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Ontario to cover prescription drugs – with no co-pays – for residents under 25

Surprise budget announcement could save employers 10 per cent on claim costs: Experts

BY MARCEL VANDER WIER

ONTARIO'S new budget contained some good news for employers across the province, according to experts.

Released on April 27 by Finance Minister Charles Sousa, it announced changes to Ontario's pharmacare strategy, with the provincial government committing to become first payer on prescription medicines for residents age 24 and under as of Jan. 1, 2018.

The move is expected to cost the government $465 million per year.

"The changing nature of the workplace means that many Ontarians today do not have workplace benefits plans," said Sousa. "Youth pharmacare will completely cover the cost of all medicines funded through the Ontario Drug Benefit Program, regardless of family income. There will be no deductible, there will be no co-payment."

Under OHIP+: Children and Youth Pharmacare, the government will begin paying for 4,400 different prescription medicines on the Ontario Drug Benefit formulary for the province's four million youth and young adult citizens. It's the first program of its kind in Canada, said Sousa.

The news will be welcomed by employers of all types, said Natasha Monkman, pension and benefits lawyer at Hicks Morley's Toronto office.

"When this dropped in the budget, it was a bit of a surprise," she said. "For citizens in general, it's very interesting to see the government moving to first payer on coverage. But from an employer's perspective, in today's day and age, any relief that you can get under your benefits plan is going to be welcome cost relief."

But Mike Sullivan, president of Cubic Health, a drug plan analytics firm in Toronto, said the announcement was unexpected and a tad strange.

"For most employers, covering benefits for people under the age of 25 has not been a substantial financial hardship. People were never complaining about that," he said.

"What's really been hitting employers is really expensive, high-cost drugs for all employees. That's been the bigger issue."

Savings expected

Total savings will vary depending on the makeup of an employer's individual private health benefits plan, said Monkman.

"If you have a plan that has, for whatever reason, a high usage among dependants, then this would actually be good for that plan," she said.

Employers should anticipate some savings via this measure — but nothing overly major, said Fabricio Naranjo, vice-president and benefits consultant at Collins Barrow in Toronto.

That's because youth and children are a small portion (about 10 per cent) of any employer's overall drug claims. The largest group is typically seniors using costlier speciality drugs for illnesses such as arthritis or cancer, he said.

"When you look at the makeup of the drug claims for employers, that's why the children and youth claims seem to have a disproportionately small amount," said Naranjo. "Obviously, they consume less drugs, but their drugs are also less expensive."

Examples of common youth prescription drugs include antibiotics, asthma inhalers, allergy medicine and EpiPens, he said.

Still, employers are expected to save on costs, but exactly how much will be determined by what type of plan is administered — fully insured or administrative services-only (ASO), said Naranjo.

Small and medium-sized companies typically use fully insured plans, simply paying a premium to the insurer that handles all claims. Larger employers, meanwhile, often choose to pay an insurer to process claims only, while handling the payment of claims themselves.

"When you have enough mass of employees, you will have so many claims that you actually can get to a point where you can predictably assess what the claim amounts are, then pay them yourself," he said. "It ends up being cheaper overall because the insurer doesn't take on the risk themselves, so there's a lot fewer costs to them internally."

"(With this news), for large employers with ASO plans, they will incur a cost savings immediately of 10 per cent of drug claims."

But companies on traditional plans may not see savings as quickly, said Naranjo.

"Their savings might take a bit more time to materialize because insurers will wait to see the emerging claim experience before adjusting their pricing," he said.

"I'm not sure that plan sponsors will really see meaningful premium reductions in the short term."

Even though pricing can be a bit obscure, logic dictates that as claims decrease, premiums should also go down over time, said Naranjo.

"Overall, this is good news for employers and their plans. I don't see a downside arising from that at all for employers," he said. "It's universal, it's not income-tested, there's no co-payments and there's no deductibles… they've made it very clean and simple."

Parents will likely feel the savings more than employers, he said.

"Parents will feel it because most plans use co-payments and deductibles. They resort to these cost-sharing mechanisms so that the employees have some skin in the game."

On a typical plan, an employee is only reimbursed for a percentage of her claim, but OHIP+ will take care of 100 per cent of costs, saving employees 10 to 20 per cent per claim.

Yet because of the narrow focus of the new pharmacare coverage, employees will be unable to withdraw their children from their health benefits packages.

"No one will do that because you've got a number of other coverages that you still want your children to be covered with," said Naranjo, noting dental and vision care as examples. "You can't really take them out."

Advice for HR

Employers that provide prescription drug benefits coverage to eligible dependants will need to review their plans to determine whether any changes are necessary following the implementation of OHIP+, said Monkman.

Companies should also confirm whether their plan will provide — or continue to provide — any supplementary coverage to the government plan.

"In many cases, an employer would have a hard time stepping away from continuing to provide that," she said.

Some internal policy revisions will be required as a result of the proposed legislation, said Sullivan. National companies with an Ontario workforce will need to alter corporate policies accordingly.

"Every single plan in Ontario is going to immediately remove coverage for people under the age of 25 because the government will be first payer," he said.

Employers should also be aware that the Ontario Drug Benefit doesn't cover all products on the market, such as birth control pills, said Sullivan. Decisions on covering excluded drugs will need to be made by individual organizations.

"It's worth people realizing that this just isn't some sort of magic bullet that's going to absorb every single piece."

Further, companies with employees under age 25 will need to communicate that they should be submitting prescription drugs to OHIP+ rather than the corporate plan, said Naranjo.