INNOVATIVE MEDICINES CANADA

2022 COST DRIVERS REPORT

ANALYSIS OF PRIVATE DRUG PLANS IN CANADA

AUTHORS:
Viktoria Roman, Innovative Medicines Canada
Joe Farago, Innovative Medicines Canada
Alexandru Dobrescu, Innovative Medicines Canada
Suzanne Lepage, Suzanne Lepage Consulting Inc.

SUGGESTED CITATION:
Innovative Medicines Canada Cost Drivers Analysis of Private Drug Plans in Canada 2022

Table of Contents

Executive Summary

Overall growth rate remains stable

In 2021, private drug claims cost grew 5.6%, a rate consistent with the five-year compound annual growth rate (CAGR) of 5.4% between 2015 and 2020.[1] Utilization remains a major driver of cost growth; however, there were some notable differences compared with previous years' trends.

Pandemic continues to impact private drug claims

The pandemic continued to affect private drug claims. This may be due, in part, to patients' continued difficulty or reluctance to accessing physicians.

1. **Fewer claimants using lower-cost drugs**

   Lower-cost, non-chronic, non-specialty drugs that cost less than $10,000 annually per patient made up the largest portion of total private drug claims costs (65.2%); however, there were fewer claims in this cost category. This category of drugs, which are typically prescribed to treat acute conditions, saw a 1.3% decrease in claimants.

   Possible explanations for the decrease include delayed treatment as a result of reduced access to care during the pandemic. There may also have been a reduced need for treatment for non-chronic or non-urgent conditions as a result of less exposure to disease due to social distancing and masking. For example, there

[1] IQVIA Private Drug Plan (PDP) Claims database. See the "Data Sources and Methodology" section of this report for more information.

were about half a million fewer claimants for anti-infectives and antibiotics. The net impact was fewer lower-cost claims, which in turn led to a higher average cost per claim.

2. More claimants using higher-cost drugs

Utilization increased for drugs that cost more than $10,000 annually per patient and for biologics for chronic autoimmune diseases.

Overall, cost growth for drugs over $10,000 was 11.1%, driven by a 12.3% increase in claimant effect, a 3% reduction in claims per claimant and an increase of 1.8% in cost per claim. (See Figure 10).

This suggests that patients with more serious health issues were more likely to receive healthcare or continue treatment than those with acute, short-term, or less severe conditions. The increase in the number of claimants needing high-cost drugs was another factor driving the increase in the average cost per claim.

3. Shift from 30 days' supply to 60- or 90-days' supply for drug claims

In 2021, the 30-day supply claim trend seen during the early days of the pandemic[2] returned to a more traditional 60- or 90-days' supply. In 2021, 50.7% of claims were for 30 days or less, down from 57.8% in 2020.

[2] See "Cost Drivers: Analysis of Private Drug Plans in Canada 2021" for more information on the pandemic's 30-day supply claim trend.

Analysis of some of the most common lower-cost oral solid medications used to treat chronic diseases such as cardiovascular disease, diabetes, and depression demonstrated that the days' supply dispensed offers opportunities for plan savings.[3] Dispensing fees for 30 days' supply or less can represent 30.7% of the cost of a claim, compared with only 15.3% for claims for more than 90 days. Therefore, increasing the days' supply for prescriptions for low-cost chronic diseases could generate significant savings.

Impact of biosimilars on biologics for autoimmune diseases

In 2021, there was a 9.4% decrease in the cost per claimant for biologics for autoimmune diseases, despite an increase in utilization (a 23% increase in the number of claimants and a 16.1% increase in claims). The most likely cause for this drop in cost per claimant was the increased use of lower-cost biosimilars.

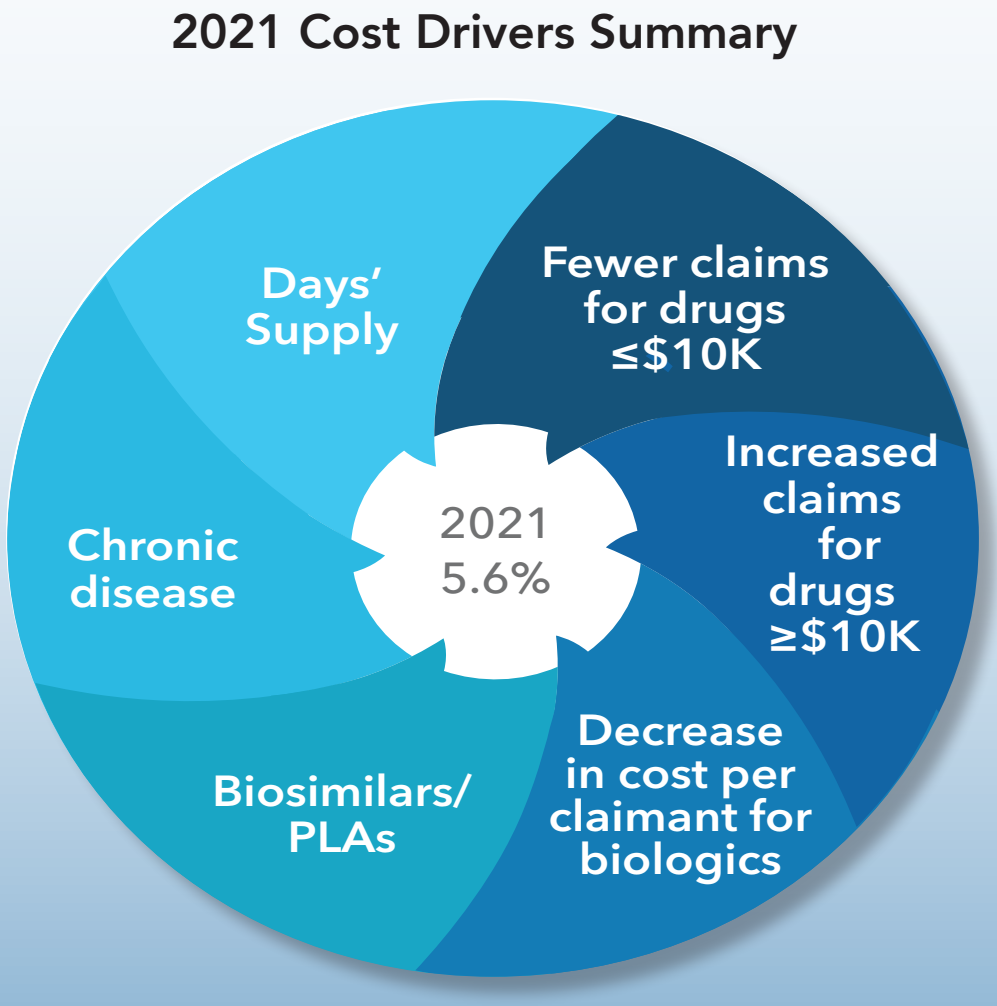
The introduction of biosimilars has generated savings both directly and indirectly. Direct savings are due to claimants using lower-cost biosimilars. Indirect savings are the result of manufacturers of innovator biologics that face biosimilar competition entering into confidential product listing agreements (PLAs) with private payers.

Biologics for the autoimmune disease therapeutic class have been the biggest contributor to claims cost growth in recent years, accounting for 39.7% of the increase in total private drug claim costs in 2021. The increased competition created opportunities to lower overall claims costs.

[3] See the "Impact of Days' Supply Limits" section of this report for more information.

It is important to note that due to the confidential nature of product listing agreements between pharmaceutical manufacturers and private payers the actual cost of drugs accessed under these agreements cannot be factored into our analysis, and therefore it is likely that the actual cost of biologics is lower than reported, and the overall market growth is also lower.

Figure 1



1. Introduction and Background

Consistent with the 2021 report, this year's report finds that cost drivers in the Canadian private drug benefits market continued to be greatly influenced by the COVID-19 pandemic. Patients are facing challenges accessing their physicians and hospital care, resulting in shifting medication utilization patterns. While the overall 2021 growth rate in private drug plan costs (5.6%) was consistent with the previous five-year compound annual growth rate (5.4%), the COVID-19 pandemic continued to have a significant impact on the composition of the cost drivers. As waves of infections persist across the country, there may be additional shifts in drug spending. It remains to be seen whether the trends over the last couple of years will solidify into longer-term trends or whether claims will return to pre-pandemic patterns.

Consistent with previous years, utilization remained a key driver of drug cost growth for private plans in 2021, although there were some notable differences. Perhaps due to the ongoing pandemic, it appears that fewer patients were seeing their family physicians for acute, short-term, or less severe conditions, resulting in fewer claimants for lower-cost acute drugs. However, patients with more serious health issues were more likely to seek or continue care, which resulted in more claimants for higher-cost drugs. The net impact of fewer low-cost claims and increased high-cost claims drove up the average cost per claim and per claimant.

