

# ESI Canada 2007 Drug Trend Report

## 2007 drug trend analysis by Canada's largest adjudicator of private drug claims

Each year, ESI Canada analyses the drug claims data collected over the previous year, interprets the data and presents the findings to its customers. The purpose of this report is to summarize those findings and help plan sponsors understand the forces influencing their group benefits drug programs. This report also offers information on the valuable tools available to help plan sponsors manage their drug program costs.

### About Manulife Financial and ESI Canada

- ESI Canada is Manulife Financial's pharmacy benefit manager (PBM), the largest PBM in Canada.
- This Drug Trend Report contains ESI Canada's findings for 2007. The report looks back and provides insight into the current trends in the Canadian privately-funded prescription drug market. This report is available to all Manulife Group Benefits clients.
- The analysis in this report identifies trends based on the 65 million drug claims, for 7 million Canadians, submitted to ESI Canada in 2007.
- Last year, ESI Canada processed drug claims valued at \$3 billion.

## Inside

ESI Canada 2007 highlights .....	2
Drug spend in Canada: a revised prediction .....	3
What's driving your costs? .....	4
Cost controls .....	6
Range of drug spend by claimant .....	7

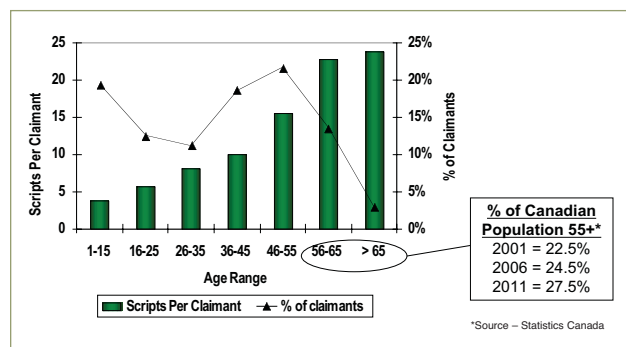


# ESI Canada 2007 highlights

The annual drug spend in the private sector for 2007 rose by 7.1 per cent to \$665 per claimant. This is up \$44 from \$621 in 2006 and up \$92 from \$573 in 2005.

The 7.1 per cent increase in drug spend slowed somewhat in 2007, thanks partially to an increased use of lower cost generic drugs and a number of brand name drugs coming off of patent protection.

The upward trend is expected to continue in the future. An aging population that uses more prescriptions per person and the growing use of more expensive, specialty medications will fuel increasing drug spend in the coming years.



Utilization increases as we age.

Although drug costs have tripled in the last decade, ESI Canada says that there are still many tools and strategies available to plan sponsors who wish to control costs. (See page 6.)

## Measures

The information found on these pages is based on ESI Canada claims data for 2007. All claims have been normalized for significant changes in demographics across Canada.

ESI Canada reports on:

**Drug trend** – the percentage increase in allowable cost per claimant over the previous year.

**Allowable costs** – the amount payable (including professional fees and ingredient costs) before the plan member's contribution.

**Costs per claimant** – data for each individual\* who submits a prescription(s). ESI Canada's claimant data represents actual use of the drug plan by cardholders, their spouses and dependants (the amount payable before plan member contributions).

*\*Plan members, their spouses and dependants are not identified.*



### Trend: One word, two meanings

It's worthwhile reminding readers that this report focuses on ESI Canada's drug trend – the actual drug cost increases for the prior year (2007). In contrast, when Manulife Financial reports trend, it is a predicted average increase of an Extended Health Care (EHC) plan, of which drugs are only one component. So then, one definition of trend looks back (ESI Canada), while another (Manulife Financial) looks forward.

Extended Health Care plan premium increase is typically higher than drug trend because:

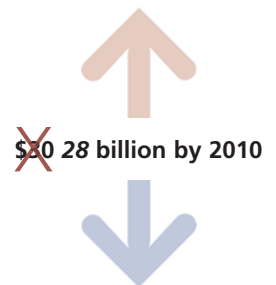
- Premium increase is a forward looking prediction; therefore, the increase is required to cover higher anticipated spend for the coming year, whereas drug trend is retrospective.
- Premiums include a margin of risk to cover fluctuations in claims experience the following year due to (for example) more members making claims, or due to the potential effect of blockbuster drugs. In contrast, ESI Canada's trend reports the actual number of claims and claimants in the previous year.
- Premium increase may also be higher due to an erosion of the co-pay or deductible. If the member portion is fixed (for example, \$5 per prescription), it does not keep up with drug trend, and as drug costs increase, the actual portion paid by plan sponsors each year increases.

