

The Challenge of Catastrophic Drug Coverage

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Background

- Fraser Group provides market information and technical research to the group benefits industry.
- We have studied the incidence of group insurance and drug coverage in Canada since 1996.
- Richard Shillington of Tristat Resources, Ottawa has collaborated in most of this work.

History

Year	Report	Sponsor
1998	Drug Expense Insurance in the Canadian Population	CLHIA
2000	Canadians' Access to Insurance for Prescription Medicines	Health Canada
2002	Protection from Severe Drug Expenses	CLHIA
2003	Costing Module (Unpublished)	CLHIA
2005	Update Model to 2004	CLHIA

All Reports available at www.frasergroup.com

Overview: Drug Plans in Canada

Sponsors	Insured Population
Federal Government	First Nations Veterans
Provincial Government	Seniors Social Assistance Total Population (some provinces)
Employers, Unions	Employees and Dependents Retirees and Dependents
Affinity Groups	Members and Dependents
Individuals	Self and Family

Issues under Investigation

- How many are covered?
- How well are they covered?
 - Who is uninsured or under-insured?
- How does the coverage perform in the face of severe expense?
- What would it cost to implement structural changes?

The Research Challenge

- High Level Complexity
 - Multiple sponsor types, diverse rules
 - Interaction among plans
- Low Level Complexity
 - Thousands of employer plans
 - Interaction within families
- Low frequency events (catastrophic expense)
 - Extensive data requirements

Research Approach

- Micro simulation model using Stats Canada *Survey of Labour Income Dynamics*
- Enriched with public and private drug plan information
- Cost data from ~ 50% of population
- Model of year 2000 (2004 in progress)

Define: “Covered”

- Plan membership of any kind
 - Except disease or drug specific
- Measure primary financial parameters only
 - Deductible, co-payments, maximums

Define: “Covered”

- Regardless of administrative compliance
 - i.e. eligibility, not enrollment
- Regardless of Formulary limitations

Sample Output

Drug Coverage

Covered by	Percent of Population
Public Plans	53%
Private Plans	58%
Both Public and Private	13%
No Coverage	2%
Source: Fraser Group/Tristat Data Model	

Sample Analysis

Simulation Results (Percent of Population)		<i>Nova Scotia</i>		
Out-of-pocket Costs	When annual drug expenses =			
	\$5,000	\$20,000	\$80,000	
\$0 to \$750	47%	47%	47%	
\$751 to \$2,000	29%	0%	0%	
\$2,001 to \$4,000	0%	23%	0%	
Over \$4,000	0%	7%	29%	
No Coverage	24%	24%	24%	
Total	100%	100%	100%	

Protected (Capped)
coverage
Out-of-Pocket Costs
do not increase with
drug expense.

**Partially Protected
(Uncapped Co-Pay)**
Out-of-Pocket Costs
increase as drug
expense rises.

Unprotected. 24% of Nova Scotia
residents have no private or public drug
plan coverage. They would have to pay
the entire \$80,000 out of their own
pockets.

This means that 7% of the Nova Scotia population
would pay over \$4,000 in Out-of-Pocket Costs if
they needed drugs that cost \$20,000

Coverage in Canada

- Public Plans • 53%
- Private Plans • 58%
- Both Public and Private • 13%

- NO COVERAGE • 2%

ALL OF THOSE
WITHOUT COVERAGE
RESIDE IN
ATLANTIC CANADA

IN ATLANTIC CANADA
25% OF THE POPULATION
HAS NO COVERAGE
FOR DRUG EXPENSES

Seniors

- Low income (GIS)
 - Covered in all provinces
- High income
 - Covered in all provinces except NL

Social Assistance

- Covered in all provinces

First Nations

- Covered in all provinces through federal NIHB program

Everyone Else

- BC, SK, MB
 - Provincial pharmacare programs
- Alberta
 - Subsidized “Non-group” plan accessible

Everyone Else

- Ontario
 - Trillium Plan as last resort
- Quebec
 - Universal Drug Plan (public/private partnership)

Everyone Else

- PEI
 - Low income families
- Other Atlantic Provinces
 - Nothing

Everyone Else

- Employer sponsored plans cover about 60% of workers in all provinces
 - Coverage rates are slightly higher in Atlantic Canada
- Individual policies cover about 1%

Define: “Catastrophic”

- Statistical approach
 - High cost in absolute terms (low frequency)
- Financial Hardship approach
 - Relative to income

Define: “Undue Financial Hardship”

- Income Tax Act uses 3% of income for Medical Expenses
- Existing public drug plans use 3% to 4% of family income

“Undue Financial Hardship”

- Our research indicates that the income threshold makes little difference to the cost of catastrophic drug coverage.

