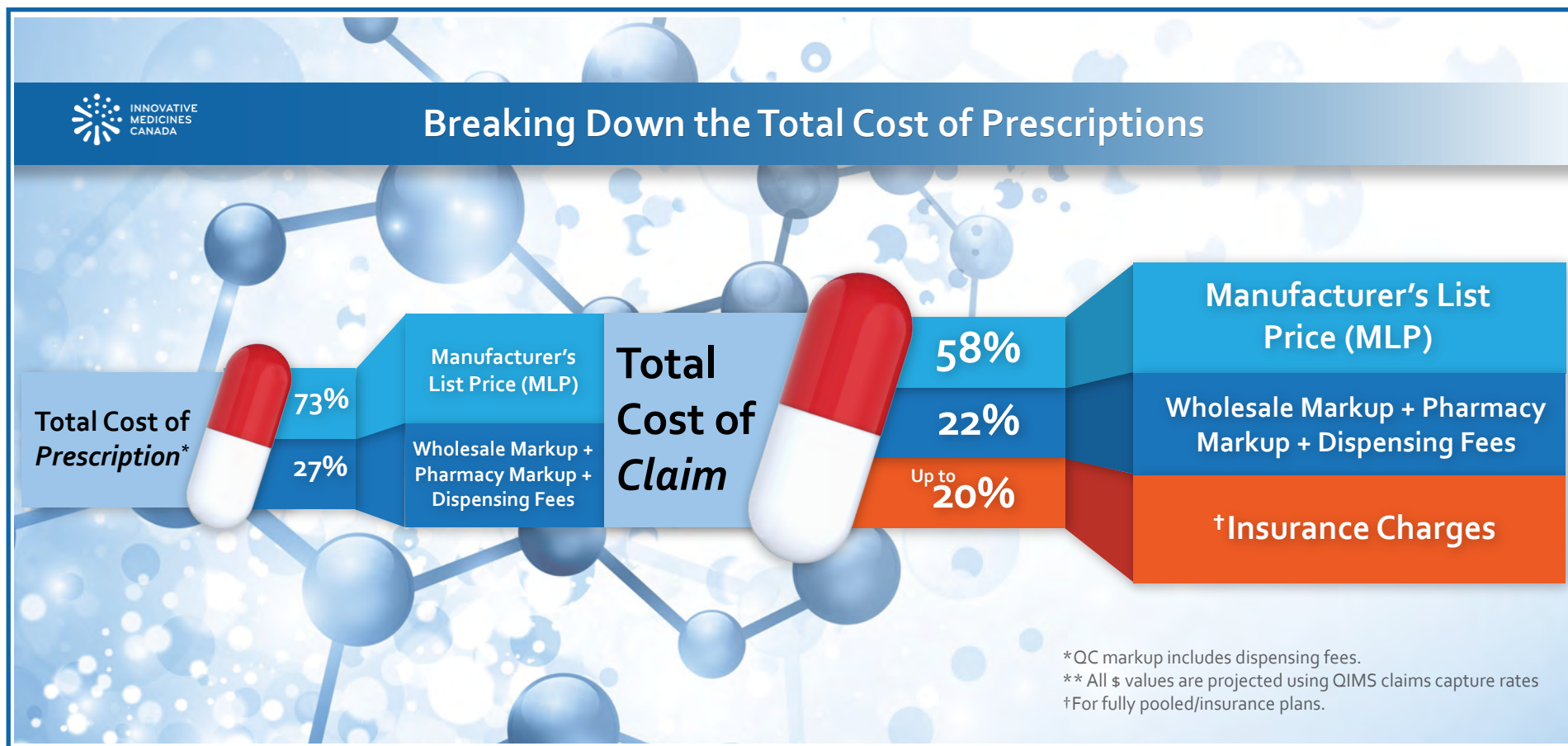
This report analyzes drug claims, which are only one of the components used to determine health benefit premiums paid by plan sponsors. There are opportunities for collaboration to improve the insurance industry's risk management and pooling methodology to better meet the needs of Canadian plan sponsors and ensure long-term benefit plan sustainability.

DATA SOURCES, METHODOLOGY, AND DEFINITIONS



1. The analysis in this report is based on the IQVIA Private Drug Plan Claims database, the largest national private drug plan claims database in Canada, which represents 82% of pay direct private drug claims nationally. (Figures in this report have not been adjusted to represent 100% of the market.)
2. Drug claims represent only one component of the overall cost of a private drug benefit plan. (See Figure 20.) An insurer's risk management process, premium setting processes, and pooling methodology all contribute to the actual benefit plan cost paid by plan sponsors. (For more information see Innovative Medicines Canada's 2016-2019 Analysis of Private Drug Claim Cost Drivers, Section 9, Health Benefit Premiums.)
3. Claims costs are based on eligible amount, including both the plan-paid and the patient-paid portions, and include drug ingredient costs and pharmacy and wholesaler markups (dispensing fees are not included, except in Quebec). The exception to this is Section 5, Impact of Days' Supply Limits, which includes dispensing fee. However, since dispensing fee data is not available in Quebec, it is excluded from this section.
4. A "claim" in this analysis is defined as one fill for one drug identification number (DIN) at one time. The cost may vary from claim to claim, based on the number of days supplied for each claim.
5. Although private spending on drugs includes group benefit plans, individual health insurance, and cash-paying customers, this report includes only drug pay direct claims processed through group and individual private drug plans, and not insured cash-paying customers.

Figure 21. Breaking Down the Total Cost of Prescriptions



Note: This analysis applies to fully insured plans.

Sources: Innovative Medicines Canada, Better Access Better Health; Innovative Medicines Canada, "Private Drug Plan Distribution Fees Analysis," conducted by IQVIA (formerly Quintiles IMS), 2016, based on IQVIA Private & Public Drug Claims Database



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Innovative Medicines Canada represents
Canada's innovative pharmaceutical industry.

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