COUGHLIN COURIER

FEBRUARY 2006

AT A GLANCE ...

COUGHLIN & ASSOCIATES LTD.

FEATURE

SPECIAL EDITION: RISING DRUG CLAIMS

Could your organization survive a $1 million drug claim?

There was a time, not long ago, when a drug claim involving a five-figure number was unheard of. Now, it's routine.

Claims involving six-figure numbers were, at best, theoretical. Today, prescriptions resulting in claims of $100,000 or more are being incurred.

Thanks to newly developed drugs and the uncertain division of federal and provincial government responsibilities, the era of the $1 million drug claim has arrived.

And if you are a plan sponsor without a drug plan maximum or stop-loss protection, the era of the $1 million claim could be coming to your organization sooner than you think as the following story from a national insurer illustrates.

"*We were dealing with a new drug that was designed to treat the complications from one strain of a very rare genetic disease,*" recounts a spokesperson for the insurance carrier that paid the claim. "*In all of Canada, there might be 120 people affected by it. These drugs have a limited scope but have a high cost, in this case, about $1.2 million. So, the drug applies to a tiny population, which makes its production very expensive.*"

However, that rarity opens the potential for misunderstanding, the spokesman said.

"*For more common diseases, there is a better potential for a drug to be covered in a government's formulary,* " the spokesperson warns. "*You can't automatically assume the drug will be in the provincial*

continued on page 2 ▸

Could your organization survive a $1 million drug claim?

continued from page 1

plan formulary. A drug for a very rare disease may not be included."

In the carrier's case, it found that while a drug may be approved at the federal level by Health Canada, it may still not be eligible under a provincial health care plan. As well, a drug that is covered in one province may not necessarily be covered in another province.

"*Governments won't negotiate on an issue like this. Federal approval does not mean a provincial OK. There are 10 provinces and three territories and each has their own rules about what they approve. Plus, their thinking is: 'We're the second payer; the private sector pays first.' That's today's reality.*"

And if the drug in question hasn't found its way onto the provincial formulary of covered drugs, the term *private sector* means your insurance carrier or, if you operate your benefits plan on an administrative services only (ASO) basis, your organization.

"*If an organization doesn't protect itself, it could be hugely expensive. Plus, many of these new drugs are maintenance drugs. Remember, AIDS doesn't just disappear when a drug is introduced. MS doesn't disappear. They're there for life and the person will likely be on the drug for the rest of his or her life,*" the spokesperson noted.

And at $1.2 million per year, that can amount to a heavy commitment, especially for a smaller organization.

The solution is to plan for the unexpected. Possible solutions include:

1. Be sure to have stop-loss coverage to cover large, unexpected claims.
2. Don't assume that Health Canada approval of a drug means that it will be covered automatically by a provincial health care plan. Plus, a drug that may be listed in one province's formulary may not necessarily be included in the formulary of a neighbouring province. If a claim is incurred while the member is travelling in another province, don't assume that the host province will automatically apply the formulary of the member's province of residence.
3. Consider establishing a provisional drug formulary for your extended health care plan. While a provisional formulary may not necessarily protect your organization from $1 million claims for biologic or other special medications, it does require members to first try other drugs within the formulary before they opt for rare and expensive treatments.
4. Introduce a plan coverage maximum to limit the potential liability to your organization.

Your Coughlin consultant can help your organization explore these alternatives.

Will that prescription be the past, present or future?

The impact of the changing nature – and costs -- of prescription drugs can be seen in the types of medication now available to treat psoriasis, a common skin disease, characterized by flaking skin, itching and lesions.

The psoriasis sufferer could soon select from one of three treatment regimes that roughly approximate the medical approaches of the past, present and future. Similar choices will soon face the patients of most other illnesses. For a plan sponsor, a patient's choice could make or break a plan's solvency.

1. **The past. Treat the symptom with chemicals.** For the psoriasis sufferer, treatments generally involve creams and ointments that provide temporary relief from the itching, irritation and associated skin inflammation.