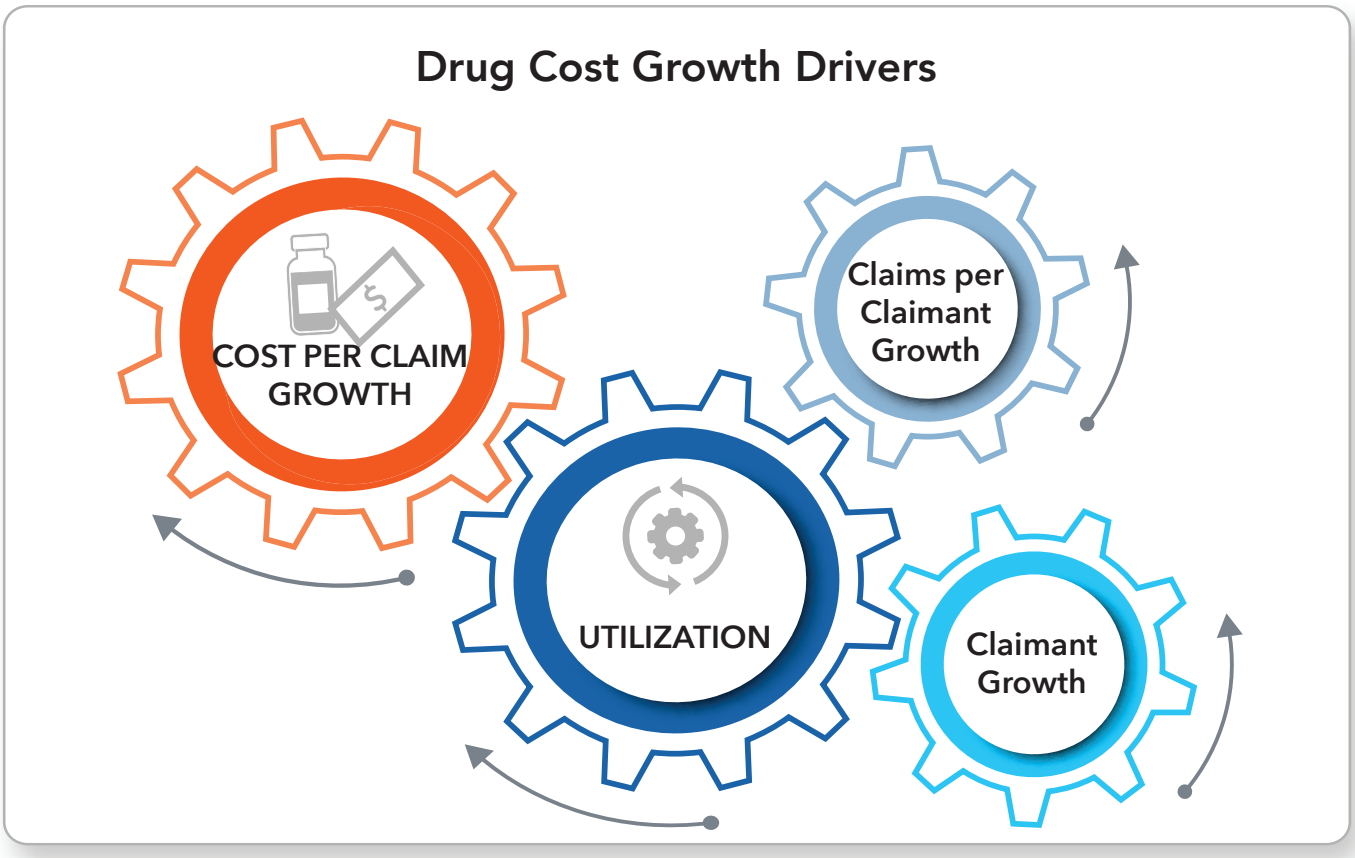
Despite the increase in claimants for higher-cost drugs, analysis shows a decrease in the cost per claimant for biologics for autoimmune diseases, which suggests the introduction of biosimilars is generating savings. The costs in this category and overall growth rates are likely lower than reported since product listing agreements (PLAs) could not be included in the analysis due to their confidential nature.

This year's report includes a closer look at days' supply prescription fill rates and share of dispensing fees in total drug costs. 2021 showed a return to a higher proportion of prescriptions being filled with 60- or 90-days' supply, but a further increase in longer supply periods could generate additional and significant cost savings.

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 factors such as dispensing fees and the frequency of dispensing. The combination of the first two — an increased number of claimants and an increased number of claims — represents utilization.

Figure 2

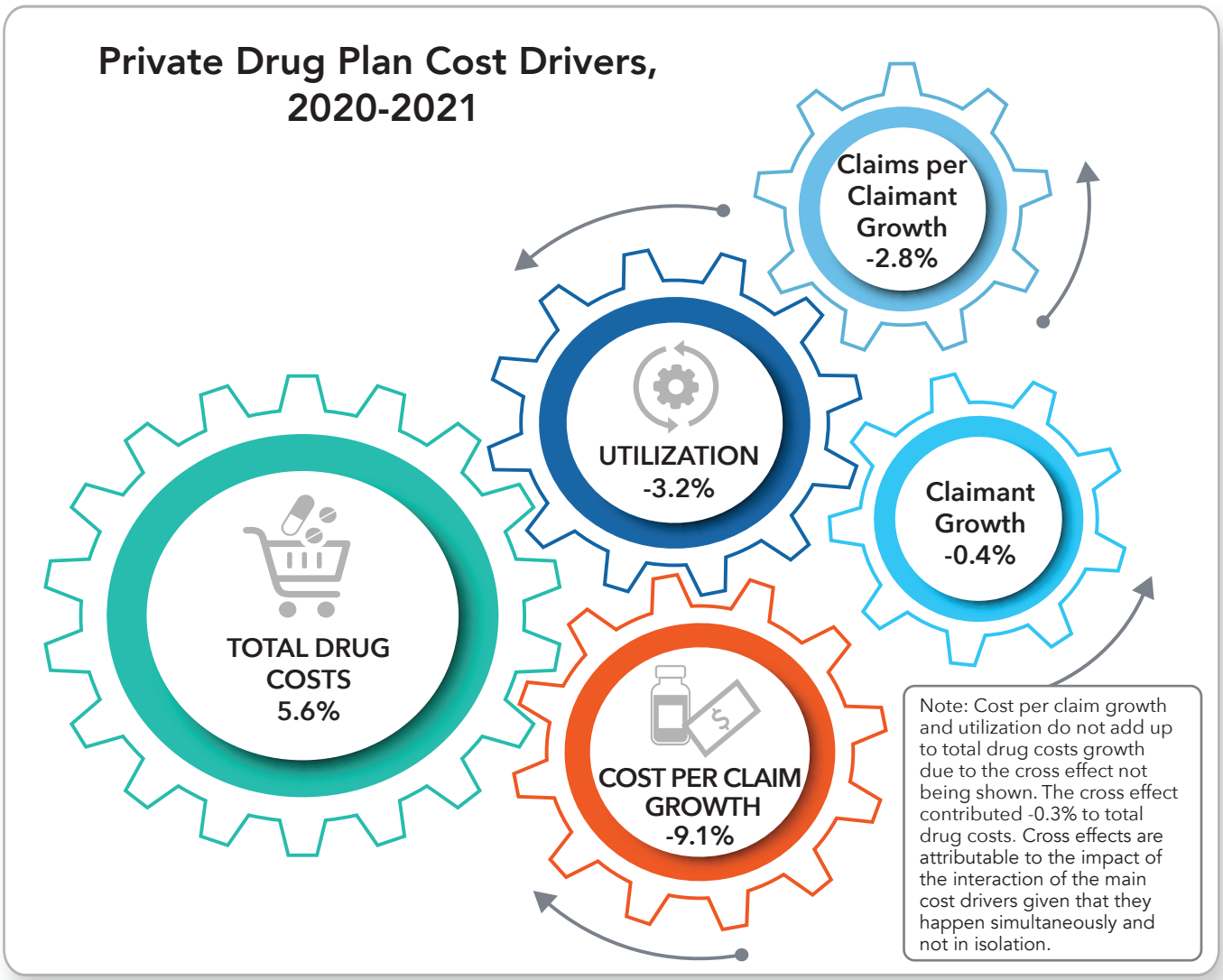


Private drug plan claims costs represent only one component of overall cost of private drug benefits plan. Additional costs are added by insurers, third-party administrators, benefit consultants, wholesalers, and pharmacies.

2. Overall Private Drug Plan Claims Growth

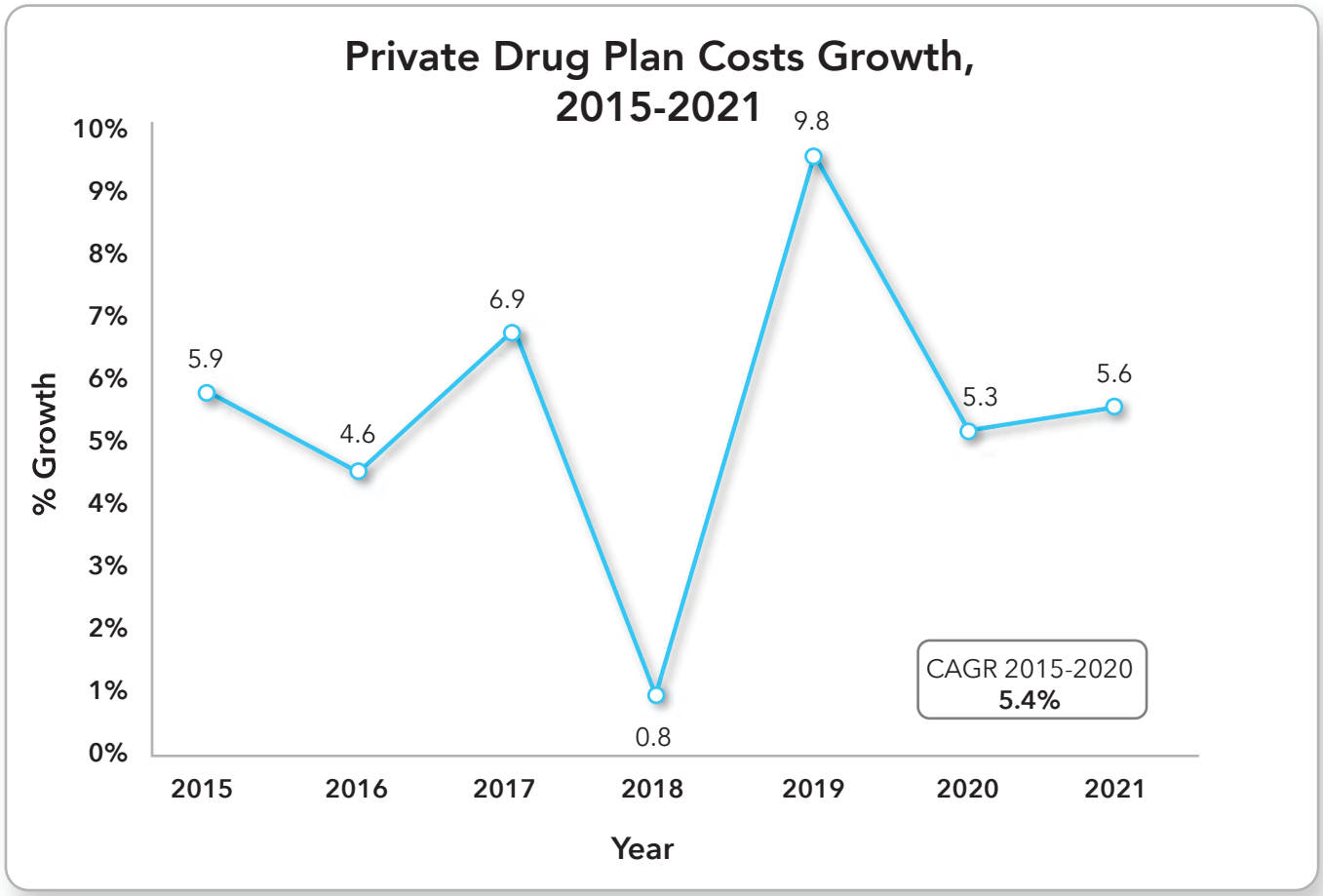
The overall growth in private drug plan costs was 5.6% in 2021. This rate is consistent with the five-year compound annual growth rate (CAGR) of 5.4% from 2015 to 2020. (See Figure 4.) This overall growth rate is typically sustainable. However, due to the current risk sharing mechanisms high-cost claims might result in unaffordable premiums or pool charges, and plan sponsors choosing to restrict coverage to reduce their costs.[4]

