

Executive Summary

The Government of Newfoundland and Labrador (GNL) has indicated to the Pharmacists' Association of Newfoundland and Labrador (PANL) that it will only accept prices for generic drugs that do not exceed the lowest price that prevails in any other province of Canada.¹ While pharmacists are expected to deliver “cognitive” services to patients without remuneration, the proposed legislation does not have any allowance for funding other professional services or any other mechanism that recognizes the financial reality facing pharmacies operating within Newfoundland and Labrador (NL).

This policy change may be seen as beneficial to Newfoundlanders and Labradorians in that lower prices for generic drugs should, in theory, release more discretionary income for patients that can be used to meet their other needs. However, like many public policy changes, there may be unintended effects that could be ultimately detrimental to the health and well being of the residents of NL who, ostensibly, the proposed legislation is intended to benefit.

To fully appreciate that there may be unintended effects, one needs first to realize that although the GNL is seeking the lowest possible price for generic drugs, it is not proposing any offsetting restructuring of the NL pharmacy industry to fund other professional pharmacy services that are not covered currently by the dispensing fee. These other professional pharmacy services do involve time and have a resource cost associated with them. Heretofore, the majority of these professional services in NL have been cross-subsidized by professional allowances received by pharmacies from generic drug manufacturers.

PANL is concerned for the viability of many of its rural and some of its urban pharmacies should the amendments to the formulary stand – without an offset for the loss of revenues associated with the professional allowances received from generic drug manufacturers. Consequently, PANL commissioned this study to:

- determine the actual costs of services provided by pharmacists to dispense drugs;
- ascertain the loss of revenue to the “Pharmacy” due to the new pricing formulary;
- describe the possible impacts to services provided to patients due to the new pricing formulary; and

¹ See *Section 23.2, Chapter P-12.01: An Act Respecting Pharmaceutical Services*, Statutes of Newfoundland and Labrador 2006, <http://www.assembly.nl.ca/legislation/sr/annualstatutes/2006/P12-01.c06.htm>. This issue became more pressing with the regulatory amendment that was put in place on December 20, 2007 and was due to come into effect on January 1, 2008. However, its implementation has been delayed until January 1, 2009. This delay provides a brief period of time for the affected stakeholders to document the full anticipated impacts of the legislative and regulatory changes on the health and well being of Newfoundlanders and Labradorians.

- assess the possible loss of infrastructure and health-care professionals (particularly in rural regions) due to the new pricing formulary.

To achieve this objective, this study utilized an activity-based-costing approach that drew upon two surveys administered in February and March of 2008. All non-hospital pharmacies in NL were surveyed and a separate survey was administered to pharmacists and pharmacy technicians who worked in NL.

From the analysis of the survey data, it was found that the average cost per prescription dispensed in NL was \$12.00, which neither compares favorably to the NLPDP contract that currently pays a fee of \$7.15 per prescription plus a surcharge nor to private payer contracts such as Blue Cross which pays a fee of \$9.05 plus a surcharge.^{2,3} Although there was some variation in the average cost per prescription by size of communities, there was narrow range of costs across communities considered in this study. The lowest cost per prescription dispensed was \$11.11 for pharmacies operating in communities with a population of between 5,000 and 10,000 people, while the highest average cost per prescription was found in pharmacies servicing communities with a population between 1,000 and 5,000 people. In fact, there were clear scale economies found in the NL pharmacies in that the average cost per prescription fell significantly with the volume of prescriptions dispensed annually.

When the average cost by store type was examined, one observed that chain stores had the lowest average cost of \$11.41 per prescription, which was followed by banner stores with an average cost of \$12.59 and independent pharmacies with an average cost of \$13.61.

The difference between average cost and dispensing fee revenue has been made up through professional allowances from generic drugs. Specifically, professional allowances were equivalent to 9.4% of average sales revenue in NL pharmacies. This ranged from a low of 7.3% for pharmacies located in communities with less than 1,000 people to a high of 11.4% for pharmacies located in communities serving between 1,000 and 5,000 people. When the type of store was considered, there was a larger variation in the relative importance of professional allowances to the bottom line of NL pharmacies — for independent pharmacies, this represented the equivalent of 10.3% of sales revenue; it corresponded to 8.4% of sales revenues for chain stores and 4.9% for banner stores.

² Even though the NLPDP surcharge can be 10% of the cost of a drug exceeding \$30.00 and has been estimated by the NLPDP to add approximately \$1.75 per prescription for a potential combined dispensing fee and surcharge under the NLPDP of \$8.90 per prescription and the Blue Cross surcharge is 7.5% of the cost of the drug and has been estimated to equal \$1.20 per prescription for potential combined dispensing fee and surcharge under the Blue Cross contract of \$10.25 per prescription, it is important to acknowledge that the potential combined fees are not indicative of the actual fees and surcharges paid in Newfoundland and Labrador. In particular, some pharmacies do not charge the full surcharge to groups such as seniors.

³ It is also interesting to note that Labrador-Grenfell Health is increasing the prescription dispensing fee paid by patients living in communities in southern Labrador. The fees will now increase from as low as \$2.00 per prescription to \$8.50. This is particularly significant since there are no retail pharmacies in this area and publicly-supported hospitals are seeking to recover \$8.50 when NLPDP only covers \$7.15 per prescription.

Even with the inclusion of professional allowance, it was clear that NL pharmacies were not making excessive profits that would allow them to easily absorb the loss of this important revenue source. The average net profitability of NL pharmacies was equivalent to 3.5% of sales. This ranged from a low of 0.1% for pharmacies operating in municipalities with less than 1,000 people to a high of 6.1% for pharmacies operating in communities with more than 10,000 people. The corresponding range by type of store was from 2.4% for chain stores to 8.4% for banner stores.

If the legislation stands unaltered, then more than 85% of all pharmacies stand to lose substantial amounts of revenue. It has been estimated that the dispensing fee would have to increase by \$4.00 per prescription on average to offset the lost revenue.

Should there no replacement of this revenue lost through a change in the dispensing fee, one should expect that some pharmacies will cease operations, especially in rural parts of the province and are unlikely to be replaced by other pharmacies. As well, fees to patients and mark-ups will increase in the majority of pharmacies to offset the revenue loss. Finally, there will be some reduction in hours and employees as pharmacies attempt to find efficiencies to offset the revenue loss.

Clearly, there are likely to be unintended impacts on NL pharmacies that ultimately will adversely affect service availability and the quality of health care throughout the province. It is important that the GNL consider some of these unintended impacts before finalizing its legislation with potentially irreversible impacts for some pharmacies and their patients.