   Topical corticosteriods are the most common medication. According to ESI Canada, the average ingredient cost for such medications in 2004 was $13.66. Add the prescription fees and the total costs could range from roughly $20 to $25. **Annual cost: $240 to $300.**

2. **The present. Use biologics to treat the problem at the source.** Today's medications attempt to treat the causes of an illness. Biologic drugs are synthesized from living organisms and even macromolecules. The result is a specialized treatment that addresses the illness at the molecular level by blocking the effects of T-cells, the agents that cause the inflammation of psoriasis. Treatment at the cellular level can reduce or even stop the progression of the illness itself -- far more efficient than just treating the outward symptoms of the illness. Plus, there are usually far fewer side effects with biologic drugs.

continued on page 3 ▸

Will that prescription be the past, present or future?

continued from page 2

Biologics are extremely pure and can only be produced in small quantities. They also tend to be very sensitive to outside contaminants such as light. As a result, the equipment and production processes used to produce old-style chemical treatments just won't do, which makes a heavy investment by pharmaceutical companies a necessity.

For the psoriasis sufferer, the main biologic medications include Raptiva®, Amevive® and Enbrel®. Treatment is by injection for periods ranging up to three months. **Annual cost: $12,000 to $17,000.**

3. **The future. Use genetic therapy to eliminate or relieve the cause of the illness.** Why treat the cause if you can fix it?

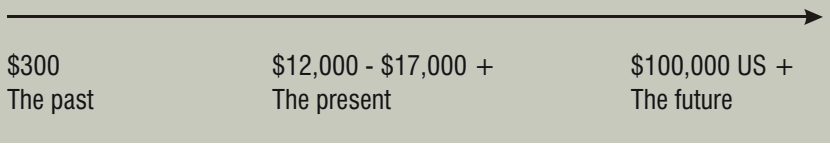
Advances in gene therapy will soon allow doctors to replace or repair the missing genes that cause the illness in the first place -- or stimulate the body's immune system to seek out and attack cells of a specific disease like cancer. The result, the body's own genetic material is changed to correct the genetic deficiency that caused the problem in the first place.

Tests are currently under way to identify and treat common diseases like psoriasis at the genetic level. Already, the US Food and Drug Administration has approved the first gene therapy trial, albeit for a rare genetic malady known as adenosine deaminase deficiency, an immunodeficiency disease. Treatment involves lifetime injections of the drug PEG-ADA, similar to today's insulin injections by diabetics. **The cost: More than $100,000 US per year.**

It seems clear that, when it is introduced, genetic therapy will take medical treatments to a whole new level. However, it won't come cheaply.

Could your plan cover the cost of one single prescription with an annual cost topping the $100,000 level?

Treating the painful itch of psoriasis



Expensive, biological drugs are now becoming the norm

Biological drugs, those medications designed to treat illnesses at the cellular level, now account for over *27 per cent* of the drugs approved for use in Canada. Plus, there are 324 new biologic drugs now in development. For plan sponsors, that means the chance of encountering large claims involving these medications is growing every day.

Following is a list of some of the more common biologic medications now on the market, the diseases they are designed to treat and their annual costs, courtesy of ESI Canada.

Biologics: per patient costs **Some of these drugs are coded as hospital drugs. ** Costs are approximate and are subject to change.*

General indication	Drugs*- Annual per patient cost**	Comments
Cancer	Avastin®- $527 every 2 weeks (based on 75kg person)	Drug is given until disease worsens
	Bexxar®- none	
	Erbitux®- none	
	Herceptin®- $1,424-2,848 per week (based on 75kg person)	Drug is given until disease progresses

continued on page 4

Expensive, biological drugs are now becoming the norm *continued from page 3*

Biologics: per patient costs **Some of these drugs are coded as hospital drugs. ** Costs are approximate and are subject to change.*

