

**Report On Feasibility
Of Employees And Retirees Safely
And Effectively Purchasing
Prescription Drugs
From Canadian Pharmacies**

**(Selected Text Only-Complete report can be accessed at
<http://www.affordabledrugs.il.gov/pdf/SpeicalAdvocateCanadian10-27-03Final.pdf>)**

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Can State employees and retirees obtain safe and effective prescription medications at lower overall cost by purchasing from Canadian pharmacies?

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Like most employers, the State of Illinois has experienced dramatic increases in pharmacy benefit expenditures for participants in its employee and retiree health benefit programs. And, like any other employer, the State has reviewed its plan design, negotiated with providers for favorable prices, and increased employees' and retirees' cost sharing obligations. In spite of these cost-saving strategies, expenditures for State employees' and retirees' prescription medications have increased approximately 15% each year for the past five years. This trend is expected to continue as technology continues to provide new and improved pharmacological solutions to manage acute and chronic illnesses, and as the population ages.

Purchasing pharmaceuticals from Canadian sources may provide an important opportunity to reduce costs and extend the purchasing power of employees and retirees to better afford prescription drugs. Favorable exchange rates, Canadian pharmaceutical pricing and distribution practices can make medications needed by employees and retirees available at far less cost to the State than current practice allows.

Our analysis draws extensively on information gathered through research, by soliciting the views of major organizations and associations within the United States' pharmaceutical industry, and through a fact-finding visit to several of Canada's major pharmaceutical providers arranged by the Office of the Special Advocate for Prescription Drugs. The State of Illinois delegation included leadership staff representing:

- Office of Special Advocates for Prescription Drugs
- Director of the Department of Public Health and the State's Chief Medical Officer
- Assistant Director of Public Health
- Pharmacist with the Department of Public Health
- Legal Counsel, Department of Professional Regulations
- Prosecutor, Department of Professional Regulations
- Director of Drug Compliance, Department of Professional Regulations
- Counsel, Office of the Governor

Our research process was as comprehensive as possible, exploring the following five issue areas.

Office Of Special Advocate For Prescription Drugs
Illinois Department Of Central Management Services
Michael M. Rumman, Director

Rod R. Blagojevich, Governor

Report On Feasibility Of Employees and Retirees Purchasing Prescription Drugs In Canada
Complete report can be accessed at <http://www.affordabledrugs.il.gov/pdf/SpeicalAdvocateCanadian10-27-03Final.pdf>

- Consumer Safety
- Regulatory Governance
- Program Drugs (Pharmaceuticals Appropriate for Coverage)
- Projected Cost Savings / Reduction in Benefit Expenditures
- Policy and Economic Impact

Key Findings

- Employees and retirees can safely purchase drugs from Canada.
- Pharmacy practice in Canadian provinces of Manitoba and Ontario is equal to or superior to pharmacy practice in the State of Illinois.
- Prescription medications dispensed in Canada is mainly in “unit of use” sealed packages, shipped directly from the manufacturer. Manufacturer sealed, Unit of Use packages dramatically reduce the possibility of medication errors and counterfeiting.
- The provincial regulatory systems in Manitoba and Ontario provide substantially equivalent protection for the health and safety of the public as is provided for in the State of Illinois.
- Though not identical in statutory or regulatory text, both countries’ methods of ensuring safety and efficacy of prescription drugs are comparable.
- Canada’s system for the pricing and distribution of pharmaceuticals is less likely than that of the system in the United States to foster drug counterfeiting.
- The United States and Canada have comparable requirements at virtually every level for the warehousing and storage of pharmaceuticals.
- The educational requirements and professional regulation of licensed pharmacists in the Canadian provinces visited are as rigorous as those of Illinois.
- The pharmaceutical manufacturing, storage, distribution and dispensing requirements under Canadian law are substantially equivalent to those requirements under federal regulations in the United States.
- Pharmacists participating in the fact-finding delegation observed that incident reporting of internal process errors was more rigorous in the Canadian provinces of Manitoba and Ontario than in the State of Illinois.
- A formal program to purchase prescription drugs from Canadian pharmacies is likely to impact retail pharmacies in Illinois. This impact can be minimized and patient safety enhanced by implementing a Primary Care Pharmacist (PCPh) Model.

