



Plan Update

JULY 2010

Making Prescription Drugs in BC More Cost-Effective

BC Government announces agreement to lower the cost of generic drugs

On July 9, 2010, Health Minister Kevin Falcon announced the price of generic drugs in BC will drop to 35 percent of brand following an agreement with the BC Pharmacy Association and the Canadian Association of Chain Drug Stores.

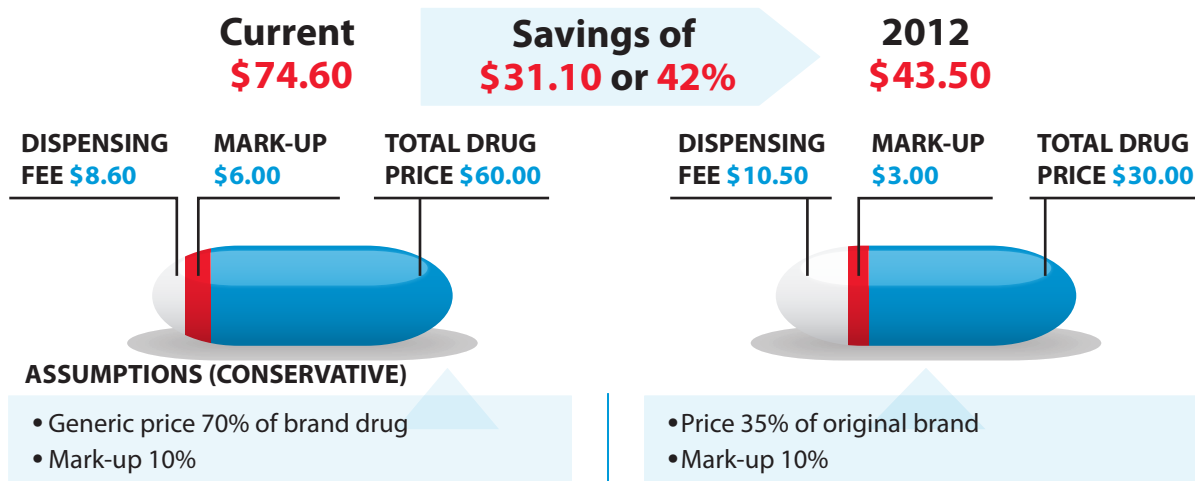
The agreement applies to public and private payers and will see the price of generic drugs in British Columbia drop to 50 percent in Oct 2010, 40 percent in July 2011 and 35 percent in April 2012. There will be no restrictions on professional allowances and the reduced prices will only apply to products that PharmaCare covers. The mark-up on generic drugs paid by PharmaCare will increase from 7 to 8 percent. There is no limitation on mark-up paid by private payers.

However, the CEO of one of BC's major drug store chains has confirmed to us their intention to provide the same mark-up for both public and private payers.

Also in the agreement the maximum dispensing fee reimbursed by PharmaCare to pharmacies will increase by 50 cents to \$9.10 as of July 28. Fees will go up an additional 50 cents on Oct. 15, 2010 to \$9.60, on July 4, 2011 to \$10 and on April 2, 2012 to \$10.50. This is the first increase to dispensing fees since November 2003.

Pacific Blue Cross has been a strong advocate for drug cost solutions that benefit everyone; public and private payers, including individuals paying out of pocket. "We are very pleased with the government's

BC Private Market Generic Drug Costs*



* Example based on generic version of the original \$86 brand name drug. SOURCE — Pacific Blue Cross Actuarial Services, July 2010.

announcement that they are reducing prices for generic drugs across the board and moving towards equitable and consistent pricing for all British Columbians,” said Kenneth G. Martin, President and CEO of Pacific Blue Cross. “Equally important, we are supportive of a solution that plan sponsors and patients can easily understand and adopt.”

Plan sponsors are likely to see cost savings in generic pricing as a result of the agreement between the BC Government and pharmacy; however various factors can play into the equation of any savings realized by the drug plan. The agreement is limited to those generic drugs covered by the PharmaCare program. Dispensing of brand name drugs and generic alternatives that are not covered by PharmaCare are not subject to the 35 percent pricing limit. Future dispensing patterns and upward pressure on dispensing fees and mark-up may impact the amount of savings benefit plan sponsors may achieve. These are issues that have always been of concern. Plan

sponsors who have already made changes to their drug plan to combat these are well positioned to control costs. It is our hope that the collaborative approach taken toward generic drug pricing in BC will assist in managing costs.

