Universal Pharmacare In Canada: A Tough Pill To Swallow

- **The federal *Advisory Council on the Implementation of National Pharmacare* (Council) has tabled its much-anticipated final report calling for a universal, single-payer pharmacare system in Canada.**
- **It is a costly proposition with an annual incremental cost of $15 bn by 2027 for governments according to the Council. With drug costs rising faster than nominal growth, governments will already be faced with additional annual funding pressures in the order of $8 bn by 2027.**
- **As election season kicks-off shortly, there is no shortage of spending pressures, but little debate on how to lift growth to pay for them.**

A COSTLY PROPOSITION

There is no doubt that Canadians pay a high price for pharmacare. Spending on prescription drugs totaled $28 bn in 2017, according to the Council's report. Governments (including its public service private plans) bear about half of these costs, with corporations shouldering about 30%, and individuals the remainder (chart 1). This translates into average annual costs of $909 per person, with Canada paying among the highest prices in the world for pharmaceuticals.

The Council estimates that these costs will grow by about 6.5% per annum, reaching $52 bn by 2027. A patchwork system comprised of over 100 public plans and more than 100,000 private plans only adds to the costs. A universal approach that leverages stronger negotiating clout could achieve annual savings of $5 bn by 2027, according to the Council, bringing total costs down to about $47 bn.

The Council calls for a fundamental overhaul of the system through a single-payer system. The government is expected to take on the vast majority of costs—amounting to $41 bn annually by 2027—with the implicit suggestion that the federal government bear the brunt of governments' share through new transfer payment to provinces and territories.

The annual incremental cost to government, according to the Council, would be an additional $15 bn by 2027. However, its 'status quo' assumes that governments have already provisioned for these rising costs i.e., in the order of 6.5% per annum. This is a tenuous assumption with the Canada Health Transfer currently linked to nominal growth (estimated at 3.7% of GDP over the medium term) and most major provinces aiming to balance their budgets on the back of expenditure restraint.

Provinces would likely look to the federal government to close this additional funding gap of about $8 bn by 2027. This would bring the government's true collective incremental funding pressure closer to $23 bn annually over and above today's budgets.

Households meanwhile will pay no more than $100 per annum, with savings on average of $350 per year. Businesses are expected to save $750 per employee on average annually.

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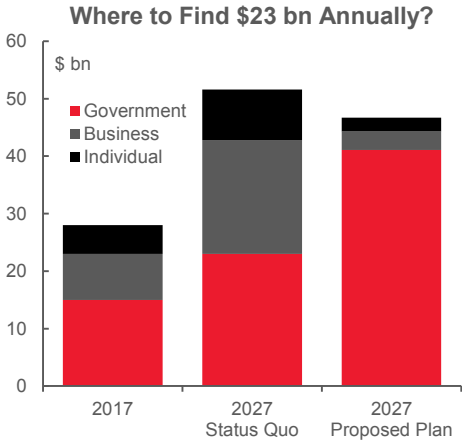
Chart 1



Sources: Scotiabank Economics, Advisory Council on the Implementation of National

A DOSE OF REALITY

A grand vision is essential but not sufficient to achieving fair, affordable, and comprehensive access to pharmacare in Canada. In a highly decentralized society, it is impossible to divorce the *what* from the *how*. Namely, the feasibility of who will pay, how it will be funded, and importantly, who holds accountability for delivering intended results are essential to today's debate.

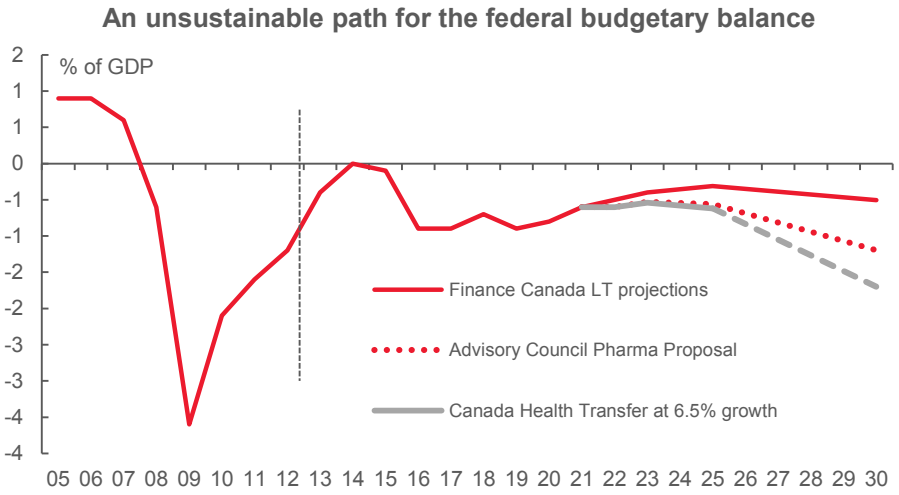
Provinces have little capacity to shoulder additional costs given demographics and debt levels. Even the federal government cannot afford today's price tag as growth structurally slows to around 3.7% nominal growth over the long term. Absent additional measures, the federal government's debt-to-GDP ratio would quickly deteriorate if it were to absorb the incremental costs of a universal pharmacare program as set out in the Council's report. Under a scenario where the federal government also increases the Canada Health Transfer by 6.5% annually (i.e., to reflect assumptions in the Council's 'status quo'), the trajectory is even steeper (chart 2).

Meanwhile, governments are loathe to raise taxes. Provinces are loathe to commit absent unconditional compensation (think pipelines, carbon tax, common securities regulator, or even cross-border beer sales). Businesses indeed face headwinds, but finding good people is top of mind for many. It is naïve to believe that reducing unit labour costs will drive up wage growth. Economies of scale in purchasing power could also be restrained by inefficiencies as a result of the concentration of power and the reduction of choice.

Unfortunately, there is a pharmacare crisis for a sub-set of the Canadian population that falls between the gaps under the current fragmented system. They stand to lose out with universal pharmacare debate now polarized as an all-or-nothing approach versus a more pragmatic gap-filling approach.

The Council has laid out an ambitious, if not Utopian, plan for universal pharmacare in Canada but with no map to get there. It will consume significant debate as election platforming begins this summer, but hopefully not at the expense of an essential debate on how to secure stronger growth over the medium term to afford the quality of life and values Canadians espouse and expect.

Chart 2



Sources: Scotiabank Economics, Finance Canada, Advisory Council on the Implementation of National Pharmacare

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