Figure 3



[4] See the section "Current insurer risk management does not meet private plans' needs" in this report for more information.

Figure 4

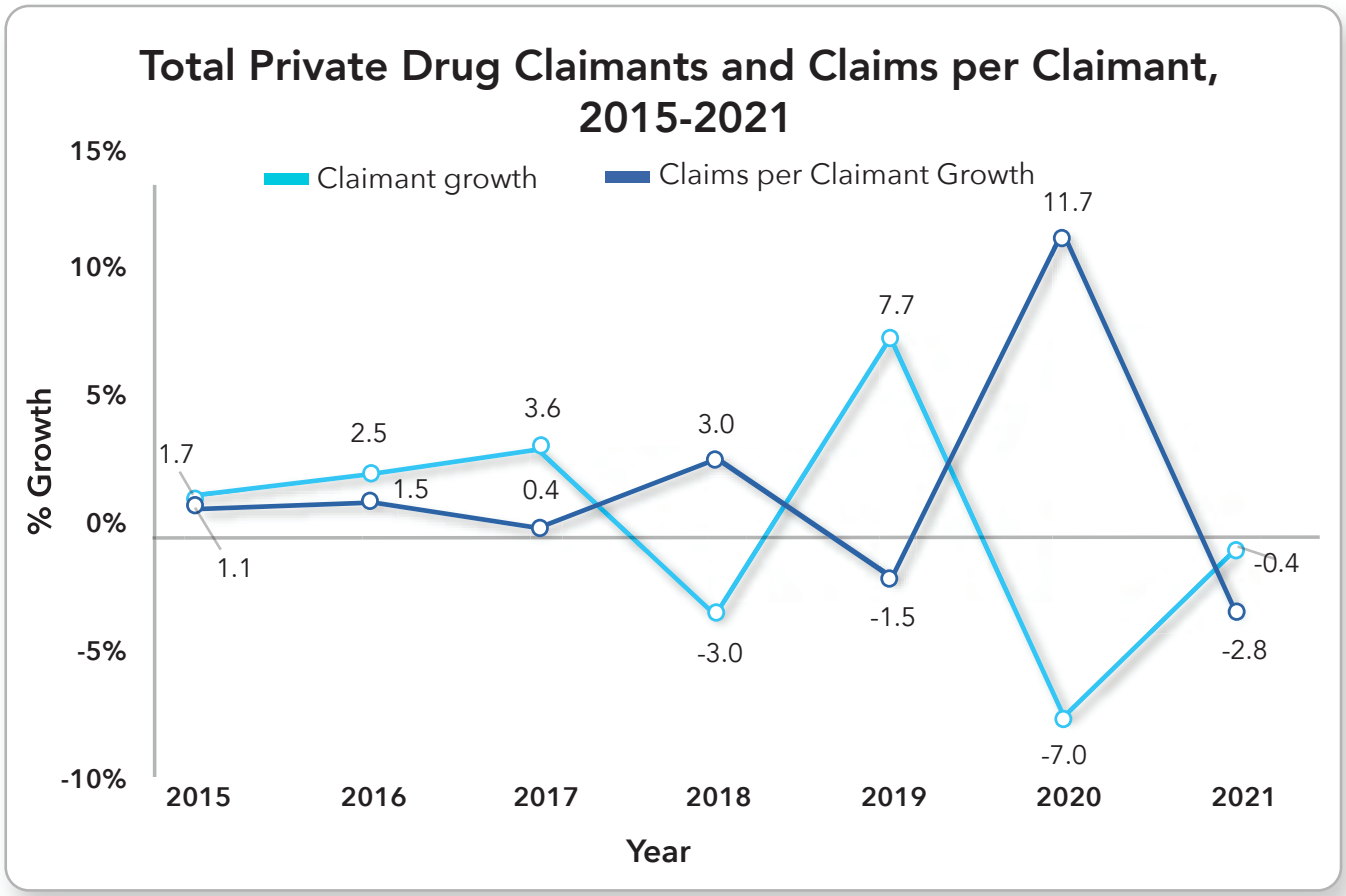


There was relatively consistent growth in the number of claimants and the number of claims per claimant before the pandemic. In 2018, cost growth decreased due to the introduction of OHIP+, and in 2019, claimant growth increased due to changes to the implementation of OHIP+.[5] Since the COVID-19 pandemic started in 2020, there have been significant shifts in utilization patterns compared with pre-pandemic trends. (See Figure 5.) While overall results may suggest that utilization was not a major cost driver in 2021, a more detailed analysis provides additional insights.

2021 saw fewer claimants using lower-cost acute-use drugs and more claimants using higher-cost drugs, resulting in an increase in the overall cost per claim.

[5] OHIP+ offered free medication to Ontarians under age 25 starting on January 1, 2018, but required those with private coverage to switch claims back to their private health plans on March 31, 2019.

Figure 5


Total Private Drug Claimants and Claims per Claimant, 2015-2021
Claimant growth
Claims per Claimant Growth
15%
10%
5%
0%
-5%
-10%
% Growth
1.7
2.5
3.6
3.0
7.7
11.7
1.1
1.5
0.4
-3.0
-1.5
-7.0
-0.4
-2.8
2015
2016
2017
2018
2019
2020
2021
Year

3. Impact of Chronic Disease

Chronic diseases are non-communicable diseases that can be treated but not cured and are persistent but generally progress slowly. Non-chronic diseases are usually one-time diseases that generally have a sudden onset and require only short-term treatment. This section assesses the impact of one-time (non-chronic) versus ongoing (chronic) claims, as well as antineoplastic (cancer) therapies as separate categories.

In 2021, chronic disease drugs continued to account for most (69.3%) of private drug plan claim costs and were the biggest contributor to annual cost growth (84% of total growth). (See Figure 6 and Figure 7.)

Figure 6

Share of 2021 Private Drug Plan Costs, by Chronic, Non-Chronic, and Cancer Therapy

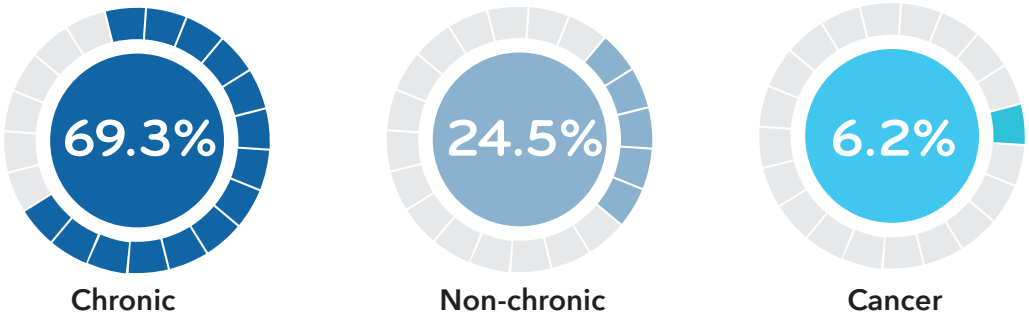
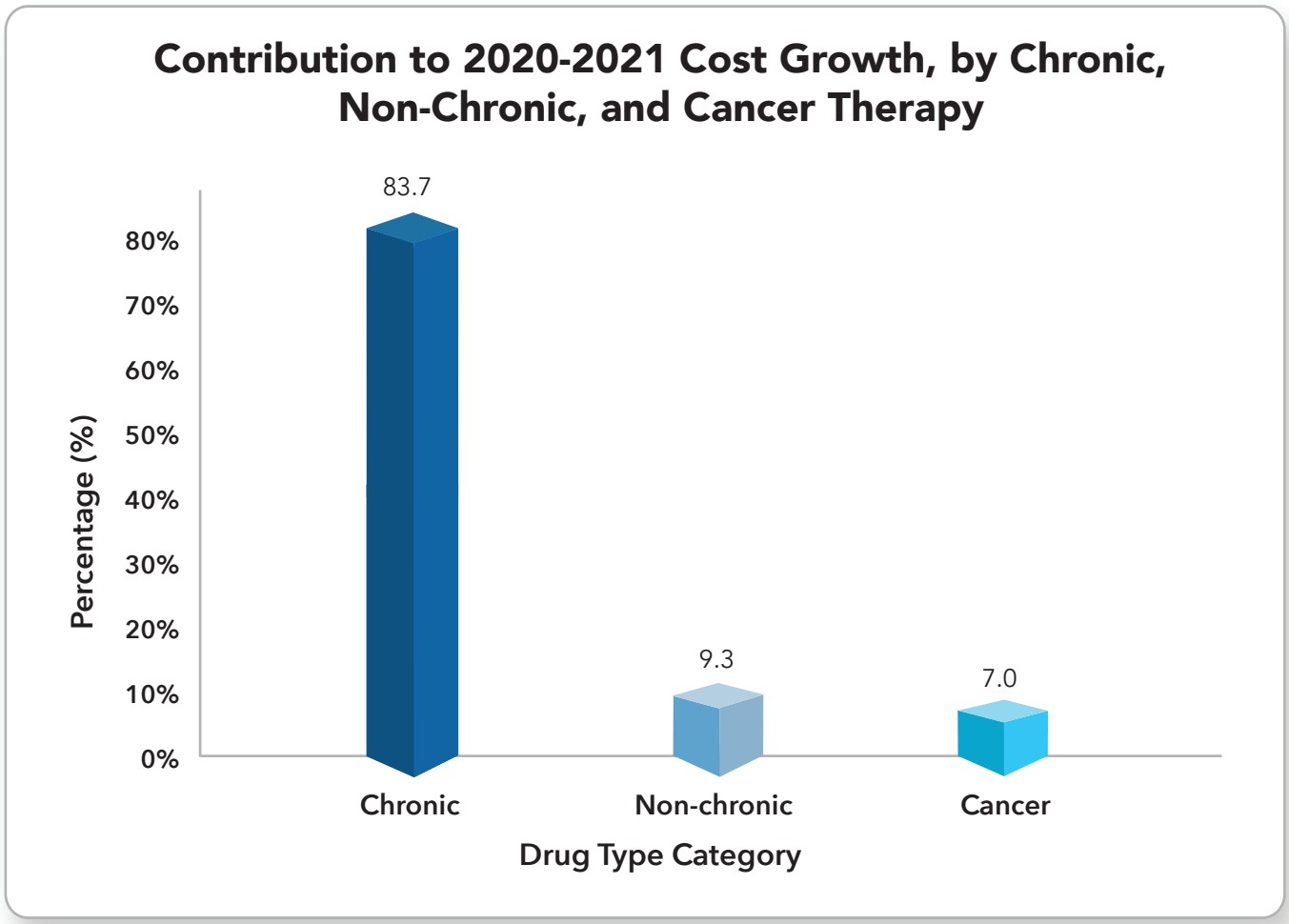