## Drug spend in Canada: a revised prediction

In the last ten years, public and private drug spending in Canada has felt a bit like a run away freight train, racing through station after station with whistle blowing, steaming and billowing its way to \$22.5 billion by the end of 2007 (source: Canadian Institute for Health Information). The good news is that in the last year ESI Canada has seen the acceleration of drug spending ease somewhat, thanks to the increased use of generic drugs and the fact that fewer 'blockbuster' drugs have been introduced recently. While this has prompted ESI Canada to scale back its prediction that drug spend would reach \$30 billion by the year 2010, ESI's revised prediction of \$28 billion by 2010 is by no means small change. It's still a predicted increase in annual drug spending of 5.5 billion dollars in the next three years, a 25 per cent increase over today.

### Factors fuelling increasing drug trend include:

- an aging population,
- increasing use of specialty medications (growing at 20 per cent annually),
- increasing utilization,
- higher dispensing fees,
- drug inflation, and
- therapeutic mix (the greater use of newer, costlier medications).



### Factors offsetting drug trend to some extent:

- key brand name drugs coming off patent protection, and
- new generic drugs entering the market.

# What's driving your costs?

## The components of drug trend

The national drug trend of 7.1 per cent is made up of two components that are virtually equal in influence: 1) **utilization** and 2) **cost per prescription**.

Utilization is the number of prescriptions claimants are filling. Cost per prescription is the amount of money each drug costs and is made up of the **drug ingredient cost** and a **dispensing fee**.

### 1. Utilization

➔ **3.6%**

Year	2004	2005	2006	2007
Number of prescriptions per claimant	10.3	10.7	11.0	11.4
Trend	+ 3.0%	+ 3.9%	+ 3.0%	+3.6%

In 2007, drug use rose to 11.4 prescriptions per claimant. The 3.6 per cent trend was due to an increase in the number of claimants, and an aging population that uses more drugs per person. Claimants over the age of 55 represent a higher portion of the Canadian population each year and use twice as many drugs as the 36 to 45 age group.

Other factors that contributed to people taking more drugs last year include the following:

- direct-to-consumer advertising (trickling over from the United States where drug advertising is permitted) which increased patient demand for drugs;
- existing drugs that were approved to treat additional (or multiple) diseases;
- earlier diagnosis of disease, made possible by advances in technology; and
- improvements that made it easier for patients to obtain, take, and complete their medications as directed by their doctors and/or pharmacists.



## 2a. Cost per prescription – Drug ingredient cost

3.6%

Year	2004	2005	2006	2007
Allowable cost per prescription	\$43.00	\$45.73	\$48.20	\$49.93
Trend	+ 7.0%	+ 6.3%	+ 5.4%	+ 3.6%

In 2007, drug ingredient cost rose by 3.6 per cent. The average ingredient cost per prescription increased to \$49.93, an increase of 67 per cent since 2000.

Drug ingredient cost, one of the two components influencing cost per prescription, is itself shaped by the following:

- therapeutic mix (the greater use of newer, costlier medications),
- drug inflation, and
- the mix of brand name drugs versus generic drugs.

**Therapeutic mix** accounted for the greatest increase in the ingredient cost. High cost specialty drugs (such as those used to treat rheumatoid arthritis and cancer) are growing at a rate of 20 per cent each year. Today, high cost specialty drugs represent 13.3 per cent of all drug spending. ESI Canada expects that figure to reach 25 per cent in the next five years.

**Drug inflation**, the cost increase from one year to the next, is quite low since most drugs do not increase in price once the initial price is set. In fact, some multi-source\* drug brands decrease in price when they come off patent protection and existing generic drugs lower their prices over time. In 2007, Quebec saw the highest rate of drug inflation in Canada at 1.4 per cent. The drug inflation in Quebec was driven by the provincial drug plan's removal of a price freeze that had been in effect since 1994.

**Brand/generic mix** is the proportion of brand name drugs used when compared to generic drugs. Last year, the use of generic drugs increased to 41.4 per cent from 38.8 per cent in 2006. Part of the increase in generic fill rate was made possible due to legislation in Ontario called *Off Formulary Interchangeability*. The legislation came into effect in April 2007 and expanded the list of generic drugs that pharmacists could substitute in a prescription without calling the prescribing doctor. As well, a number of highly used drugs came off of patent protection in 2007, allowing generic equivalents to be made available.

\*Multi-source drugs are those which are manufactured or distributed by more than one name brand and/or generic company. Some multi-source drugs don't have generic equivalents, only competitive "me-too" brand drugs. A multi-source brand is a brand name that has a therapeutically equivalent drug.

## 2b. Cost per prescription – Dispensing fee

3.0%

Year	2004	2005	2006	2007
Average allowable fee	\$7.62	\$7.83	\$8.14	\$8.38
Trend	+ 2.8%	+ 2.8%	+ 4.0%	+ 3.0%

The average allowable dispensing fee in 2007 rose by 3 per cent to \$8.38; however, the average *submitted* fee is substantially greater. The use of fee caps has effectively reduced the average submitted fee *allowable*.

