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DRUG WAR THREAT:
hike prices 33% - US says

The festering trade dispute between Canada and the United States over the cost of prescription drugs developed into a full-fledged crisis this November as a diverse assortment of political and public health officials lined up for and against the sale of prescription drugs to the US by Canadian internet pharmacies.

For plan sponsors, the results of this cross-border shoving match between the US Food and Drug Administration (FDA) and its allies in the pharmaceutical industry on one side, and Canadian regulators, internet pharmacies and even some US jurisdictions on the other, means one thing: money -- and lots of it.

At stake is the control of Canada's prescription drug pricing regime and the $14 billion that goes with it. **The potential impact on plan sponsors: drug price increases of as much as 33 per cent to match those of the United States.** Since drugs represent up to 70 per cent of extended health care costs, the struggle threatens to swamp most employee benefit and member health and welfare programs.

As outlined in the September issue of the *Coughlin Courier,* Canadian internet pharmacies are rapidly gaining a foothold in the lucrative American market by selling prescription drugs to US citizens at Canadian prices. In Canada, the cost of prescription drugs is regulated by the provinces, which use their bulk buying power to temper costs and reduce upward pressures on prices.

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And the winner is ... Coughlin

The month of November was a special one for Coughlin & Associates Ltd. as the company was honoured as a community and business leader by two different organizations.

On November 12, 2003, company President Michel Poirier was presented with the Outstanding Philanthropic Small Business Award by the Association of Fundraising Professionals (AFP.)

The AFP award recognizes Coughlin's outstanding contribution to charitable organizations and events including the Boys and Girls Club of Ottawa, the Juvenile Diabetes Foundation, the Tour Nortel as well as its participation in the *Imagine Caring Company* campaign that acknowledges companies that consistently commit at least one per cent of their pre-tax earnings to charitable causes.

On November 20, Coughlin & Associates Ltd. received the Ottawa Chamber of Commerce's Silver Award for achievement in the mid-market business category. The award salutes the company's involvement in the community, job creation, business growth, customer service and innovation. It was the second time the company had been nominated for the award.

"*This has been a very special year for the Coughlin organization,*" Mr. Poirier said. "*To be recognized as a leader by both the philanthropic and business communities is a real tribute to outstanding spirit and commitment displayed by the entire team at Coughlin.*" ■

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That power, along with a low Canadian dollar, reduces the price of drugs in Canada by an average 33 per cent compared to the United States. Many Canadian drugs are as much as 50 per cent cheaper than their American namesakes.

With discounts of that size, an increasing number of Americans are turning to Canadian mail order pharmacies to meet their prescription needs. Today, cross-border prescription drug sales amount to $1 billion annually, accounting for less than one per cent of the American retail drug market. However, that market share threatens to blossom to 20 per cent over the next five years.

To protect their margins and counteract that trend, several US drug manufacturers, including GlaxoSmithKline, Pfizer, and Eli Lilly have announced plans to boycott or limit shipments of pharmaceuticals to the Canadian market. Restricting drug supplies will drive Canadian prices to American levels -- among the highest in the world. According to articles published in the November 13, 2003 edition of the *Globe & Mail*, shortages of the cancer drugs Temodal® and Purinethol® have been reported and shipments of the popular anti-depressant Prozac® have been curtailed.

Backing the drug manufacturers is the US Food and Drug Administration which alleges that the shipment of Canadian drugs threatens the safety of US consumers, citing that many delicate drugs have been shipped without refrigeration and dispensed in uncontrolled conditions without doctors' prescriptions. Federal Health Minister Anne McLellan denies that Canadian suppliers are compromising safety.

The FDA also charges that countries, like Canada, that have price controls are "*riding on the backs of American consumers, who as the only people in the world who pay the actual costs of drugs, are carrying the costs of the research that makes those drugs possible.*"

(The United States is the only major industrialized country that does not have some form of price controls on prescription drugs.)

The FDA has backed its claims by closing Canadian pharmacy chains in the US and threatening to jail those involved in the internet drug trade. Its list of potential violators includes American mayors and state governors who encourage cross-border drug sales.

The FDA threat attempts to block a growing trend by American cities and states to use lower cost Canadian providers for their own employee benefits programs. Already, the states of Illinois, Minnesota, Iowa and Wisconsin, along with cities like Springfield, Mass. and Boston, have either established or have indicated that they are considering developing group benefit programs that encourage their employees to purchase prescription drugs through Canadian sources. The State of Illinois employee drug plan expects to save up to $91 million US per year through such cross-border sales.