General indication	Drugs*- Annual per patient cost**	Comments
Cancer (continued)	Rituxan®- $3,346 per dose (based on 75kg person)	Number of doses depends on cancer being treated
Immune diseases (e.g., rheumatoid arthritis, psoriasis, etc.)	Amevive®- $32,000	
	Enbrel®- $20,000-36,000	
	Humira®-$20,000	
	Kineret®- $17,000	
	Raptiva®- $22,600	
	Remicade®-$20,000-26,000 (based on 75kg person)	Assume patient takes it 7 times during the year
Multiple Sclerosis	Avonex®- $18,000	
	Betaseron®- $19,000	
Hepatitis	Intron A®- $6,000- 27,000	Cost depends on indication
	Pegasys®- $20,000	
	Pegetron®- $40,000	
Enzymatic deficiencies (e.g., Gaucher's disease, Fabry's disease)	Cerezyme®- $300,000	Depending on dosage, cost can range from $166,000 to $667,000 per year.
	Replagal®- $250,000	
	Zavesca®- $120,000	
Hyperuricemia in cancer patients	Fasturtec® $27,000 per dose (based on 75kg person)	
Severe osteoporosis	Forteo®- $9,000	Pen must be discarded every 28 days
Asthma	Xolair®- $8,000-30,000	

(Source: ESI Canada)

2005: The year of medicating expensively

A number of drugs received Notices of Compliance from Health Canada in 2005, allowing them to be prescribed by physicians. As the following list illustrates, many have ingredient costs ranging in the thousands of dollars. While most of the medications listed are new to the market, some are older and familiar names that have been approved for new or alternate courses of treatment.

Since many of these drugs may not be prescribed individually but together with other medications, it is quite possible for a drug therapy regime for one individual to exceed $100,000 per year.

Drug	Treatment	Estimated annual cost*
Abilify®	Schizophrenia	$3,500-6,000
Aclasta®	Paget's disease	$650 per treatment
Avonex®	Multiple sclerosis	$18,000
Bravelle®	Infertility	$31 per vial
Exbia®	Alzheimer's disease	$1,675
Femara®	Breast cancer	$1,800
Luveris®	Infertility	$67.50 per vial
Lyrica®	Nerve pain	$1,109-1,693
RabAvert®	Rabies	$172 per injection
Raptiva®	Psoriasis	$12,000-17,000
Remicade®	Ankylosing spondylitis	$24,000-33,000
Reminyl ER®	Alzheimer's disease	$1,675
Saizen®	Growth hormone deficiency	$13,000
Sativex®	Multiple sclerosis	$7,300
Seroquel®	Schizophrenia	$2,500-4,000
Strattera®	Attention deficit	$1,452-2,905
Tarceva®	Lung cancer	$29,200
Xolair®	Asthma	$8,000-31,000

* *Source: ESI Canada. Does not include prescription charges.*

The top 5 on the pill parade

The top five conditions by ingredient costs haven't changed since 2000, according ESI Canada. Together, these conditions account for over 44 per cent of total ingredient costs of drugs prescribed across Canada.

1. **High blood pressure and heart failure**

   11.5% of all ingredient costs

2. **High cholesterol**

   9.4% of all ingredient costs

3. **Gastrointestinal ulcers and reflux disease**

   8.3% of all ingredient costs

4. **Depression**

   8.0% of all ingredient costs

5. **Arthritis and pain**

   6.9% of all ingredient costs

Inflated expectations

The overall drug price inflation rate has outpaced that of the Consumer Price Index for years. And that trend is expected to continue for many more years to come.

However, inflation itself is hardly constant. Among some medications, the inflation rate has reached the high double-digit levels, based on market demand, supply levels and changes in pricing strategies by drug manufacturers.

To protect profit margins or maintain market share, pharmaceutical manufacturers may increase or decrease prices on their brand name medications substantially from one year to the next. The inflation factor is far more stable among generic drug manufacturers. Without having to protect highly valued and respected brand names or recover research and development costs, generic drug price trends generally tend to be less prone to the radical swings of market forces and demand.

Nevertheless, the pressures of inflation on drug prices continue to exceed the 2.1 per cent of today's Consumer Price Index, even among generic manufacturers.

The following data on drug price inflation from 2002 to 2003 from ESI illustrates the depth and variability of inflation on drug prices. It also suggests that, to better control impact of drug price inflation on plan costs, plan sponsors should consider generic drug substitution. Contact your Coughlin & Associates Ltd. consultant for more information.