Figure 7



Should be noted that some chronic autoimmune diseases, such as colitis and psoriasis, are unavoidable and may require treatments with more expensive specialty or biologic drugs.

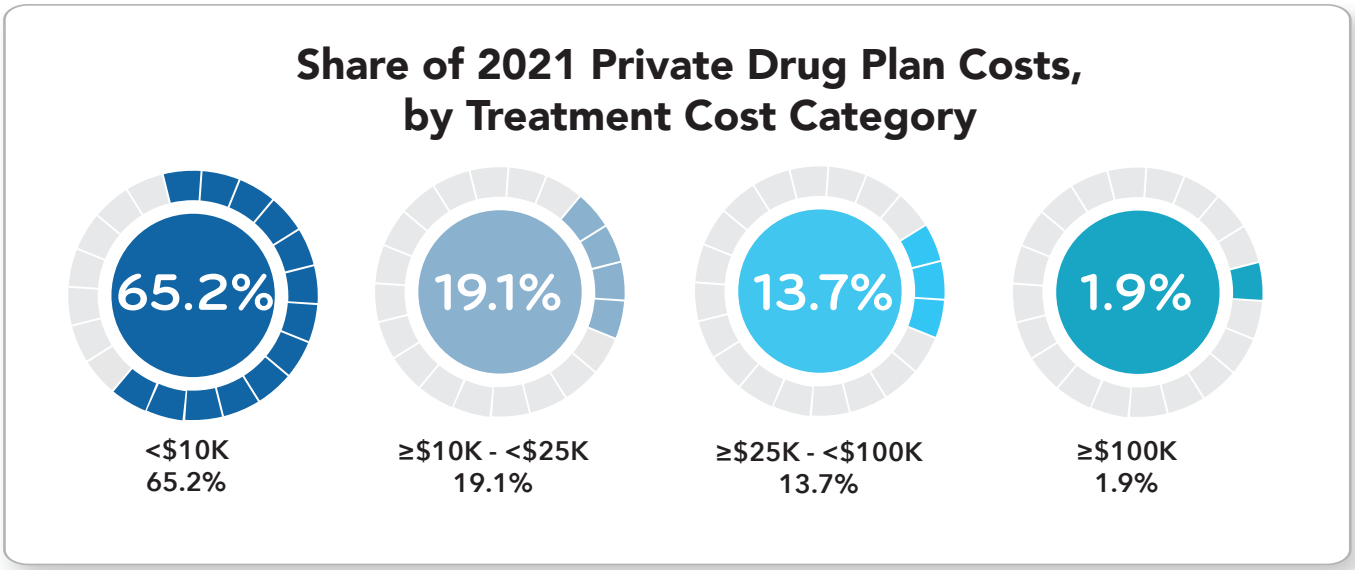
On the other hand, chronic disease drug spending includes treatments for many modifiable diseases, such as type 2 diabetes, high cholesterol, and high blood pressure. These types of modifiable diseases, which are included in the lower-cost non-specialty drug category addressed in the next section, accounted for the highest share of 2021 drug spending. These types of chronic diseases can be better managed or even prevented with lifestyle modification and prevention programs that can improve the overall health of members and potentially reduce drug spending.

4. Impact of Treatment Costs

Analyzing private drug plan claims by treatment cost categories reveals that lower-cost non-specialty drugs that cost less than $10,000 annually per patient made up the largest share of costs (65.2%) in 2021, followed by drugs costing between $10,000 and $25,000 annually per patient (19.1%).

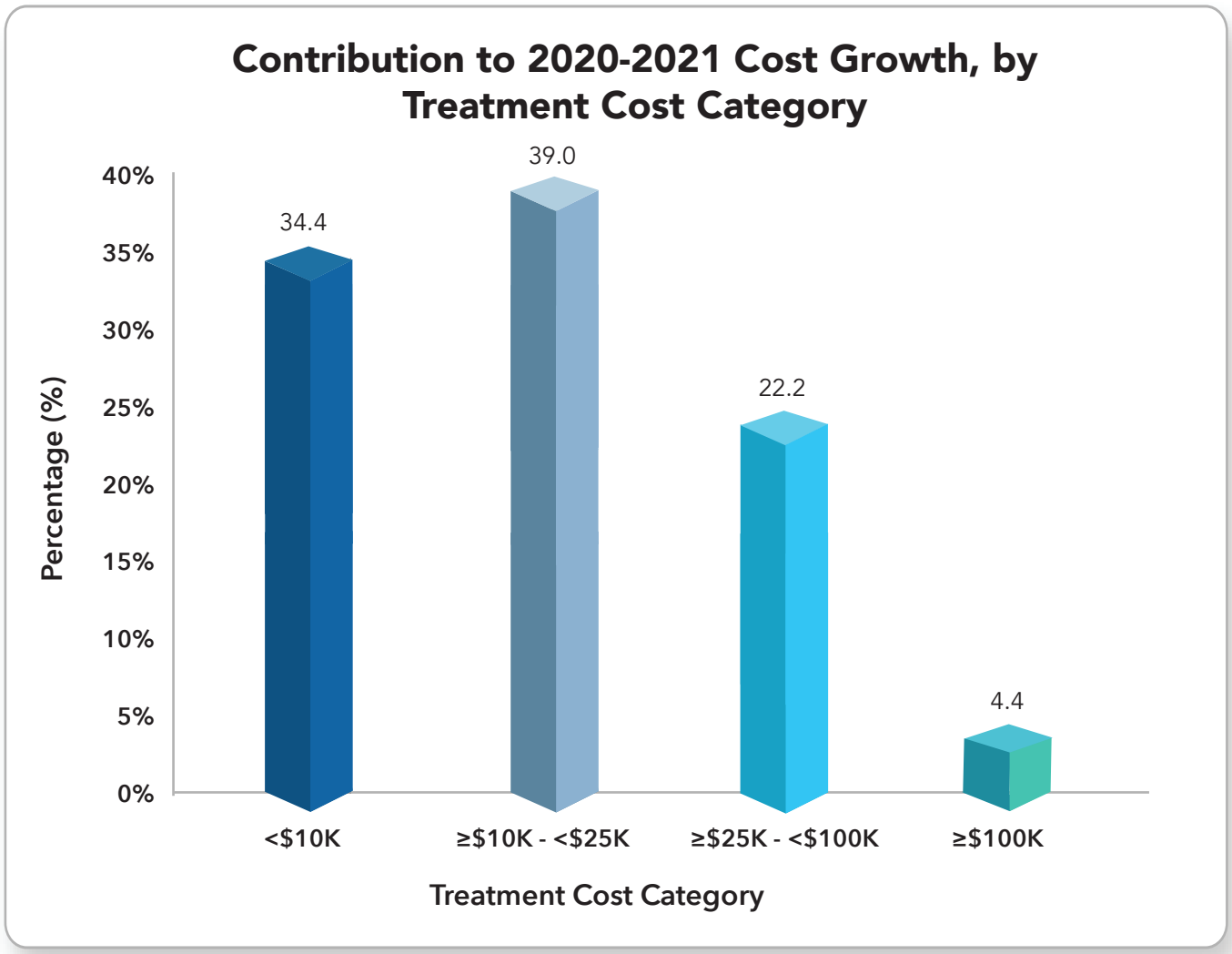
The two highest cost categories made up the lowest share of private drug plan claims costs. Drugs between $25,000 and $100,000 annually per patient made up 13.7% of costs, and those over $100,000 per patient annually accounted for 1.9%. (See Figure 8.)

