

Generic drug reform 2011 update

In 2010, some provinces took action to reduce the price of generic drugs. Alberta led the way in April, followed by Ontario, Quebec and British Columbia*. In these provinces, the reduced prices applied to public and private plans, as well as cash-paying customers. A summary of the key changes is provided below for your reference.

Note: Alberta, Ontario and Quebec implemented a phased-in approach for some features of their generic drug reform. The summary below highlights the changes effective April 1, 2011.

* Details on the generic drug price reforms were communicated to you throughout 2010.

Other provinces

Nova Scotia initiated consultations with stakeholders in the fall of last year. They recently confirmed that they will move forward, to reduce generic prices, with a potential effective date of July 1, 2011. Detailed information of their plan is said to be expected mid-to late April 2011.

Summary of generic drug pricing policy by province

Province	Current generic drug pricing policy	Update
Alberta	<p>Effective April 1, 2010, the price for existing generic drugs listed on the provincial formulary reduced from 75% to 56%. The price for new generics was set at 45% of the brand drug.</p> <p>As part of the reduced generic price change, Alberta implemented a Transitional Allowance, to compensate pharmacies for revenue lost due to the new generic price policy. To be phased out over three years, the allowance is in addition to the pharmacy dispensing fee and applies to all prescriptions (brand and generic drugs) under \$75. The transitional fee will be paid as follows:</p> <ul style="list-style-type: none"> • \$3, effective April 1, 2010 • reduced to \$2 effective April 1, 2011 • reduced to \$1 effective April 1, 2012 • eliminated April 1, 2013 <p>While the legislation did not require private plans to pay the transitional allowance, we have agreed to follow the public plan and pay this extra fee to Alberta pharmacies, and we understand that other carriers are doing the same.</p>	<p>In partnership with TELUS, effective April 1, 2011, we will be updating our drug price files to reflect the reduced transitional allowance of \$2.</p> <p>To date, the change in Alberta has caused a net increase in drug claims cost, due to the implementation of the transitional allowance. This fee has not been offset by lower generic prices.</p>

<p>Ontario</p>	<p>Ontario's legislation for reduced generic prices was effective July 1, 2010. For the Ontario Drug Benefit (ODB) i.e. Ontario's public plan, the generic drug price reduced to 25% of the brand price as of that date. However, for private payers, the reduction in generic prices is phased in over 3 years:</p> <ul style="list-style-type: none"> • 50% of brand, effective July 1, 2010 • 35% effective April 1, 2011 • 25% effective April 1, 2012 <p>Professional allowances for the ODB were eliminated, effective July 1, 2010. For private payer plans, they are being eliminated on a phased basis: reduced to 50% July 1, 2010; 35% on April 1, 2011; 25% on April 1, 2012 and to 0% on April 1, 2013</p>	<p>In partnership with TELUS, we are updating our drug price files to reflect the reduction in generic prices to 35% of the drug brand price.</p> <p>The effective date of the price file change has been extended to April 21, 2011, to allow time for pharmacies to deplete existing inventory purchased at the higher price. This will help ensure that plan members are not negatively affected by pharmacies charging them the higher price for the generic drugs already in their inventory.</p> <p>The change in Ontario appears to have had a neutral cost impact to this point, with some generic prices being lowered while others rose. The primary source of observed savings is that of Lipitor's generic replacements becoming available at roughly the same time as the legislation went into effect. An increase in dispensing fees at traditionally lower-cost pharmacies has also come through in our claims experience.</p>
<p>Quebec</p>	<p>In November, Quebec announced that the province would be reducing prices for generics on the provincial formulary to 25% of brand drug using a phased approach over three years:</p> <ul style="list-style-type: none"> • reduced to 37.5% of brand effective November 2010 • reduced to 30% effective April 2011 • reduced to 25% effective April 2012 	<p>Quebec will be making phase two of their reductions in April of this year.</p> <p>In partnership with TELUS, we will be updating our price files to reflect the reduced prices.</p>

<p>British Columbia</p>	<p>In July, B.C. announced that they had reached an agreement with the pharmacy association. The agreement limits generic pricing to:</p> <ul style="list-style-type: none"> • 42% of brand for new generics and 50% for existing generics, effective October 15, 2010 • 40% effective July 4, 2011 (all generics) • 35% effective April 2, 2012 (all generics) 	<p>Our generic experience in B.C. shows some price decrease for generics on the Fair Pharmacare formulary - a net savings of about 10% in formulary-generic drug claim cost to date. (Formulary generics represent about 23% of all drugs claims paid in B.C.) An apparent concurrent increase in the average brand cost may mitigate expected savings.</p>
--------------------------------	--	---

Reducing generic prices now lays a good foundation for future savings

We understand increasing drug costs continue to concern plan sponsors. Therefore, we are pleased that governments are recognizing private payers in their generic drug reforms.

To date, the impact of the lower generic prices has not been significant. However, it does lay a good foundation for future savings, particularly as more and more significant blockbuster brand drugs go off patent over the next few years and new generics enter the market such as the case with Lipitor. A blockbuster drug used in the treatment of high cholesterol, Lipitor has been one of the top drugs claimed under most drug plans. A generic version was introduced to the marketplace last year and cost 50% of the brand price. Without the generic drug reform, the generic price would have likely been at about 70% of the brand price.

Good to know:

- Generic drugs currently represent about 25% of the total amount Sun Life pays for drug claims.
- Plan sponsors who provide drug plans with generic riders are in a prime position to benefit from these lower-priced generic drugs. Riders may state that plan sponsors will only pay for brand name drugs when a generic is not available or if the prescribing physician indicates "No Substitution."
- By reducing price on this "basket" of products, generic drug reform is a positive step towards managing increasing drug expenditures.

Ensuring our sponsors have sustainable drug plans going forward is the number one priority for Sun Life, and one that will remain a key focus for us in 2011 and beyond.

Questions?

Please contact your Sun Life Financial group benefits representative.