Catastrophic Drug Expense: Types of Coverage

- Protected Out of Pocket cost is **fixed** as drug expense rises
- Partially Protected Out of Pocket cost **rises** as drug expense rises
- No Coverage

Simulation Results
(Percent of Population)

Nova Scotia

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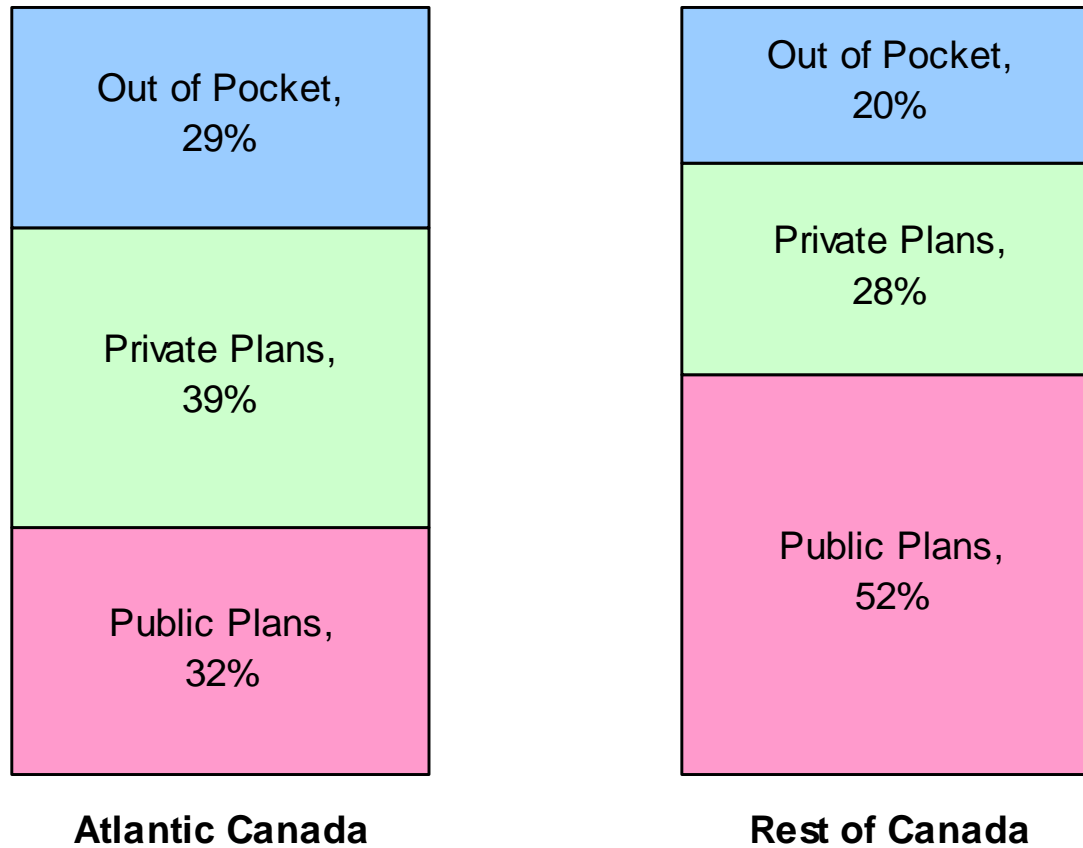
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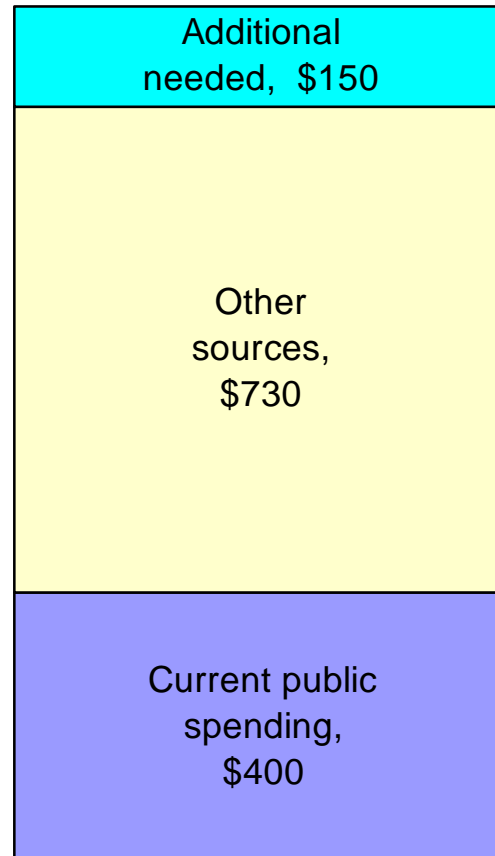
Exposure to High Drug Expense

Province	Protected	Partially Protected	Unprotected	Total
BC	100%	0%	0%	100%
AB	34%	66%	0%	100%
SK	100%	0%	0%	100%
MB	100%	0%	0%	100%
ON	100%	0%	0%	100%
QC	100%	0%	0%	100%
NB	45%	27%	28%	100%
NS	47%	29%	24%	100%
PE	47%	26%	27%	100%
NF	48%	24%	28%	100%
TOTAL	89%	9%	2%	100%

Financing of Drug Expenses



The Gap in Catastrophic drug coverage



Based on
Fraser/Tristat models

To close the Gap in Catastrophic Coverage

- \$150 million
 - To limit expense to 3% of family income
- \$65 per capita
- \$245 per uninsured individual

In Conclusion

- Canada has a fairly effective system of catastrophic drug coverage.
- The major deficiency is the lack of safety net public plan for non-seniors in Atlantic Canada.
- Solutions are not beyond reach.