Drug price inflation 2002-2003 (per cent change)

Therapy class	Brand name drugs	Generic	Combined
Estrogens	20.2%	1.0%	19.2%
Anti-neoplastics	13.6%	-5.4%	11.1%
Decongestants	9.3%	1.3%	9.3%
Quinolones	9.2%	n/a	9.2%
Anti-obesity	10.3%	1.4%	9.0%
Misc. central nervous system agents	8.3%	18.7%	8.4%
Dermatologicals	9.3%	6.2%	8.4%
Anti-asthmatics	8.5%	1.6%	7.6%
Anti-convulsants	8.2%	1.1%	7.5%
Anti-diabetics	9.0%	-0.1%	7.4%
Migraine	7.2%	0.5%	7.1%
Beta blockers	6.5%	7.0%	6.8%
Anti-virals	6.9%	-0.8%	6.5%
Anti-psychotics	6.7%	3.3%	6.5%
Anti-hypertensives	8.0%	0.5%	6.3%
Anti-depressants	7.3%	1.1%	6.2%
Anti-hyperlipidemics	6.2%	2.9%	6.1%
Narcotic analgesics	8.7%	0.5%	5.8%
Anti-rheumatics	6.8%	0.9%	5.8%
Macrolides	5.2%	6.0%	5.2%
Misc. endocrines	5.0%	0.4%	4.9%
Gastrointestinals	4.4%	0.0%	4.0%
Calcium blockers	4.1%	1.4%	3.2%
Anti-histamines	2.9%	23.7%	3.0%
Average	**7.3%**	**1.7%**	**6.5%**

(Source: *Drug Trend Report*, June 2004, ESI Canada)

For whom the boom tolls

When it comes to drug costs, the baby boom generation, those born between 1946 and 1964, are the demographic equivalent of the elephant in your living room. It's hard to ignore; especially when it starts moving.

Boomers represent the largest portion of the population -- and the leading edge of that population bulge is now nearing age 60, the time when diabetes, cancer, heart disease and other chronic illnesses are first diagnosed. For plan sponsors with drug plans, 2006 could be first year in a 10 to 15-year cycle of large and growing drug claims from older workers and their spouses.

How big of an impact is in store? The following data and projections from ESI offer a glimpse into the not-too-distant future.

More money will be directed to prescription drugs…

Canadian drug expenditures	
1985:	$4 billion
1995:	$10 billion
2004:	$21.8 billion
2010	$35 billion

As an aging demographic becomes more reliant on prescription medications…

Average annual prescription drug cost by age, 2004	
26-30	$269
36-40	$380
46-50	$600
56-60	$960
61-65	$1,132

And chronic diseases take their toll…

	Today		2014	
Illness	Prevalence	Cost/year	Prevalence	Cost/year
Diabetes	$2 million	$13.2 billion	$3.6 million	$17.5 billion
Cardiovascular	$8 million	$18.5 billion	$12 million	$27.8 billion
Arthritis	$4 million	$4.4 billion	$5.5 million	$6.2 billion

Drug claims set to double by 2010

The cost of the average drug claim is expected to at least double by the end of the decade, according to independent research from both ESI Canada and Green Shield Canada.

According to ESI, annual prescription costs per claimant have increased from $329 in 2000 to $524 in 2004, a 59 per cent hike. However, that price is expected to double by decade's end to $1,023 per year as the impact of rising ingredient costs and more drug claims by an aging workforce channel through the marketplace.

The average number of annual prescriptions per person is also rising rapidly, ESI says, from 8.8 per claimant in 2000 to 10.3 in 2004. That's a 17 per cent jump in five years. If that rate continues, each Canadian employee will submit an average of 12 prescriptions per year by 2010.

The ESI trend data is supported by Green Shield Canada, which predicts prescription costs will rise to an average of $250 per prescription by 2010.