When ESI Canada looked at average *submitted* dispensing fees by region, Ontario had the highest average fees at \$10.50. Average fees in the west were \$9.49 and in Atlantic Canada the average fees were the lowest at \$8.59.

## Cost controls

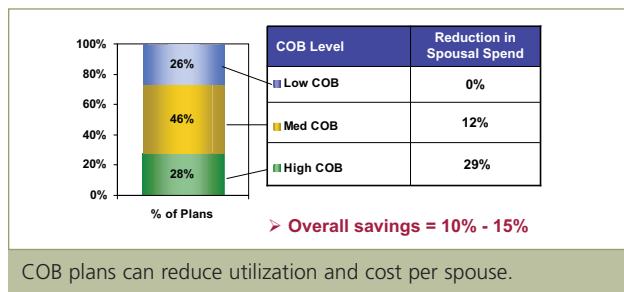
# Using plan design to control utilization and cost per prescription

Neither governments nor plan sponsors are able to control or even influence some of the factors, such as an aging population, which are leading to higher spending on prescription drugs each year. However, ESI Canada's analysis indicates there are cost control tools available to group benefits drug plans that aren't being used, or aren't being used to their full potential.

Plan design tool	Controls utilization	Controls cost per prescription
Coordination of benefits	Yes	Yes
Member payment	Yes	Yes
Dispensing fee cap	No	Yes
Generic substitution	No	Yes
Managed formulary	No	Yes
Prior authorization	Yes	Yes

### Tool: Coordination of benefits (COB) Potential savings of 10% to 15%

Effective coordination of benefits reduces costs because it ensures the plan is not paying for claims that should be covered by another payer. For example, group benefits plans that effectively collect and update spousal coverage information have drug plan costs that are significantly lower than plans that do not collect or maintain the information.

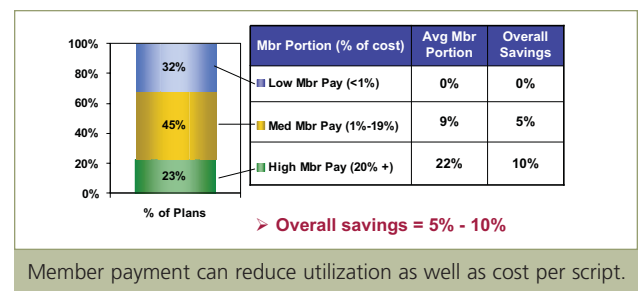


### Tool: Member payment Potential overall savings of 5% to 10%

Member payment is a plan design tool that encourages members to be better informed shoppers by comparing prices when filling prescriptions. It encourages plan members to take the medicine as directed, since they have paid for a portion of the cost themselves. The challenge for plan sponsors is to find the balance between making it easy for plan members to obtain the

prescription medications they need and take them as prescribed, with the need to encourage wise consumer and plan member behaviours.

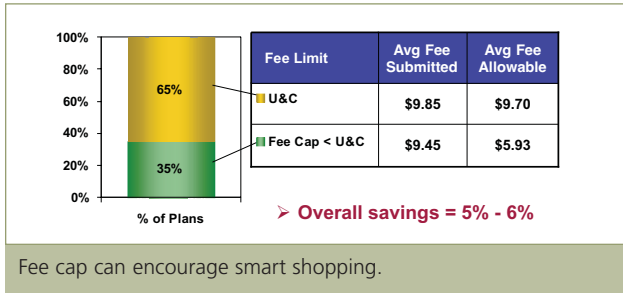
Manulife Financial has developed material that provides plan members with tips on how to be smarter consumers. To find the guide, go to [www.manulife.ca/groupbenefits](http://www.manulife.ca/groupbenefits) and log in as a plan sponsor or plan advisor.



### Tool: Dispensing fee cap Potential savings of 5% to 6%

Dispensing fee caps also encourage plan members to be wise shoppers when choosing their pharmacy in order to minimize their out-of-pocket expenses. Last year, dispensing fees ranged from \$4 to \$15 across the country, yet the average fee allowable was \$8.38. Therefore, as the following chart illustrates, the 35 per cent of private drug plans that currently have fee caps in place have greatly helped reduce the average fee allowable.

In the future, dispensing fee caps will become more important due to the recent trend of low fee pharmacies increasing their Usual and Customary fees.



## Tool: Generic substitution

### Potential savings of 1% to 2%

Pharmacists already generally switch the brand name drug for a generic, even without a generic substitution plan in place, so the predicted savings from this tool are only 1 to 2 per cent. However, this plan design tool will only become more important as more highly used brand name drugs come off of patent protection. Building the tool into a plan will ensure the plan benefits from the new generic drugs entering the market.