Figure 8



Drugs that cost between $10,000 and $25,000 per patient annually contributed 39% of the total 2021 growth, followed closely by lower-cost non-specialty drugs that cost less than $10,000 per patient annually, at 34%. Together, these two categories contributed 73% of the cost growth in 2021. Drugs that cost over $100,000 per year contributed 4.4% of the total growth. (See Figure 9.)

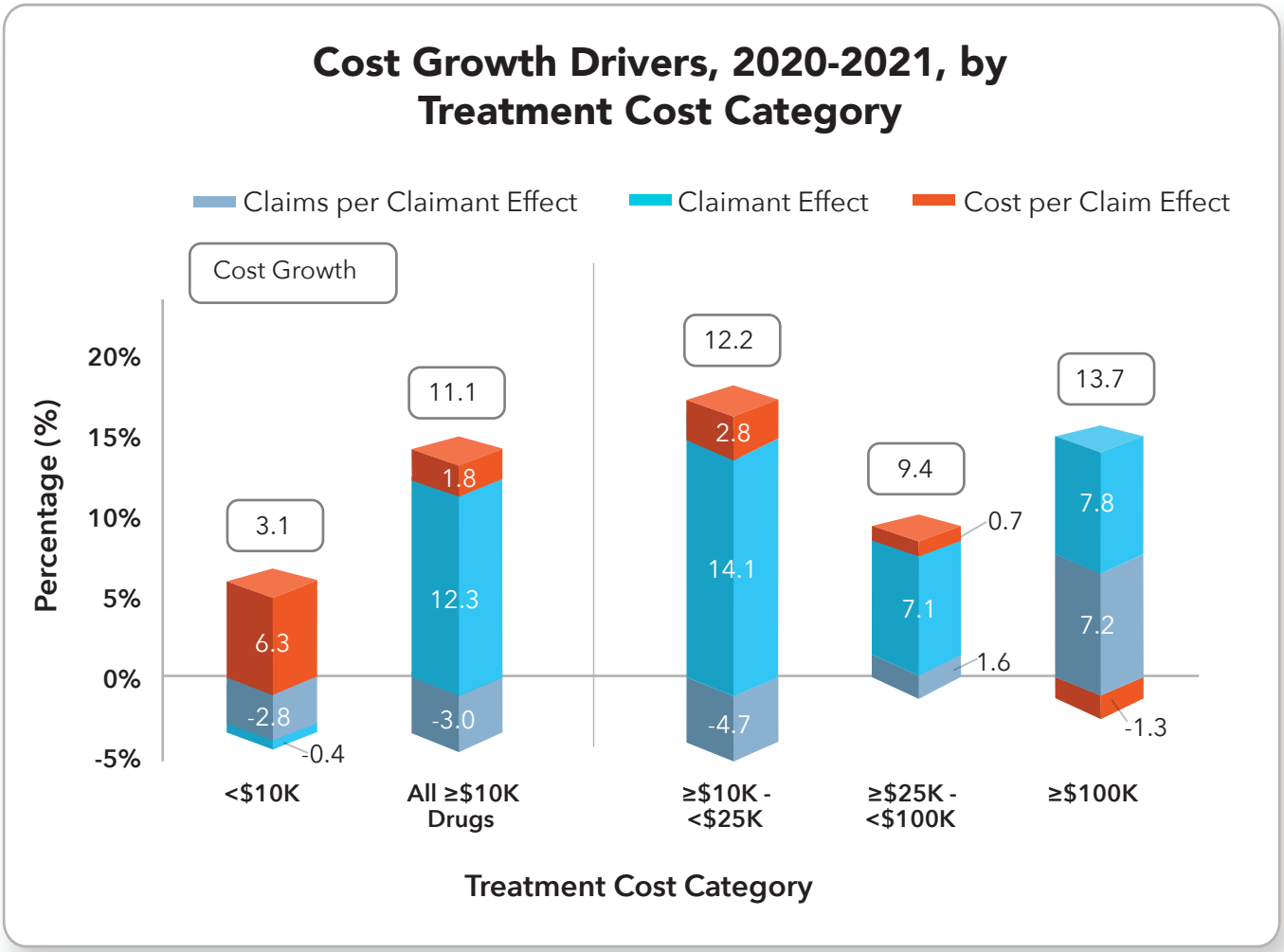
Figure 9



Increased utilization (an increased number of claimants making more claims) was the main growth driver for drugs with an annual per patient cost between $10,000 and $25,000, largely due to a 14.1% increase in the number of claimants alone. (See Figure 10.)

Conversely, the data showed less utilization for lower-cost non-specialty drugs costing less than $10,000 annually per patient. These results suggest that the pandemic affected utilization and spending by treatment cost categories.

Figure 10

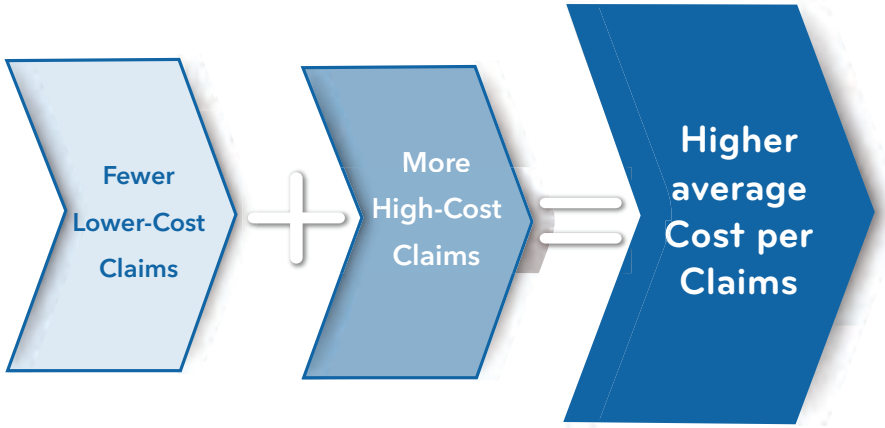


In 2021, patients may have delayed or reduced their need for treatment of acute, short-term, less serious conditions. This could be a result of less exposure due to reduced social contact and mask wearing, or it could be the result of either a reluctance to access, or difficulties accessing healthcare. Those with serious health issues and chronic conditions still sought care for diagnosis and treatment despite the pandemic.

As a result, those who did submit drug claims during the pandemic tended to claim for higher-cost drugs for more serious conditions. The net impact was that the higher demand for high-cost drugs drove up the average cost per claim and cost per claimant.

Figure 11

Drug Cost Trends in 2021



A different perspective on specialty medications

Amid concerns about the cost impact of specialty drugs (those costing more than $10,000) on private drug plans, some perspectives get missed.

Newer and potentially life-saving therapies have been developed to treat conditions that previously lacked effective treatment options. These therapies significantly improve patients' health, prevent further disability, and allow them to live a more productive life.

Unfortunately, some of these benefits are not captured in drug claims cost but instead materialize in improved productivity, reduced absenteeism, reduced long-term disability, prevented deaths, or the use of other therapies that manage symptoms but are not curative.

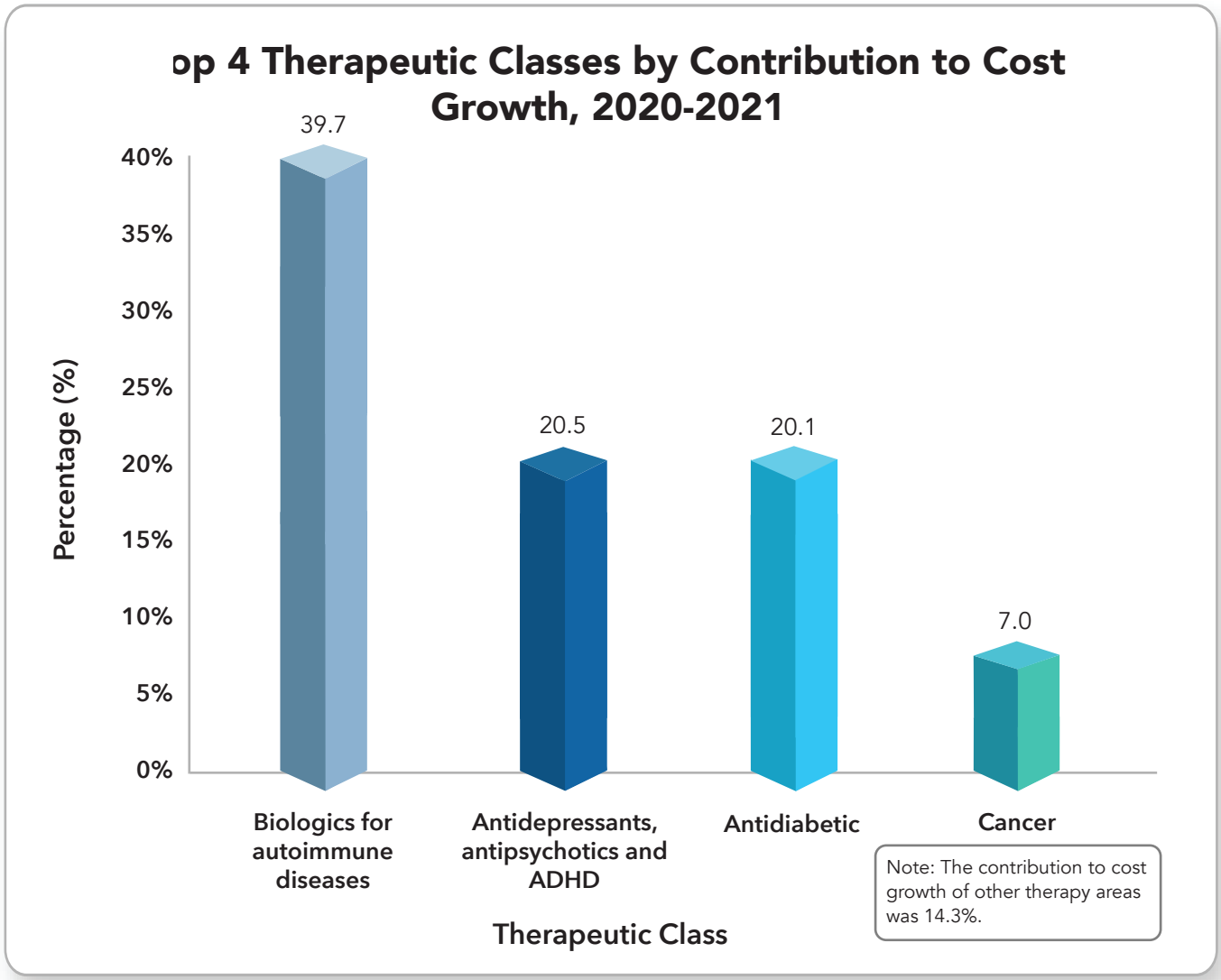
Some suggest that higher-cost drugs make private drug plans unaffordable and unsustainable. Although innovative, higher-cost treatments continue to grow, overall private drug claim cost increases remain relatively stable at about 5.4% annually.

If these costs were to be spread equitably among all lives covered by the Canadian benefits insurance industry, private drug plans could potentially be much more affordable.

5. Growth by Therapeutic Class

Biologic drugs for autoimmune diseases[6] contributed a significant portion (39.7%) of the drug claims cost increase in 2021. Diabetes drugs and the category that includes antidepressants, antipsychotics, and ADHD drugs each contributed about 20% to cost growth. Cancer drugs were the third-highest contributor in 2020 (11.9%) and dropped to fourth in 2021 (7.0%) and dropped to fourth in 2021. (See Figure 12.)

Figure 12



[6] Autoimmune diseases include rheumatoid arthritis, psoriasis, irritable bowel syndrome, and age-related macular degeneration.

Biologics for autoimmune diseases

Biologics for autoimmune diseases accounted for 20.4% of private plan claims in 2021 and 39.7% of the 2021 cost increase.

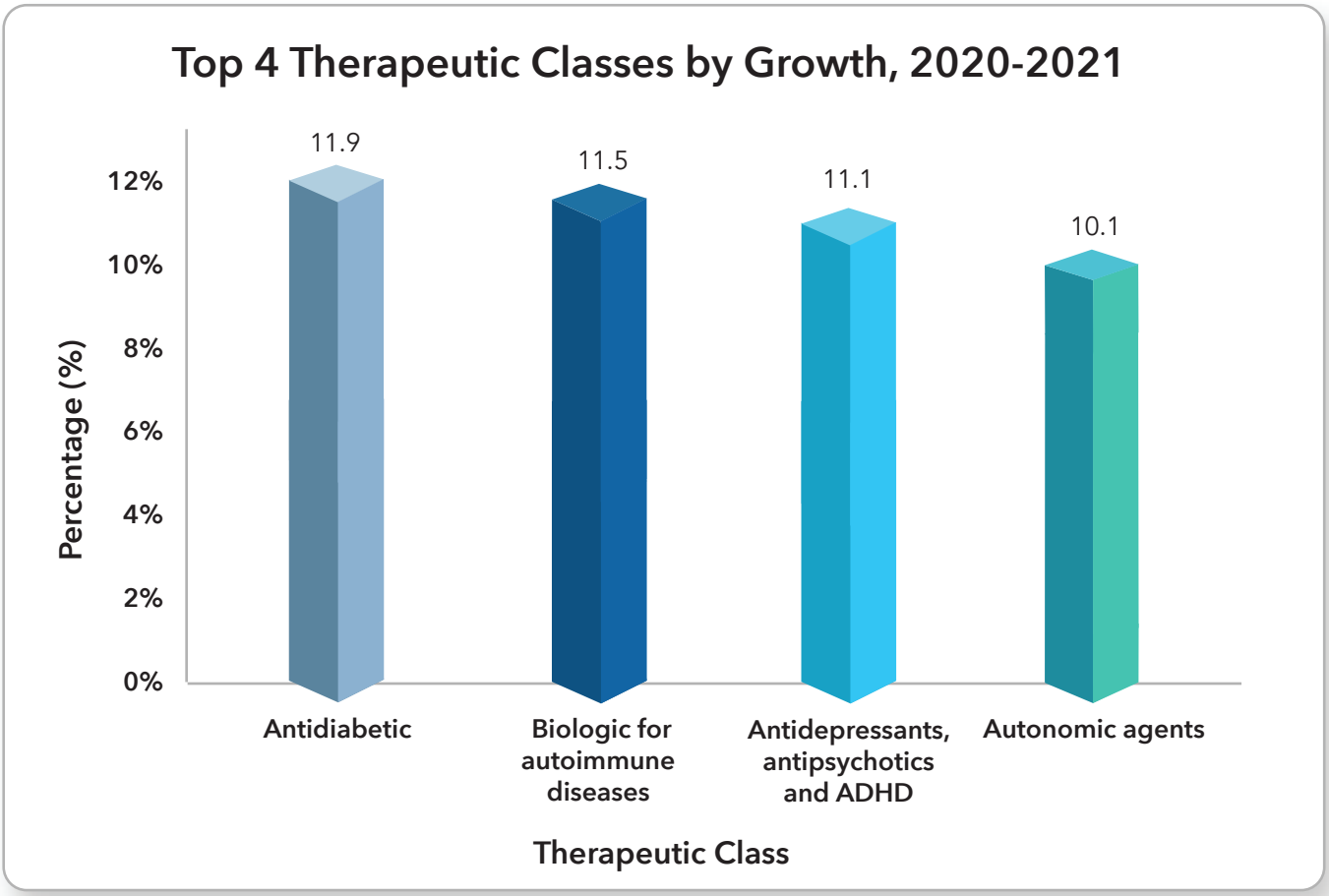
Although the number of claims grew 16.1% and the number of claimants grew 23.0%, the cost per claimant decreased 9.4%, most likely due to the increased availability of lower-cost market entrants such as biosimilars in this category.

The introduction of biosimilars generates savings in a variety of ways. Claimants can use lower-cost biosimilars, or manufacturers of innovator biologics that are facing biosimilar competition can either lower their list price or enter into a confidential product listing agreement (PLA) with private payers to lower the drug cost to align with the biosimilar. Since PLAs cannot be factored into our analysis due their confidential nature, it is likely that the actual cost of biologics is significantly lower than reported.

The top growing therapeutic classes in 2021 were diabetes drugs (11.9%), followed closely by biologic drugs for autoimmune diseases (11.5%), antidepressants, antipsychotics, and ADHD drugs (11.1%), and autonomic agents (10.1%). (See Figure 13.)

Non-drug diabetes claims, such as test strips, meters, insulin pumps, and associated supplies that are often reimbursed by private drug plans, were excluded from this analysis, thereby reducing the diabetes contribution to cost growth relative to previous years.

Figure 13



Non-drug antidiabetic products

Many private plans have streamlined their claim adjudication for some non-drug diabetic products, such as test strips, meters, insulin pumps and associated supplies, by allowing them to be dispensed at the pharmacy and adjudicated and paid via their pharmacy benefit management systems. This practice results in non-drug products being included in drug claims data.

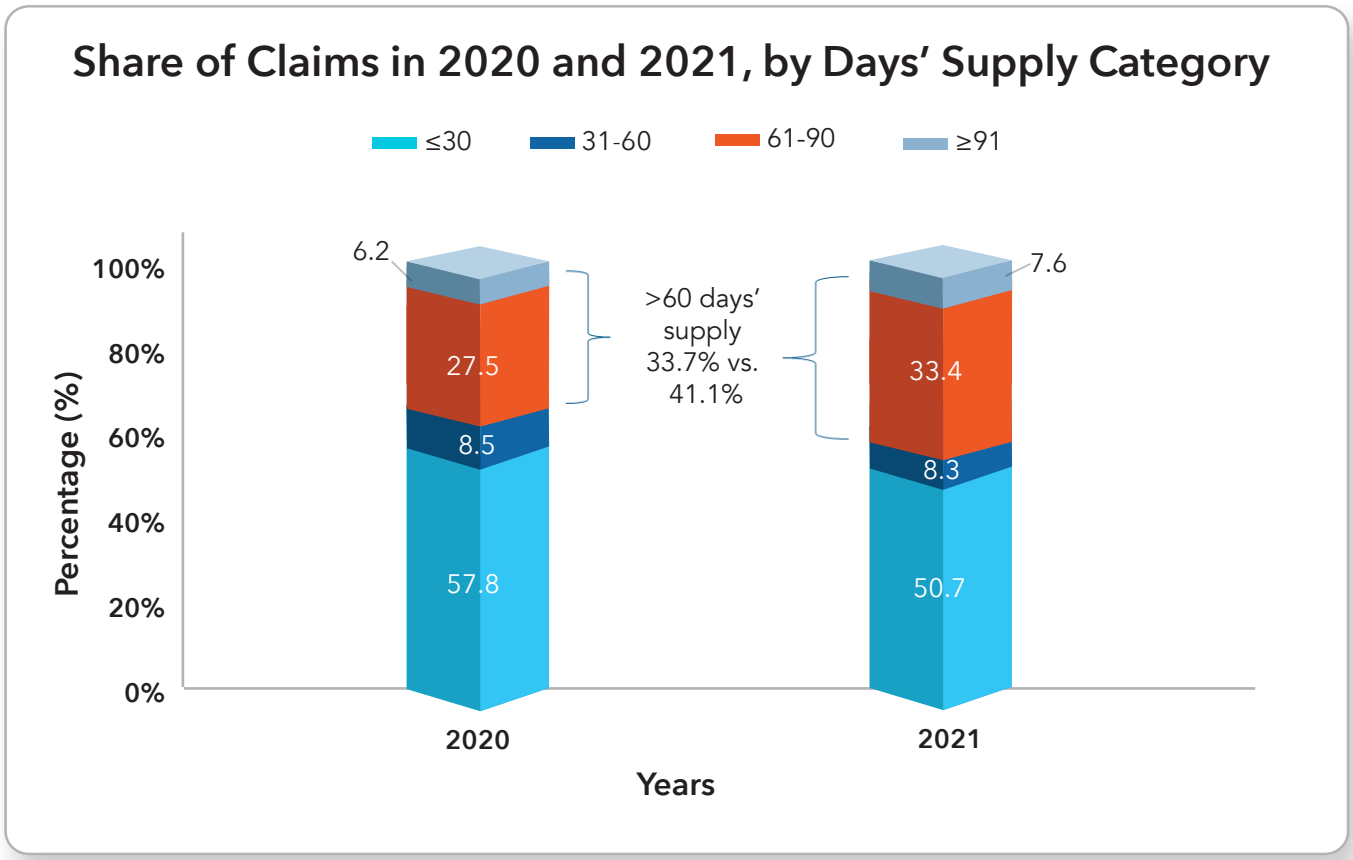
The analysis for this report excluded claims for non-drug antidiabetic products. Including the non-drug antidiabetic products in this analysis would have resulted in a total claims cost growth of 5.8%, compared with the 5.6% growth calculated excluding these products.

