



# MetroLines

*A Newsletter from the Metropolitan Philadelphia Chapter of the  
Healthcare Financial Management Association*

Spring 2005

## Upcoming Events

MAY 2005

- May 26, 2004  
*Accounting /  
Auditing Update  
and Golf Outing*
- Location:  
Paxon Hollow  
Country Club

## Message from the President

Dear HFMA Colleagues –

With our chapter year coming to a close later this month, this newsletter is my last opportunity to communicate with you in this forum as Chapter President.

First, I want to thank you all for giving me the opportunity to serve you over the past year as Chapter President. I feel fortunate to have helped steward a chapter which holds such a rich history and tradition for assisting members attain their professional goals.

My gratitude also goes out to the Board and Committee Chairs, as well as committee members, for their unwavering support of the chapter during the past year. As with any large organization, it takes many hard working individuals to bring all the activities together in a coherent, meaningful way. In the Metropolitan Chapter, we are blessed with a wonderful team that consistently rises to the occasion and provides value to our members.

I congratulate Joe Cunningham and wish him well as he takes on the duties of Chapter President later this month. I know that he will do a superb job as President, as he has consistently done for many years in various roles on behalf of the Chapter.

One last time, I encourage you all to make the most of your HFMA membership to network and develop your skills. The challenges we face as a healthcare industry are enormous, but not insurmountable. Those who can consistently address issues constructively, collaboratively and with conviction will always be in demand. Your HFMA membership is a resource that will assist you throughout your journey in this regard. I hope that the Chapter leadership team this year helped to enhance that journey for you.

I wish you all the best in your future endeavors and I continue to look forward to networking with you in future years through HFMA.

*Pete DeAngelis*

## Message from the Editors

As the summer approaches, we see our current HFMA year beginning to wind down. We would like to thank Pete DeAngelis for his leadership this past year, along with his Directors and Committee Chairs and all of the members who made this year a successful one. This time of year provides a great opportunity to think back on your experiences within the Metropolitan Philadelphia Chapter of the HFMA during this year, as well as a chance to take advantage of our final program of our current year. These programs are great opportunities to meet other fellow healthcare professionals locally, as well as expand on relationships developed over the years within the HFMA network. We have provided information on the Accounting / Auditing Update and Golf Outing in this Newsletter, as well as details for the events and webcasts offered on an HFMA national level.

Our Chapter's Newsletter is written as an information source for our local Metropolitan Philadelphia HFMA members. We strive to make this Newsletter informative and beneficial to our members. In order for this Newsletter to meet the specific needs of our members, we would appreciate any suggestions on what our members would like to see in upcoming Newsletters. As always, our Newsletters are more informative with various articles that have been submitted by our members, and thus we welcome anyone interested in submitting an article for upcoming Newsletters, to please let us know.

We hope that all of our members continue to take advantage of the many opportunities within our Metropolitan Philadelphia Chapter of the HFMA.

David Johnson, Co-Chair  
(267) 330-4027  
[david.e.johnson@us.pwc.com](mailto:david.e.johnson@us.pwc.com)

Tony DiLuca, Co-Chair  
(856) 671-6000  
[tdiluca@hcupaths.com](mailto:tdiluca@hcupaths.com)

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# Accounting / Auditing Update and Golf Outing

**Date:** Thursday, May 26, 2005

**Event:** Accounting / Auditing Update and Golf Outing

**Location:** Paxon Hollow Country Club  
850 Paxon Hollow Road, Media PA

The Program and Education Committee of the Metropolitan Philadelphia Chapter of the Healthcare Financial Management Association is pleased to present the May 2005 **Accounting and Auditing Update**. As is customary with this educational program, we will have the technical session in the morning related to recent accounting and auditing FASB pronouncements as well as discussions related to Executive Risk Liability and also on various types of Gainsharing Arrangements, followed by an afternoon of golf, refreshments, and networking opportunities.

The Program is scheduled for Thursday, May 26, 2005 in the main ballroom at Paxon Hollow Country Club, 850 Paxon Hollow Road, Media, PA. **The program will qualify for three hours of "Accounting & Auditing" C.P.E. credits.**

Attendees are requested to dress casual for this event. Registration is scheduled from 8:15 - 9:00 am. Lunch is included for all attendees and will be served on the patio, overlooking the golf course. Golf will begin with a shotgun start at 1:00 p.m. followed by an open bar cocktail hour and prizes.

The agenda, registration form, and directions to Paxon Hollow Country Club are at <http://www.hfmaphila.org>.

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## Renew Your HFMA Membership Now

If you have not renewed your HFMA membership by now, you will be receiving a final notice to renew your membership. You will be dropped from our membership lists on July 1st if National HFMA does not your renewal in June. Please renew your membership now and continue receiving all the benefits of membership in the coming year. You can renew your membership by going online at [www.hfma.org](http://www.hfma.org) or by mailing the renewal form to National HFMA.

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## HFMA National's On-line Membership Directory

Have you visited HFMA National's On-line Membership Directory lately? Here's the link: [http://www.hfma.org/dual\\_login.cfm](http://www.hfma.org/dual_login.cfm). When you select "HFMA Directory", not only can you search for members of our chapter, you can also search for all of your HFMA colleagues by name, company, and location - regardless of chapter! Using an on-line directory instead of a printed directory ensures that you always have the most up-to-date contact information.

While accessing HFMA National's On-line Membership Directory, you may view your current contact information and make edits to your profile. You can also

view any products you have ordered, events you have registered for, your CPE credits, your Founders points, and more!

It is vital that HFMA has your correct information, so please take a moment to review your record now. By doing so, you will ensure that HFMA continues to provide you with valuable information and insights that further your success.

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## Officers - June 1, 2005 - May 31, 2006

### **President**

#### **Joseph Cunningham, CPA, FHFMA**

Director Hospital Reimbursement  
Thomas Jefferson University Hospital  
601 Walnut St. Suite 930  
Philadelphia, PA 19106  
Phone: 215-503-8440  
Fax: 215-923-6812  
E-mail: joseph.cunningham@mail.tju.edu

### **Vice President – Elect**

#### **Roger Bjorkquist, CPA, FHFMA**

Partner  
Ernst & Young, LLP  
2001 Market Street  
Philadelphia, PA 19103-7096  
Phone: 215-448-5002  
Fax: 215-448-4165  
E-mail: roger.bjorkquist@ey.com

### **Vice President**

#### **John Dugan**

Partner  
Price Waterhouse Coopers  
Two Commerce Square, Suite 1700  
2001 Market Street  
Philadelphia, PA 19103-7042  
Phone: 267-330-2464  
Fax: 267-330-4129  
E-mail: john.k.dugan@us.pwcglobal.com

### **Secretary**

#### **Elizabeth Seeber, CPA, FHFMA**

Associate Director, Business Services  
Abington Memorial Hospital  
1200 Old York Road  
Abington, PA 19001  
Phone: 215-481-5656  
Fax: 215-481-5700  
E-mail: eseeber@amh.org

### **Treasurer**

#### **Anthony J. Scarcelli, Jr., CPA**

Senior Consulting Manager  
IMA Consulting  
43 Webb Road  
Chads Ford, PA 19317  
Phone: 215-669-3988  
Fax: 215-997-7987  
Email: tscarcelli@ima-consulting.com

### **HFMA Directors**

#### **Joseph DeMeo, FHFMA**

Chief Financial Officer  
Phoenixville Hospital  
P.O. Box 987-47  
Valley Forge, PA 19482  
Phone: 610-983-1431  
Fax: 610-983-1488  
E-mail: jmdemeo@yahoo.com

#### **Tony DiLuca**

Principal  
Physician and Tactical Healthcare Services  
756 Haddon Avenue, Suite 300  
Collingswood, NJ 08108-3712  
Phone: 856-671-6000  
Fax: 856-701-5969  
E-mail: tdiluca@hcupaths.com

**Jonathan Ketchum, FHFMA**  
Director, Hospital Finance  
Mercy Health System  
501 S. 54th Street  
Philadelphia, PA 19143-1900  
Phone: 215.748.9321  
Fax: 215.748.9709  
Email: jketcham@mercyhealth.org

**Kevin McPoyle, CPA**  
Director of Internal Audit  
Mercy Health System  
Catholic Healthcare Audit Network  
One West Elm Street, 3rd Floor  
Conshohocken, PA 19428  
Phone: 610-567-6922  
Fax: 610-567-6150  
Email: kmcpoyle@mercyhealth.org