Proposed Recommendation:

- In order to maximize participation and savings we recommend that the State:
 - Contract with a non-domestic Pharmacy Benefits Manager (PBM) or similar entity
 - Establish a Primary Care Pharmacist (PCPh) Model
 - Require the employees and retirees to pay only the shipping cost for drugs obtained from Canadian sources.

- Recommend that the Governor direct the department of Central Management Services (CMS) and the Office of the Special Advocate for Prescription Drugs (OSAPD) to contract with a vendor as soon as practicable and target implementation of Caremark enrollment under the Quality Care Health Plan (QCHP) on April 1, 2004 for a limited number of drugs. The complete list of drugs for this program is recommended to be available on July 1, 2004.

- To enhance patient safety, we further recommend an ingredient and quality assurance-testing program be implemented. The State would work with Illinois Department of Public Health and the University of Illinois (UIC) Chicago College of Pharmacy to test drugs to ensure quality of both the domestic and non-domestic drug supply purchased by employees and retirees.

Cost Savings Projections

The following cost savings projections are divided into the two major health care programs provided by the State. Approximately half of the employees and retirees are enrolled in the Quality Care Health Plan (QCHP) administered by Caremark, Inc., the other half are enrolled in one of nine Managed Care Plans administered by seven separate companies.

Quality Care Health Plan (QCHP) Participants:

The projected 12-month savings for this group is \$55,000,000. This projection assumes all eligible prescriptions are filled through the proposed Canadian Mail Order Plan (CMOP) detailed as **Option 5** in the report. The variables include the currency exchange rate, manufacturer price increases, and the level of employee/retiree participation.

- \$20.7 million would be savings to the plan members in the form of waived co-payments.
- \$34.3 million would be the savings to the State due to lower drug costs.

Managed Care Plans – Currently administered by seven different Managed Care Organizations:

Assuming the drug benefits were carved out of the Managed Care Plans, the projected 12-month savings for this group is \$35,700,000 (employees, retirees and State). This projection assumes all eligible prescriptions are filled through the proposed Canadian Mail Order Plan. The variables include the currency exchange rate, manufacturer price increases, and level of employee/retiree participation.

Due to lower employee and retiree co-payments in Managed Care Plans, the amount saved by the State would be proportionally higher than the amount saved by the employees and retirees.

The table below illustrates the potential co-payment savings to employees and retirees under the proposed Canadian Mail Order Plan

	Quality Care Health Plan Administered by Caremark, Inc.		Managed Care Plans	
	Formulary Brand Drugs	Non-formulary Drugs	Formulary Brand Drugs	Non-formulary Brand Drugs
Annual co-payment for three prescriptions at retail	\$504	\$1008	\$180	\$360
Annual co-payment for three prescriptions through domestic mail order (2 co-payments for 3 months supply)	\$336	\$672	\$120	\$240

Under the proposed Canadian Mail Order Plan, a current participant in the Caremark administered plan, getting three non-formulary prescriptions could save from \$672 to \$1008 in co-payments depending on where the prescriptions are filled – domestic mail order or retail.. However, the participant would be required to pay the shipping costs estimated to be \$12 per shipment for all drugs ordered.

Options

Based on the multi-agency, interdisciplinary teamwork, five discrete options were developed for review. These options build in structure, control and savings for the State and the employees and retirees. It should be noted that these options and the recommendations are solely the creation of the Office Of Special Advocate For Prescription Drugs. The recommended option is detailed below. The complete list of option can be found in the full report.

Voluntary, engage a non-domestic PBM model, with incentive via contract

The safety considerations are the same as presented in the other options; the quality of the product and accuracy would be contractually required to remain consistent. The reliability of the product increases with this option because the contract can specify that the PBM guarantee that the pharmacies it uses purchase their products from specific wholesalers who provide quality drugs.

This option delivers the maximum projected savings. In terms of costs, the savings per transaction is predicted to be high, given the contracted cost with the PBM; the PBM and the State would have negotiated the rates of the drugs in order for the option to be financially feasible. The aggregate costs would also be low, based on the contracted fees and costs. In this option, the State has full knowledge of the aggregate savings it will realize.

Based on this knowledge of the projected savings, this option (#5) becomes the only alternative under which the proposed Primary Care Pharmacist Model becomes feasible. This program would make available a local pharmacist to consult on *all* prescriptions the employee or retiree may be using.

Because of the nature of contract negotiations, the time for development and implementation will be greater than the options previously discussed.