While there may be some irony in seeing American political leaders supporting Canada's more regulated price regime, the irony is not entirely one sided. Some Canadian consumer and industry groups, including the National Association of Pharmacy Regulatory Authorities (NAPRA) have joined the FDA lobby, hoping to cut-off cross-border sales and reduce the growing demand for Canadian drugs and the price-supply pressures that go with it.

Can the Canadian drug price regime withstand a boycott from the world's largest drug manufacturers and the lobbying pressure of the world's most powerful pharmaceutical regulator? Time will tell. Canadian legislation does allow generic drug manufacturers to produce copycat patent drugs under special licence in unusual circumstances, such as shortages. However, it could take years for the generic suppliers to gear-up their production to the levels of the giant drug manufacturers. Plus, such an action would likely be fraught with legal and financial risks.

No matter how you look at it, 2004 will likely be the year that drug prices will become a "front and centre" issue for your extended health care program.

Watch for more information on this issue as it develops. ■

Heart drug costs double in 5 years

In a possible sign of things to come, spending on heart medications doubled in the five years between 1996 and 2001, according to a study published in the November 6, 2003 edition of the *Canadian Journal of Cardiology.*

According to research compiled by the Canadian Cardiovascular Outcomes Research Team at the Institute for Clinical Evaluative Sciences, spending on heart medications jumped to $3.3 billion in 2001, double that reported in its last survey five years ago.

An aging population, aggressive marketing by drug manufacturers and the introduction of new and more costly pharmaceuticals are blamed for the increase.

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Quebec to revise QPP

The province of Quebec has proposed a number of changes to the Quebec Pension Plan (QPP). The reforms are designed to contain cost pressures on the plan, which are expected to increase as the average age of its members increases. Today, 12 per cent of Quebecois are age 65 or older. That number will increase to 24 per cent in 30 years, the Quebec government says.

Reforms under consideration include the following:

- eliminating provisions allowing low income wage earners to receive QPP benefits beginning at age 60;
- eliminating the *15 per rule* that excludes 15 per cent of a worker's lowest income earning years from his/her QPP retirement income calculations;
- increasing the QPP benefit for workers retiring past age 65 by 0.7 per cent per month from the current level of 0.5 per cent per month;
- changing the disability definition to *any occupation* instead of *own occupation*. As well, the more liberal disability rules for those age 60 to 64 would be eliminated;
- adjusting the flat rate benefit for disabled QPP recipients from its current level of $370 per month to an amount matching the Old Age Security (OAS) pension (currently $461.55 per month.) The OAS is adjusted quarterly based on the Consumer Price Index;
- increasing the orphan's pension for minor children from its current level of $59 per month to $187 per month;
- providing a 60 per cent benefit to the surviving spouse of a retired QPP recipient; and
- either capping the pension paid to the children of disabled contributors to the same level as that paid under the orphan's benefit or abolishing the benefit altogether.

All benefits paid are capped at the QPP benefit maximum, currently $801 per month.

The Quebec government will hold public consultations on its proposals starting in early 2004. If approved, the reforms will be implemented gradually beginning in 2010. ■

Manitoba proposes changes to its Pension Benefits Act

The Manitoba Pension Commission has released a report recommending extensive changes to that province's Pension Benefits Act.

The Commission's recommendations include the following:

- the immediate vesting of contributions, thereby removing the requirement for employees to have two years of service before vesting can occur;
- allowing for phased early retirement for employees who are within 10 years of their normal retirement date. Under the proposal, employees will be able to gradually reduce their work hours and collect a portion of their pension benefits in each year of their phased retirement;
- the recognition of flexible registered pension plans that allow employees to make extra tax-deductible contributions without impacting their RRSP contribution limits;
- confirming that multi-employer pension plans are covered under the Act's multi-unit plan definition;
- requiring that pension plans be administered by pension committees consisting of representatives of active and non-active employee groups; and
- the establishment of procedures for the distribution of plan surpluses that require the agreement of two-thirds of plan members before distributions can occur.