Options proven to be effective for plan sponsors

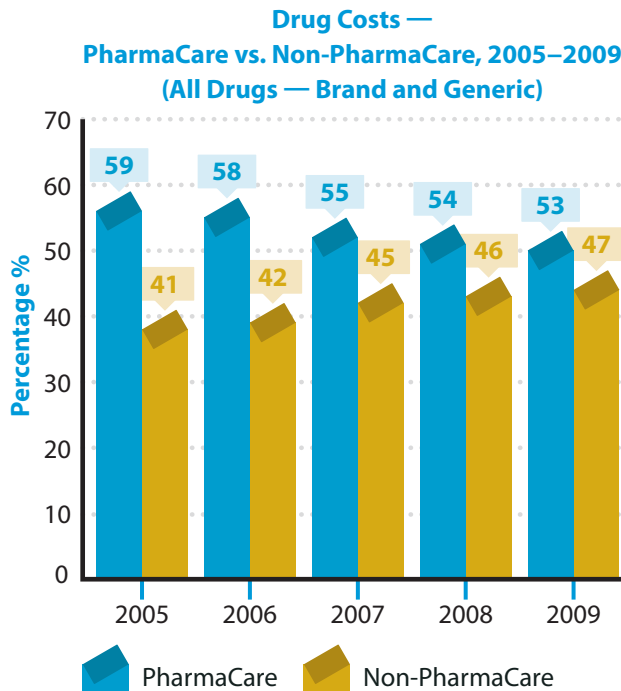
To maximize savings to the benefit plan from the agreement, there are a number of options plan sponsors should consider.

Pacific Blue Cross has several cost containment features available. Maximum reimbursement limits on dispensing fees and mark-ups encourage smart consumer shopping. These options have proven to be effective strategies in cost-containment and when coupled with other changes to drug plan design, can result in tangible savings.

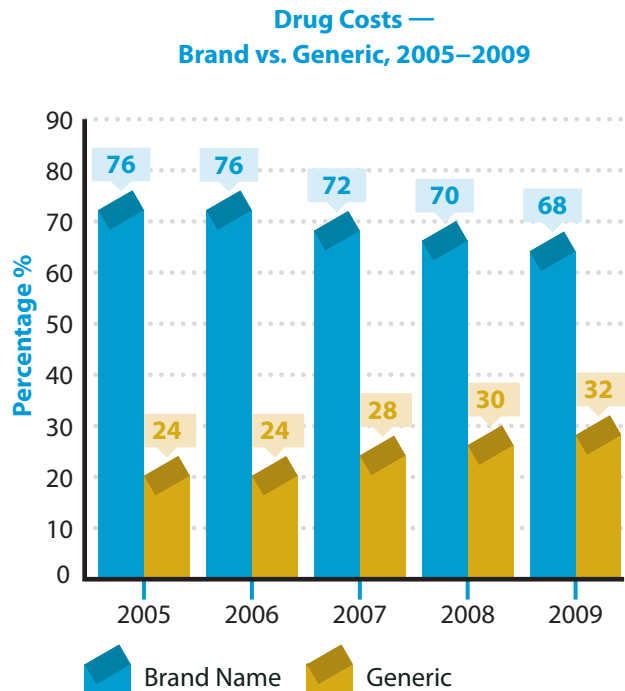
Drug Trends

Prescription drugs account for 66 percent of all extended health care plan costs. The number of non-PharmaCare drugs paid is steadily increasing as a result of government de-listing and new drugs entering the

market that have not yet been listed. We’re also seeing a continuing trend increase in cost related to generic utilization. The graphs below show drug costs based on Pacific Blue Cross’ entire book of business.



SOURCE — Pacific Blue Cross, Actuarial Services, June 2010



SOURCE — Pacific Blue Cross, Actuarial Services, June 2010

However, plan sponsors should be aware that these savings could ultimately result in an increase in out-of-pocket costs and lower satisfaction in the benefit plan for plan members. This is particularly heightened on reimbursement only plans.

Pay direct drugs become an attractive option

Pay direct drug cards can significantly improve the plan member experience when implementing these kinds of price controls. The electronic messaging delivered at point of sale about what's covered and what is not, empowers plan members to make informed decisions about their purchase of drugs. It also relieves the pressure on plan administrators in educating employees about the drug plan.

Pay direct drug cards help members use their benefit plan which promotes better health in the workplace — one of the reasons why you provide the plan to your employees. Plan utilization can be linked to healthier employees who through treatment are on the road to better health. Many studies have linked workplace health to decreased absenteeism, higher productivity and an improved bottom line for the business.

Neutralizing the cost of pay direct drugs

Pay direct drug cards offer greater controls when implementing cost-containment options — which are becoming more essential in light of the complexities associated with an ever changing pharmaceutical landscape. When pay direct drug cards are implemented, cost-containment options can be used to offset the increase in utilization trends. Straightforward adjustments to your plan design, combined with the savings resulting from the generic pricing agreement will result in savings to your plan and create the opportunity for you to provide your employees with the convenience of point-of-sale confirmation of coverage and no requirement to submit a paper claim for reimbursement.

The real benefit for plan sponsors comes in the opportunity and greater flexibility to adjust cost-containment options while lessening the burden on plan administrators to educate members about the drug plan. Pay direct drugs are also proven effective to increase plan member satisfaction in the benefit plan which contributes to employee retention.

As more details about this recent announcement become available, Pacific Blue Cross will provide further updates to help plan sponsors understand the impact of these changes to their benefit plans. In the meantime, contact your plan advisor or account manager to discuss any issues or make changes particular to your plan.

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