While there are many reasons for the rapid rise in health care costs, they can be summarized as follows:

1. **An aging population.** The baby boom population, those born between 1946 and 1964, account for the largest portion of our population. Already, the leading edge of the boom is nearing age 60, the time when chronic medical conditions such as heart disease, diabetes, etc. tend to develop. It is also the time when people tend to use medical

continued on page 8 ▸

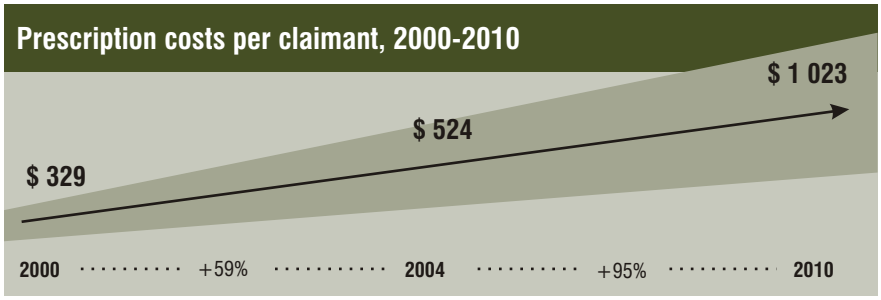
Drug claims set to double by 2010 *continued from page 7*

services, facilities and prescription drugs more often. As more and more boomers age, the strain on medical and health services will increase, resulting in higher costs.

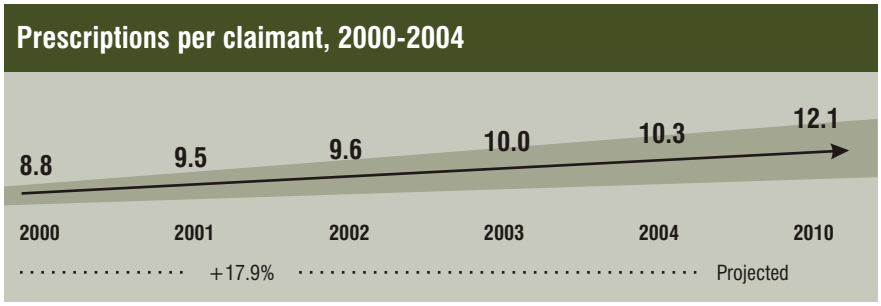
2. **Government downloading.** In an era where health costs are rising, the commitment by governments to meet health care costs has gradually eroded. According to the Canadian Institute for Health Information (CIHI), in 1975, the private sector covered 23 per cent of total health expenditures. In 2004, that number exceeded 30 per cent. In other words, your extended health care plan is covering expenses that were formerly covered by government plans only a few years ago.

3. **Drug plans are popular.** Without question, drug plans remain the most popular employee benefit. According to studies published by the *Globe and Mail*, more than 60 per cent of Canadian employees regard drug coverage as their most important employee benefit, easily surpassing other benefits such as dental or hospital coverage.

   Whichever trend data is used, prescription costs and the number of prescriptions being dispensed are rising at unprecedented rates. Close monitoring of drug claims experience is definitely a must for everybody for the foreseeable future.



(Source: ESI Canada)



Here are two ways plan members can help alleviate these growing cost pressures:

1. **Is a prescription drug really needed?**
   When considering the purchase of a prescription drug, ask: Do I really need this particular drug? Or is there a lower cost generic or over-the-counter alternative? Pharmacists can also provide valuable advice on this subject. Often, lower cost substitutes are available.

2. **Co-ordination of benefits with other plans**
   Does the member's spouse have a benefit plan? Most employee benefit programs have co-ordination of benefit (COB) clauses where claims costs can be shared between two or more plans. Using the COB provision can result in real savings for the member and the drug plan.

Preserving your benefit plan

For the next several years, simply *maintaining* existing drug plan costs will require careful management by plan administrators and plan sponsors. Taking the steps necessary to contain these pressures today can ensure that your drug plan will continue to be able to meet the growing needs of your plan members in the future.

PPN UPDATE

The Drug Store Pharmacy of 31 Ninth Street East in Cornwall, has joined the Coughlin & Associates Ltd. Preferred Provider Network. It can be reached at 613-938-6225.

More information?

For more information on your drug benefit program or other employee benefits, contact your Coughlin & Associates Ltd. consultant at 613-231-2266 or, toll-free, 1-888-613-1234.

www.coughlin.ca