6. Impact of Days' Supply Limits

The report examined the prescription costs and duration of the most common lower-cost oral medications for chronic diseases, such as cardiovascular disease, diabetes, and depression. Once patients are stabilized using a chronic oral medication, overall prescription costs can be reduced if the medication is dispensed with a longer days' supply. Some private insurers require patients to fill a 90 days' supply of chronic medications. However, 30-day supply claims accounted for the most claims and costs between 2018 and 2020 and remained the most common prescription length for these types of medications.

In 2020, at the beginning of the COVID-19 pandemic, some provincial governments were concerned about shortages and about patients stockpiling medications, and therefore restricted pharmacies from dispensing more than 30 days' supply of medications. These policies resulted in an increased share of claims with 30 days' supply in 2020. When these policies were discontinued in the latter half of 2020, prescriptions with greater than 60 days' supply have increased, accounting for 41.1% of drug claim costs in 2021, compared with 33.7% in 2020. (See Figure 14.)

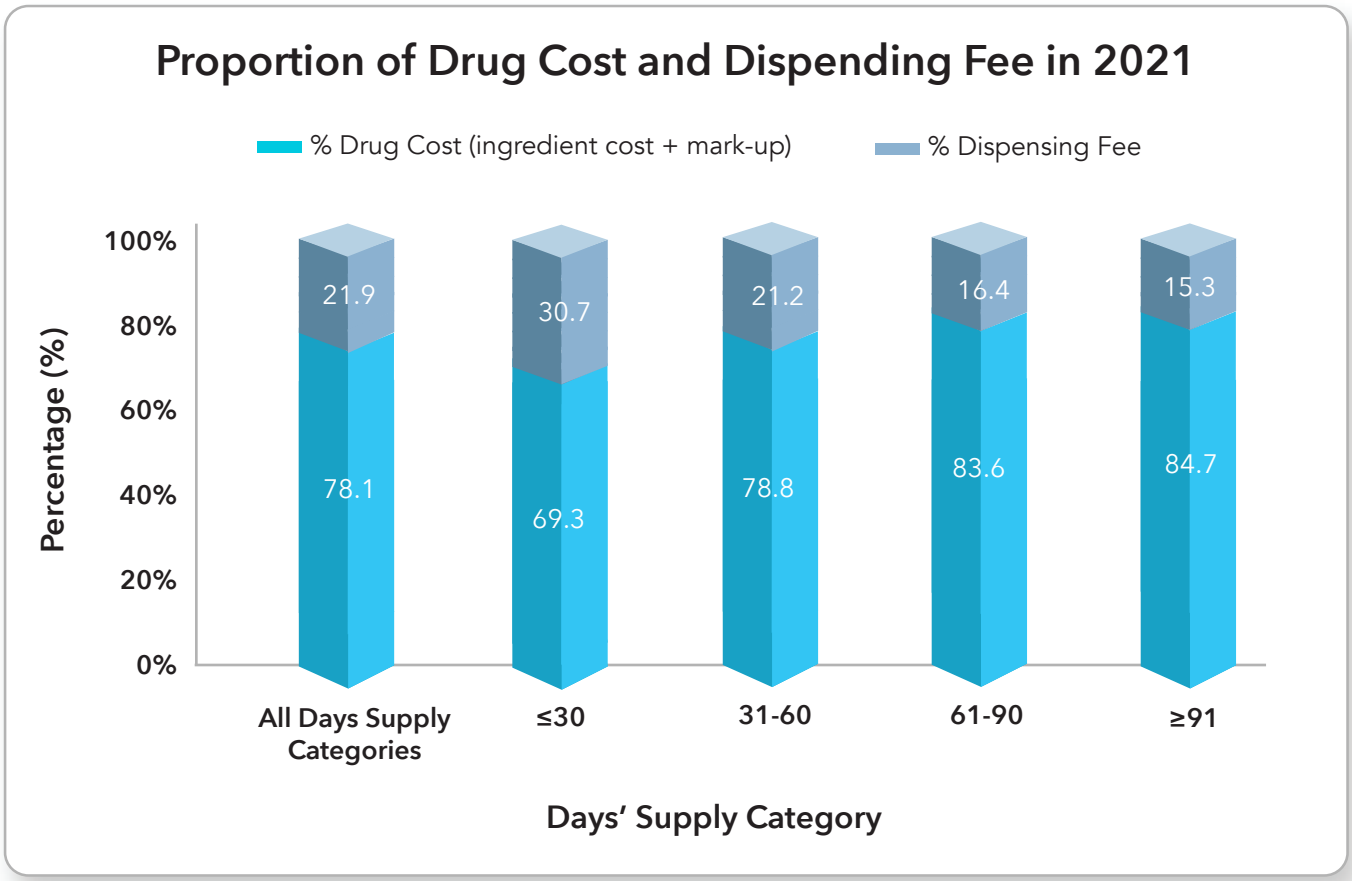
Figure 14



The increased share of 60- and 90-days' supply in 2021 is consistent with pre-pandemic levels. However, there are opportunities to further increase the share of claims with extended days' supply to generate further savings.

On average, dispensing fees represented 22% of the cost of a prescription across all days' supply categories. The dispensing fee for prescriptions with 30 days' supply or less was 30.7% of the overall prescription cost, while it was only 15.3% of the cost for prescriptions with over 90 days' supply. (See Figure 15.) Therefore, increasing the days' supply for prescriptions for low-cost chronic diseases could result in significantly lower prescription costs and generate greater overall drug claims cost savings.

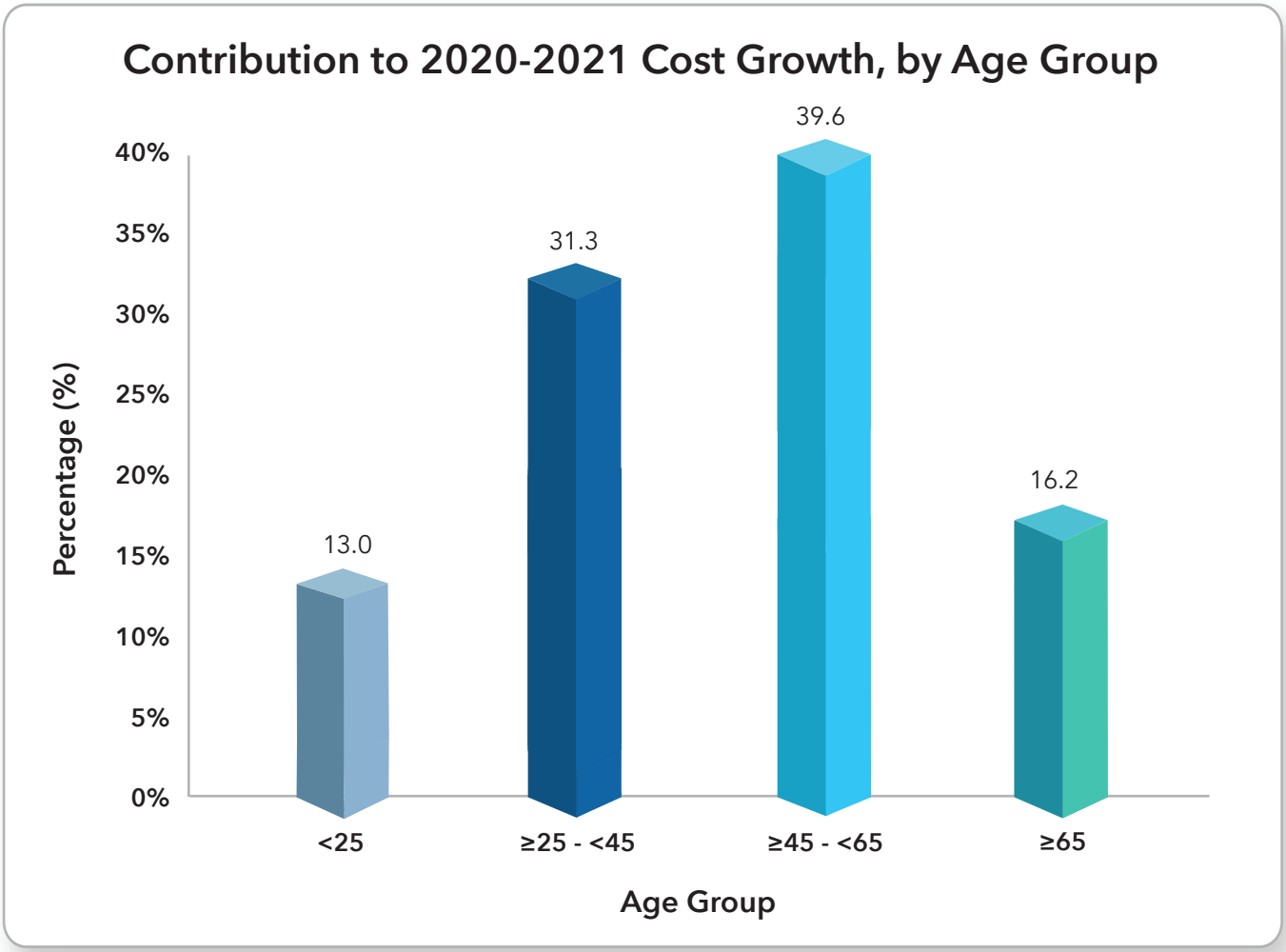
Figure 15


Proportion of Drug Cost and Dispending Fee in 2021
% Drug Cost (ingredient cost + mark-up)
% Dispensing Fee
Percentage (%)
100%
80%
60%
40%
20%
0%
21.9
78.1
30.7
69.3
21.2
78.8
16.4
83.6
15.3
84.7
All Days Supply Categories
≤30
31-60
61-90
≥91
Days' Supply Category

7. Impact of Age

Consistent with previous reports, the 25-44 and 45-64 age groups were the greatest contributors to private drug plan claims cost growth from 2020 to 2021. Together they accounted for 71% of total cost growth. This contribution to growth was aligned with previous years and unsurprising, given that those aged 25-64 account for 68% of claimants and 75% of claims in private drug plans.

