

Changes to Ontario's drug system

On April 7, 2010, the Ontario Ministry of Health and Long Term Care announced major changes to the Ontario drug system.

The province of Ontario has put forth proposed regulations which will result in:

- Lowering the pricing for generic drugs to 25 per cent of the cost of the original brand name drug
- Eliminating the professional allowances paid to pharmacies by generic drug manufacturers
- Raising the allowable dispensing fee that pharmacies can charge for their dispensing services under Ontario's Drug Benefit Program.
- Capping the amount of the drug ingredient mark-up paid to pharmacies for ODB prescriptions
- Investing of \$100 million in additional funding by the province to pay pharmacies for providing professional services

These proposed changes are meant to ensure that the province is able to provide a sustainable drug program, ensure that drugs remain affordable for those not eligible for provincial coverage and provide fair compensation to pharmacists for providing additional services to patients.

Sun Life Financial voices the needs of our clients

Discussions on the Ontario Drug System Reform have been ongoing since 2009, and Sun Life Financial has been an active stakeholder in these discussions. Through correspondence to the Ministry of Health from our Canadian president Kevin Dougherty, as well as through the Canadian Life and Health Insurance Association, we have been working to ensure that the impact to our clients was considered when developing these reforms.

Ontario's proposed changes

Generic Drug Pricing – Beginning May 15, 2010

The changes to generic drug pricing are being introduced for drugs dispensed under both public and private health plans, but with a different timeframe for each.

Ontario Drug Benefit Program

Effective May 15, 2010, generic drug prices will be reduced by 50 per cent, to 25 per cent of the cost of the original brand name drug for all generic drugs purchased through Ontario's Drug Benefit Program (ODBP)

Private health plans and individuals

For generic drugs purchased out-of-pocket or through private employer health plans, prices will also be reduced to 25 per cent of the cost of the original brand name drug, but this will occur in stages over a two-year time period. The price decreases will be phased in as follows:

- Effective May 15, 2010, reduced to 50 per cent of brand name drug price
- Effective April 1, 2011, reduced to 35 per cent of brand name drug price
- Effective April 1, 2012 reduced to 25 per cent of brand name drug price.

Please note: we are awaiting confirmation from the province as to whether the new model for generic drug pricing will apply to prescription drugs on the provincial formulary only or to all generic drugs.

Phasing out of professional allowances

Professional allowances are payments generic drug companies make to pharmacy owners for stocking their prescription drug products. These payments currently make up a significant percentage of the cost of generic drugs. Pharmacies can receive up to twenty per cent of the manufacturer's price as a professional allowance for drugs paid by ODBP. There is no cap on professional fees for the private sector.

Beginning May 15, 2010, these professional allowance payments are being eliminated, but again with a different timeframe for the public and private markets.

Ontario Drug Benefit Program

All professional allowances (currently capped at twenty per cent of the manufacturer's price) paid by generic companies to pharmacy owners for drugs purchased through the Ontario Drug Benefit Program will be eliminated effective May 15, 2010.

Private health plans and individuals

For generic drugs purchased out-of-pocket or through private employer health plans, professional allowances will be phased out and completely eliminated by 2013 as follows:

- Effective May 15, 2010, capped at 50 per cent
- Effective April 1, 2011, capped at 35 per cent
- Effective April 1, 2012 capped at 25 per cent
- Effective April 1, 2013 reduced to 0 per cent.

Increase to dispensing fees under Ontario Drug Benefit Plan

Effective May 15, 2010, the province will increase the dispensing fees paid under the Ontario Drug Benefit plan to \$8 per prescription, from the current \$7. In rural areas, the Ontario Drug Benefit Plan dispensing fee will be increased to \$11. In addition, there will be a further increase to these dispensing fees of 2.5 per cent each year for the next five years.

These increases are designed to partially compensate pharmacies for revenue lost due to the elimination of professional allowances, and to more directly tie compensation to the services that pharmacies provide.

Cap on markup for ODB drugs

While the cap on the markup for Ontario Drug Benefit program prescriptions will remain at 8%, this markup is now subject to a dollar limit of \$125 per prescription (which will come into play for higher-cost drugs only). This cap applies to drugs paid by the provincial program only. There is no cap imposed on the markup for drugs paid by private health plans or individuals.

Professional services

The province has committed an additional \$100 million to be used to compensate pharmacies for additional services provided to patients, and to support pharmacies in rural and under-served areas. This funding is in addition to the \$50 million currently used for the MedsCheck program.

Impact to your plan

The changes to the Ontario drug system are significant – and some details have not been confirmed. We are currently analyzing the impact these changes will have on your group benefit plan and will provide you with an update as soon as our analysis is completed.

The pharmacy community has voiced concerns regarding the financial impact resulting from these changes. We are closely monitoring their reaction to determine potential impact on your plan and your plan members.

For our clients with Pay Direct Drug plans, we are proceeding with the implementation of a dispensing fee limit of \$11.99 for pharmacies in Ontario. This is effective April 15, 2010. See [Focus Update #212](#) for more details.

Questions?

If you have any questions about the changes to the Ontario drug system, please contact your Sun Life Financial group benefits representative.

For additional information on the Ontario drug reforms, please visit the Ontario government Web site at www.ontario.ca/drugreforms.