

Cost Estimate of Election Campaign Proposal

Publication date: 2019-09-25

Short title: Introducing a universal drug plan for Canadians

Description: Introducing a drug plan with universal coverage for Canadians that will fully cover the cost of drugs on an inclusive list (formulary) with no co-payments, co-insurance or deductibles. The federal government will pay for the entire cost, including existing spending by provincial drug programs.

Operating line(s): Operating Expenditures

Data sources:	<u>Variable</u>	<u>Source</u>
	Drug expenditures and volume	IQVIA ¹
	Growth rates for drug expenditures	Patented Medicine Prices Review Board (PMPRB) publication series "CompassRX"
	Federal savings	Gagnon, Mark-André. "Pharmacare and Federal Drug Expenditures: A Prescription for Change" in How Ottawa Spends, 2012-2013, 161-171. McGill-Queen's University Press, 2012
		Finance Canada's Tax Expenditure Report, SPSPD/M v. 27.1 ²
	Formulary (inclusive list of drugs)	PBO cross-reference of three provincial formularies: Alberta, British Columbia and Quebec
	Projected growth rates of Personal Income Tax (PIT) revenues, and current personnel costs	PBO Election Proposal Costing Baseline
Estimation and projection method:	Drug expenditures, markups and fees for 2018 were calculated using data from IQVIA. These expenses were projected separately using growth rates, or an average of these growth rates, as published by PMPRB.	
	Three provincial formularies were used as the basis to create a public formulary; if a drug appeared on any one of these provinces' formularies, they	

¹ Any analysis of IQVIA data is independently arrived at by PBO on the basis of the data and other information and IQVIA is not responsible for any reliance by recipients of the data or any analysis thereof.

² This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by PBO and the responsibility for the use and interpretation of these data is entirely that of the author.

were included. Only drug expenditures for drugs which appeared on this formulary were projected.

Assumptions of potential behavioural response, pricing changes and generic substitution were applied.³ A confidential rebate, reflecting savings for the federal government, was applied to the medicinal cost (drug expenditure net of markups and fees) of brand name drugs on the formulary, excluding biologics. No additional price reductions, such as those attributable to a stronger position in drug price negotiations, was assumed.

These costs, net of the assumed confidential rebates, were projected based on growth rates published by PMPRB with some modifications.

Direct federal spending on drug expenditures, the cost of private coverage for federal public servants, the Medical Expense Tax Credit (METC) tax expenditure, and the tax expenditure for Private Health Benefits Deduction represent savings for the federal government. These are subtracted from the cost estimate of this drug plan. The portion of the METC attributable to drug expenditures was estimated using a glass-box modification to a health version of SPSD/M. The modification resulted in household drug expenses being used to calculate allowable medical expenses based on tax returns which may include more than just drugs. The ratio of the METC tax credit and the original value calculated by SPSD/M was then used to scale down the METC tax expenditure as reported in the Tax Expenditure Report, and the estimated Private Health Benefits Deduction.

Savings of direct federal spending and the cost of private coverage for federal public servants were projected using current personnel costs from the PBO Election Proposal Costing Baseline. The METC tax expenditure was projected based on the growth rate in the Department of Finance's estimates of the cost of the METC for the period of 2010 to 2016. Private Health Benefits Deduction were projected using the growth rate for personal income tax revenues in the PBO EPC Baseline.

Uncertainty
assessment:

The estimate has high uncertainty. Drug expenditures have several cost drivers, and the projections are highly sensitive to the assumed growth rate of those cost drivers, and the determinants of those cost factors. The assumptions used in the determination of the cost of this policy may not be consistent with future expenditures. The formulary was based on three provinces' published formularies for a specific moment in time. There may be additional drugs included in other provinces' formularies, new drugs being added, or products being delisted. The assumed formulary may not represent the actual formulary at the time of implementation. This estimate assumed a specific confidential rebate that may not represent the true value. Hospital drug expenditures are not included in this cost estimate, which may result in an underestimation of the total cost.

³ These assumptions are explained and presented in PBO's publication titled "Federal Cost of a National Pharmacare Program" published September 2017.

Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	6,691	26,763	28,028	29,089	30,201	31,368	32,593	33,878	35,227	36,644

Supplementary information

	Description	Operating line	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Cost	Drug Plan	Operating and Capital Expenses	7,240	29,229	30,310	31,442	32,628	33,872	35,176	36,543	37,977	39,481
Cost recovery	Tax Expenditures and Direct Spending	Personal Income Tax & Operating and Capital Expenses	-550	-2,215	-2,282	-2,353	-2,427	-2,503	-2,583	-2,665	-2,750	-2,837
Total cost after recovery			6,691	26,763	28,028	29,089	30,201	31,368	32,593	33,878	35,227	36,644

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost