

# Information Update

August 2010

## Legislative Update – Ontario

**Advisors:** The following information will be sent to your clients in Ontario.

### Harmonized sales tax (HST) and employee benefit plans

Effective July 1, 2010, the province of Ontario combined its provincial retail sales tax (RST) with the federal goods and services tax (GST).

#### The impact

The HST is applied as follows:

Plan type	Impact
Fully insured plans	8% RST on insured premium (no change)
Administration Services Only (ASO) with an element of insurance	8% RST on paid claims and service fees (no change)
Pure ASO plans	8% RST on paid claims (no change) 13% HST on service fees

### Lipitor® off patent

The Canadian product patent for Lipitor, a drug used to treat high cholesterol, has expired. A generic version (atorvastatin calcium) is now available in Canada.

#### The impact

The lower cost generic version should have a positive impact on plans with high Lipitor usage.

### Drug system reform

On April 7, 2010, the Ontario government announced proposed change to the Ontario drug system that would affect the pricing of generic drugs. Originally, these changes were expected to go into effect on May 15, but were delayed to allow the Minister time to review submissions from pharmacists and other stakeholders. With the delay, it was uncertain how the regulations would apply to the private sector.

On June 7, 2010, the government confirmed that the lower generic prices, as well as the elimination of the professional allowances, would apply to both the public and the private sector and that the regulations would take effect on July 1, 2010.

The following table highlights the changes to the Ontario drug system.

<b>Subject</b>	<b>Public Plan – Ontario Drug Benefit (ODB)</b>	<b>Private Sector</b>
<b>Generic Price Reduction</b>	Reduced to 25% of brand cost, effective July 1, 2010	Reduction schedule is as follows: 50% - July 1, 2010 35% - April 1, 2011 25% - April 1, 2012
	<b>Notes:</b> <ul style="list-style-type: none"> <li>• Reduced pricing applies to only generics on the ODB formulary</li> <li>• Reduced pricing for generic versions of Lipitor will be implemented as of June 7 for both public plan and private payers. It is expected that the generics will soon be added to the ODB formulary.</li> <li>• Some generics will be exempt from the reduced prices (e.g., products older than 10 yrs, &amp; non-solid drug products)</li> </ul>	
<b>Phasing out of Professional Allowances</b>	Reduced to 0%, effective July 1, 2010	Reduction schedule is as follows: <ul style="list-style-type: none"> <li>• 50% - July 1, 2010</li> <li>• 35% - April 1, 2011</li> <li>• 25% - April 1, 2012</li> <li>• 0% - April 2, 2013</li> </ul>
<b>Increase dispensing fee, for ODB/Public plan only*</b>	Increase fee by \$1 - from \$7 to \$8, effective July 1, 2010  Rural pharmacies - increase up to \$5 (up to a maximum of \$12) depending on rural location and distance between pharmacies	N/A
* This change will affect private plans with unlimited coverage for dispensing fees.		

### **The impact**

Reduced generic drug prices and the elimination of the professional allowance will have a significant impact for the pharmacy community. It is expected that pharmacies will look at alternate ways to generate lost revenue (e.g. through increasing dispensing fees and applying mark-up on drugs for private payers). The Co-operators will not adjust the drug portion of our extended health care rates in Ontario at this time. We will continue to monitor the pharmacy reaction to the drug system reform and are exploring long term solutions for our clients.