The Commission will accept comments on its proposals until March 31, 2004. The report can be viewed at **www.gov.mb.ca/labour/pension/index.html.** ■

Actuaries propose DSM for pension splitting

A Canadian Institute of Actuaries (CIA) taskforce has recommended the adoption of the deferred settlement method (DSM) of pension asset splitting upon divorce or marriage breakdown.

The DSM method attempts to remove the variable, and often subjective, assumptions of future retirement ages and wage increases that are used to establish the value of members' pensions upon marriage dissolution.

Rather than open these assumptions to the litigation process, the DSM creates a special membership category for non-member spouses who then earn pension credits along with their spouses during the marriage. The result: both the member and his/her spouse earn the same pension service credits during marriage. The benefits are payable at the same time the member would normally receive his/her pension. The only variance between the member's benefits and those of his/her spouse would be based on the differences in the life expectancy of the member and the spouse. The formula is applicable to both same sex and male-female partnerships.

The adoption of the DSM would eliminate lengthy debate and litigation during the asset-splitting process, the CIA suggests.

The DSM is currently used in Nova Scotia and is under review by Manitoba. The provinces of British Columbia and Newfoundland have settlement provisions that are similar to the DSM.

Details of the DSM method are outlined in *The Division of Pension Benefits Upon Marriage Breakdown*, published by the Canadian Institute of Actuaries. ■

Over $1 trillion in retirement plans

Canadians have tucked away over $1.15 *trillion* for retirement through registered retirement savings plans (RRSPs) and registered pension programs (RPPs), Statistics Canada reports.

The $1 trillion nest egg almost *doubles* the amount saved since 1990 when $593 billion had been accumulated.

Registered pension plans dominate retirement reserves, accounting for 69 per cent of all retirement income savings. RRSPs follow with 25 per cent while government pension plans account for only 5.6 per cent of savings. The breakdown in dollar terms is as follows:

RETIREMENT SAVINGS

	$ millions	Proportion by per cent	Growth since 1990
Government plans	$64,694	5.6%	-1.8%
RPPs	$794,073	69.0%	100.6%
RRSPs	$292,475	25.4%	121.8%
Total	**$1,151,242**	**100.0%**	**93.9%**

The Statistics Canada report goes on to state that 5.5 million members, about 40 per cent of the Canadian work force, belong to registered pension plans. There are 13,861 RPPs in Canada. Approximately 4.0 million workers were members of trusteed pension plans, Statistics Canada says.

While RRSPs continue to be popular, only nine per cent of tax filers used all or most of their available RRSP contribution room, the government statistics gathering agency says. Of those that do maximize their contributions, 40 per cent had an income of $80,000 or more. Over 5.8 million people contribute to an RRSP. ■

Heart drug costs double in 5 years

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The favouring of newly developed angiotensin receptor blockers (ARB), which lower blood pressure, over the diuretics is partly blamed for the increase. While published reports indicate that ARBs are not any more effective over the long term than diuretics, they are considerably more expensive than the latter "*which cost only pennies*" according to the research team.

Annual prescription costs for ARBs total $275 million compared to $14 million five years ago, the study notes. Similar expense hikes have been reported with other new prescription heart medications.

For plan sponsors, the Institute's study could foreshadow further increases in drug costs as the baby boom population, which makes up the largest segment of the work force, is reaching the age when heart disease is normally diagnosed.

On a provincial basis, it appears that *less* is spent on heart drugs as one moves west. Nova Scotia leads the pack with $9.4 million spent per 100,000 people compared to just $5.5 million per 100,000 in British Columbia, the study says.

The results by province follow:

Money spent on heart medications per 100,000 people (in $millions)

Nova Scotia	$9.4
Quebec	9.0
New Brunswick	8.4
PEI, Newfoundland and Labrador	8.2
Ontario	7.9
Saskatchewan	6.4
Manitoba	6.0
Alberta	5.6
British Columbia	5.5

How cheap are we?

Canada has some of the lowest pharmaceutical prices in the developed world, according to a study published by the University of Pennsylvania's Wharton School of Health Care.

Prices and availability of pharmaceuticals: Evidence from nine countries, published in *Health Affairs* magazine, tracks drug costs in Canada, Chile, France, Germany, Italy, Japan, Mexico, the United Kingdom and the United States and correlates them against each nation's gross domestic product per capita, drug doses per person, consumer price index and overall consumer purchasing power. According to the Wharton study, Canada's drug prices are 33 per cent cheaper than those of the US, the lowest of the nine nations surveyed. Japan had the highest prices, exceeding those of the US by 27 per cent.