Figure 16



Non-drug claims costs drive growth

Non-drug related claim costs also affect the premiums that plan sponsors pay.

- On average, 27% of the purchase price of a prescription drug claim is attributable to the wholesale and pharmacy markup and dispensing fees, which are over and above the list price of the drug. In 2021, dispensing fees averaged 22% of the cost of a prescription for low-cost chronic drugs.
- Private drug claims now include non-drug antidiabetic products such as test strips, meters, insulin pumps and associated supplies. Analysis indicates that in 2021 non-drug antidiabetic products grew by 11.8% from 2020. Although many private drug claims reports include non-drug antidiabetic products, this analysis excluded them.

Drug claims are only one driver of health benefit premiums

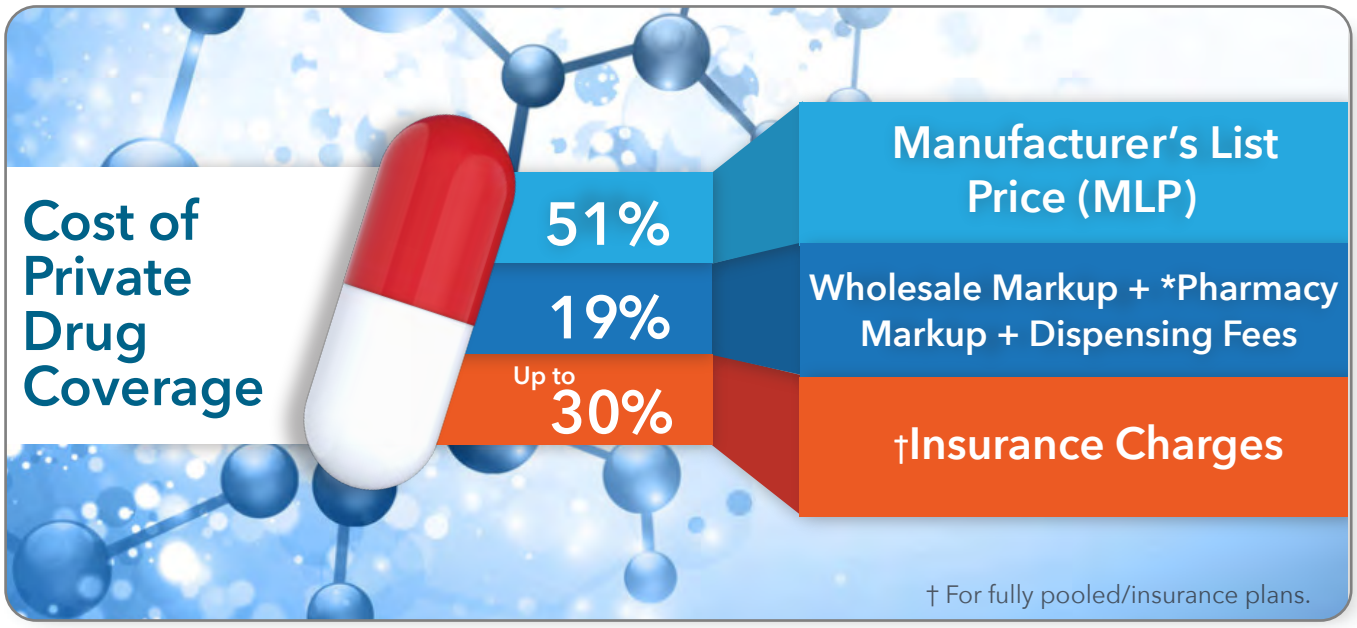
In addition to drug claims, other healthcare claims affect the final bill for health benefits plans. In 2020, insurers paid $26.6 billion in supplementary healthcare claim costs — of this, $12.5 billion was for drug claims (both brand and generic), $7.2 billion for dental care, $4.2 billion for paramedical services and vision care, $1.8 billion for hospital costs, and $0.9 billion for travel-related costs.[7]

A recent review of a typical health benefit plan indicated that although drugs accounted for about 45% of health claims costs, these costs decreased from 2019/2020 to 2020/2021. In contrast, paramedical practitioners represented almost 36% of health claims costs, however, spending on these services increased 26% from 2019/2020 to 2020/2021 fiscal years.[8]

[7] Canadian Life & Health Insurance Association, Canadian Life & Health Insurance Facts, 2021 Edition.
[8] Presentation by Sarah Beech, Area Executive President, Central Region, Gallagher Insurance at Innovative Medicines Canada 2022 Policy Summit (June 2022).

The overall cost of a health benefit plan is also significantly more than the claims cost. Claims are used as the basis for the insurers' risk management process to determine premiums and pool charges that plan sponsors pay for their benefits. Additional insurer costs, such as reserves, profit, commissions, inflation, risk charge, and administration, can represent up to 30%[9] of the total health benefit plan cost for the fully insured benefit plans typically used by small to medium-sized employers. (See Figure 17.)

Figure 17



[9] Benefits and Pensions Monitor, "ASO Offers Cost Savings," Industry News, June 10, 2022.

Current insurer risk management does not meet private plans' needs

Many stakeholders in the benefits industry question whether current methods to assess risk and determine premiums offer the insurance protection that plan sponsors need in today's market.

Health insurance premium renewals are relatively transparent. The methodology and data used to determine a health benefit premium is provided to the plan sponsor and their plan advisor so that they can better understand their plan's cost drivers and assess the proposed premium.

However, since the pooling methodology combines multiple plan sponsor claims, little data is provided to clarify how the pool charges are determined and whether they are reasonable relative to the protection they provide.

Because plans are experience-rated, meaning premiums go up following a year with high cost claims, plan sponsors believe they need to purchase pooling protection despite the lack of transparency. Unfortunately, there are not many pooling options outside their current health benefit plan insurer.

If pooling becomes unaffordable for plan sponsors, they may turn to restrictive drug plan designs, such as plans with maximums or formularies with limited coverage. These restrict plan member access to the drugs they need to remain health and productive — and don't address the key issue of sub-optimal risk management.

In theory, if overall private drug plan costs are growing at 5.6% annually, and the underwriting method were to allow these costs to be spread equitably among all lives covered by the Canadian benefits insurance industry, private drug plans could potentially be much more affordable and provide more extensive coverage for plan sponsors. One would assume this would also translate into faster access for innovative therapies, as a better risk model would eliminate the extensive reviews that ultimately delay access. Unfortunately, the current experience-rating and pooling methodology used by Canadian insurers for individual plans threatens their sustainability.

8. Summary and Implications

Private drug claims costs have grown at a consistent rate in recent years. Utilization continued to be a major driver of cost in 2021 but there were some notable differences compared with previous years' trends.

- The pandemic continued to have an impact on access to care and demand for medicines. In 2021, there were fewer claims for lower-cost acute-care drugs, and more claimants were using higher-cost drugs for longer-term, chronic health conditions, driving up the average cost per claim.
- The cost per claimant for biologics for autoimmune diseases decreased, despite an increase in utilization, suggesting cost savings due to the introduction of biosimilars.
- Chronic disease claims remained stable during the pandemic, accounting for 69.3% of costs and 84% of annual growth.
- The year 2021 saw a return to the more traditional 60- to 90-days' supply trend seen before the pandemic. Dispensing fees make up a higher share of overall costs for 30 days' supply prescriptions, and therefore there is an opportunity to increase the share of 60- or 90-days' supply claims for chronic treatments to generate further drug claims savings.
- Product listing agreements are becoming more common between insurers and manufacturers yet cannot be incorporated into this analysis due to their confidentiality. As a result, the actual claims cost growth is likely lower than reported.
- Drug claims are only one driver of health benefit premiums. Other health benefit claims and up to 30% of insurers' costs also make up the premiums that insurers charge plan sponsors.
- Overall private drug plan claim costs are growing consistently at around 5.4% annually. If insurance arrangements were to allow these costs to be spread equitably among all lives covered by the Canadian benefits insurance industry, private drug plans could potentially be more affordable for plan sponsors.
- Specialty drugs should be valued beyond simply their cost to the benefit plan. Some potential benefits are not captured in drug claims costs and instead materialize in improved productivity, reduced absenteeism, reduced long-term disability, or prevented deaths.

Data Sources and Methodology

1. The analysis in this report is based on the IQVIA Private Drug Plan Claims database, the largest pan-Canadian private drug plan claims database, which captures approximately 80% of pay direct private drug claims nationally. The database includes 9 of the top 10 private insurance carriers, third-party administrators, and benefit plan managers, which enable it to capture over 12 million active claimants with over 129 million drug claims. 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. An insurer's risk management process, premium setting processes, and pooling methodology all contribute to the actual benefit plan cost paid by plan sponsors.
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 6, Impact of Days' Supply Limits, which includes dispensing fees. 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. This analysis includes only drug pay direct claims processed through group or individual private drug plans and does not include cash-paying customers with private coverage.