



December 15, 2010

## Impact of 2010 Ontario Drug Reform – A Post Bill 16 Update

As part of Ontario's legislated Drug Reform, a generic drug price reduction to 50% of the brand price took place on July 22, 2010 for all private payers in Ontario. This decrease in the cost of generic drugs is limited to those listed on the Ontario drug formulary.

ClaimSecure projected that this change would provide an estimated savings of 3 - 4% for private payers in the first year, assuming no change in pharmacy dispensing fee and markup. However, since drug reform legislation would have a significant impact on the profitability of Ontario pharmacies, we also anticipated an increasing pharmacy dispensing fee and mark-up over the next two years.

ClaimSecure recently conducted an analysis to determine the true impact on private payers' drug plan experience before and after the implementation of Bill 16 (Ontario Drug Reform). The analysis focuses on the true impact of generic cost reduction, as well as quantifying pharmacy dispensing fee and mark-up changes.

### **(1) Impact of Generic Drug Cost Reduction**

The estimated average drug cost excluding pharmacy markup has decreased from **\$28.72** to **\$24.75**. This represents a decrease of **13.8%**. The impact of generic drug price reduction represented a savings of **2.55%** on total drug plan cost.

### **(2) Cost of Dispensing Fee Increases**

On average, pharmacy dispensing fees have increased from **\$10.27** to **\$10.45** during these two periods. This represents an increase of **1.8%**. The impact of the fee increase on the drug plan represents an increase of **0.33%** to total drug plan cost.

### **(3) Cost of Mark-up Increases**

On average, estimated pharmacy markup increase was higher for generic drugs than for brand drugs. The chart below summarizes changes in markup:

<b>Average Markup (%)</b>	<b>Generic Drug</b>	<b>Brand Drugs</b>
Before Drug Reform	10.23%	10.21%
After Drug Reform	10.89%	10.40%

NOTE: The above highlighted changes represent an increase of **0.21%** to total drug plan cost.





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### What is the Net Result?

The chart below summarizes the changes. The net result, based on early claims data, is that Ontario's Drug Reforms has provided a net savings of **2.0%** in total drug plan expenditure for private plans.

Changes	Actual Changes	% Savings (Cost) to Total Drug Plan Cost
Reduction in Generic Drug Cost	\$3.97	2.55%
Increase in Dispensing Fee	\$0.18	(0.33%)
Increase in Mark-up	0.66% - generic drugs 0.19% - brand drugs	(0.21%)
<b>NET SAVINGS</b>		<b>2.0%</b>

*Note: This analysis is based on a comparison of 3 months of Ontario drug claims dispensed from February to April 2010 (prior to Ontario's Drug Reform announcement) versus August to October 2010 (after implementation of generic pricing changes).*

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