However, the article stressed that the decline of the Canadian dollar during the 1990s accounted for 19 of the 33 percentage point differential between Canadian and US drug prices. "*The decline in Canadian drug prices relative to US prices, after exchange rate movement is controlled for, plausibly reflects Canada's federal price regulation and provincial formularies,*" the study notes. (The study's findings were based on 1999 exchange rates.)

Using US prices as a base, the price ratios were:

Price and volume indexes, relative to per capital income, in nine countries (US = 100)

Japan	127
United States	100
United Kingdom	94
Italy	87
Germany	86
Mexico	80
Chile	78
France	70
Canada	67

BC to permit insurance sales through financial institutions

British Columbia is considering major changes to its Financial Institutions Act that, if adopted, would allow financial institutions such as trust companies and credit unions to sell insurance directly rather than through an agency or subsidiary.

According to a BC Ministry of Finance paper released in November 2003, employees of financial institutions that sell insurance will be required to be licensed as insurance salespeople.

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BC to permit insurance sales through financial institutions

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Also under consideration is a proposal that would allow insurance companies to share premises with insurance agencies or their subsidiaries, thereby permitting the current insurance licensing regime to remain in place.

Other changes being considered include:

- changing the liquidity requirements for credit unions to parallel those of Alberta and Ontario;
- allowing financial information to be shared among financial institutions, provided consent is obtained from the member;
- ending the prohibition on rebating, the return of some or all of a policy's premiums, on the sale of financial service products;
- requiring all trust and loan companies to be licensed federally before they may do business in BC (institutions with only provincial licences will no longer be able to operate in the province); and
- allowing BC-based credit unions to operate outside that province.

Copies of the November 12, 2003 discussion paper can be seen on the provincial government website at: **www.fin.gov.bc.ca.** ■

PPN update

Portobello Pharmacy, formerly located at 1967 Portobello Blvd. in Orleans, is no longer in business.

For more information on Coughlin & Associates Ltd.'s Preferred Provider Network (PPN) and the location of its 100 participating pharmacies in the Ottawa region, contact us at 231-2266 (toll-free, 1-888-613-1234) or, visit our website at **www.coughlin.ca.** ■

FAST FACTS

Both Yukon and Nunavut have revised their *Labour Standards Acts* to allow employees to take up to eight weeks of unpaid compassionate leave to care for family members with serious medical conditions. The family member must face a significant risk of death within 26 weeks of certification of such by a qualified medical practitioner. The compassionate care provisions are similar to those available to federal government employees governed by the *Canada Labour Code.* ■

The Supreme Court of Canada has set March 22, 2004 as the date it will hear a challenge to Quebec's *Health Insurance Act* and *Hospital Insurance Act* filed by a Quebec doctor and one of his patients. The doctor asserts that the public health care laws violated his constitutional rights by preventing him from providing emergency medical services on a private basis. (See the July, 2003 edition of the *Coughlin Courier* for background on this case.) The federal attorney general and the attorneys general of six provinces are expected to make submissions to the court. ■

One-third of all uninsured workers in the US were employed by large companies, those with a minimum of 500 employees. This compares to 25 per cent in 1987, *The Commonwealth Fund* reports. Rising heath care costs and a decline in the size of the unionized work force are blamed for the coverage decline. ■

The Canada Pension Plan's yearly maximum pensionable earnings (YMPE) will be adjusted in 2004 from the current level of $39,900 to $40,500. ■

Workers in Europe continue to protest changes to government pension programs. Like their counterparts in France, Germany and Britain, Italian workers went on strike last month to curtail proposals which would change their country's minimum retirement age from 57 following 35 years of contributions, to age 65 with 40 years of contributions. ■

Despite the provinces' efforts to contain expenses, health care costs will continue to consume a growing portion of provincial budgets, the Conference Board of Canada says. According to a November 10, 2003 news release, health care spending will account for 45 per cent of provincial costs by 2020 compared to 35 per cent today. While hospital costs are expected to decline in terms of total proportion of health care dollars expended, drug costs are expected to double from today's level of 7.2 per cent of all provincial expenses to 14.6 per cent. Home care expenses are also expected to balloon from today's 4.2 per cent of provincial costs to 7.2 per cent. ■

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