## Tool: Managed formulary

### Potential savings of 4% to 5%

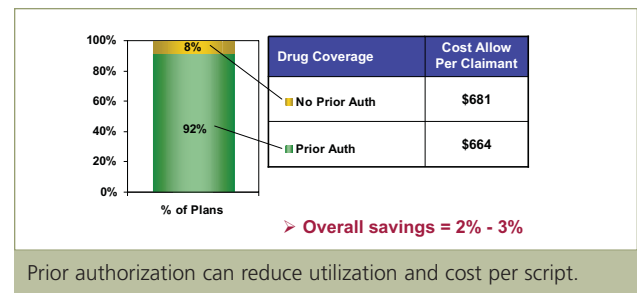
Managed formularies are currently uncommon plan designs, with only about 7 per cent of plans using the tool to manage their drug plan. However, a managed formulary, such as ESI Canada's Dynamic Therapeutic Formulary (DTF), encourages the use of lower priced (but equally effective) drugs through a two-tier formulary where the lower cost drugs are reimbursed at a higher coinsurance. Plan members can still choose to receive the originally prescribed drug, but at a lower reimbursement level.

DTF targets drugs that have a lower cost alternative, encouraging the use of the more cost-effective, yet equally effective drug. A managed formulary can help reduce the increase in drug trend, while also saving the plan sponsor money and reducing the plan member's out-of-pocket costs.

## Tool: Prior authorization

### Potential savings of 2% to 3%

In 2007, 92 per cent of the plans managed by ESI Canada had prior authorization in effect for one or more drugs. The tool helps manage utilization and cost per prescription. Prior authorization ensures that the patients using the drug meet the medical criteria to take the medication, and that the drug isn't being used for non-clinically approved reasons. When a claim is rejected because the plan member does not meet the criteria, the member can choose to pursue an alternative drug that is covered under the plan. Or, in some cases (for example, when the drug has been prescribed for cosmetic reasons), claimants may decide not to pursue the claim. ESI Canada's analysis found overall savings ranged from 2 to 3 per cent, however this varied significantly by therapeutic class.

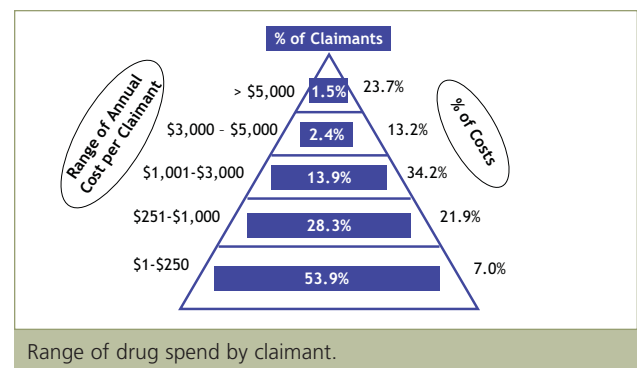


## Range of drug spend by claimant

ESI Canada classified high cost claimants as those who cost the plan more than \$5,000 per year. In 2007, 1.5 per cent of claimants fell into this category, representing 23.7 per cent of total cost (up from 1 per cent of claimants in 2006).

At the bottom of the pyramid, 53.9 per cent of claimants submit claims for less than \$250 per year.

Higher cost claimants typically suffer from serious conditions such as rheumatoid arthritis, multiple sclerosis and cancer.





# 2007 ESI Canada Drug Trend Report



ESI CANADA®

ESI Canada is a leading health benefits management company. Serving 7 million members, we help insurance carriers, third party administrators, and the public sector optimize the value of health benefits by linking the talent and professional expertise of our people with leading-edge information management systems and technology. ESI Canada is a wholly-owned subsidiary of Express Scripts Inc., one of the largest pharmacy benefit management (PBM) companies in North America (Nasdaq: ESRX).

## About Manulife Financial

Manulife Financial is a leading Canadian-based financial services group serving millions of customers in 19 countries and territories worldwide. Operating as Manulife Financial in Canada and Asia, and primarily through John Hancock in the United States, the Company offers clients a diverse range of financial protection products and wealth management services through its extensive network of employees, agents and distribution partners. Funds under management by Manulife Financial and its subsidiaries were Cdn\$400 billion (US\$389 billion) as at March 31, 2008.

Manulife Financial is one of two publicly traded life insurance companies whose rated life insurance subsidiaries hold Standard & Poor's Rating Services' highest "AAA" rating and Moody's Investor Services' second highest "Aa1" rating, both representing financial strength.

Manulife Financial Corporation trades as 'MFC' on the TSX, NYSE and PSE, and under '0945' on the SEHK. Manulife Financial can be found on the Internet at [www.manulife.com](http://www.manulife.com).

© 2008 The Manufacturers Life Insurance Company. All rights reserved.

Manulife Financial and the block design are registered service marks and trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Financial Corporation.

 **Manulife Financial**  
With you every step of the way®