**Joan Moyer, CPA**  
Vice President , Finance  
Strategic - Health Alliance, LLC  
52 Berlin Rd Ste 400  
Cherry Hill, NJ 08034  
Phone: 856-429-3936  
Fax: 856-429-2955  
E-mail: jmmoyer@aol.com

**Joseph Sabatina**  
Senior Manager  
Price WaterhouseCoopers  
Two Commerce Square, Suite 1700  
2001 Market Street  
Philadelphia, PA 19103-7042  
Phone: 267-330-2471  
Fax: 267-330-4129  
E-mail:  
joseph.sabatina@us.pwcglobal.com

**Frank Smith**  
Principal  
McBee Associates, Inc.  
997 Old Eagle School Road  
Suite 205  
Wayne, PA 19087  
Phone: 610.964.9680  
Fax: 610.964.7987  
Email: franksmith@mcbeeassociates.com

**Jean McNeil, MBA**  
Director - Financial Planning  
Thomas Jefferson University Hospital  
601 Walnut St. Suite 930  
Philadelphia, PA 19106  
Phone: 215-503-5741  
Fax: 215-923-6812  
E-mail: jean.mcneil@mail.tju.edu

**P. Douglas Maier, CPA**  
Director Budget & Reimbursement  
North Philadelphia Health System  
Eight & Girard Avenue  
Philadelphia, PA 19122  
Phone: 215-787-2498  
Fax: 215-787-2072  
Email: dmaier@nphs.com

**Michael Rossi, CPA**  
Reimbursement Manager  
University of PA Health System  
3001 Market Street, Suite 320  
Philadelphia, PA 19104-2800  
Phone: 215.662.6335  
Fax: 215.662.7472  
Email: rossim@uphs.upenn.edu

**Ann Meehan Saputelli**  
Director Research Compliance Monitoring  
Univ of Penn School of Medicine  
240 John Morgan Building  
Philadelphia, PA 19104-6055  
Phone: 215-573-3125  
Fax: 215-573-0280  
Email: annms@mail.med.upenn.edu

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## On the National Scene...

The following represents a list of the events and conferences in the upcoming months that are sponsored by HFMA National.

Please visit [http://www.hfma.org/education/national\\_education\\_calendar.htm](http://www.hfma.org/education/national_education_calendar.htm) for more information on these events.

May 11, 2005 Building Successful Hospital/Physician Collaborations

May 17, 2005 Auditing and Monitoring Patient Financial Services to Impact Performance

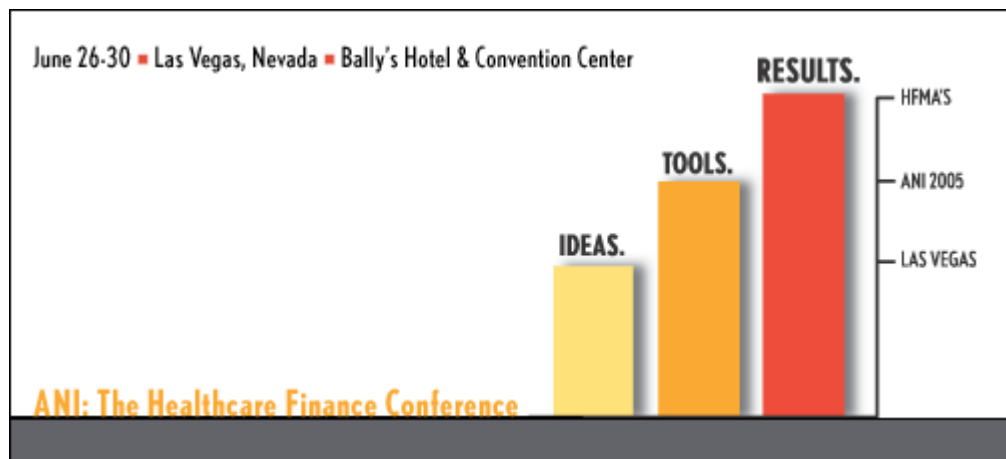
May 19, 2005 Avoiding Profitless Revenue: Techniques to Increase Your Net Revenue in 2005

May 23, 2005 FREE to Forum Members  
Strategies for Setting Sustainable, Defensible Prices

May 24, 2005 The Missing Link: Integrated Reimbursement Modeling

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## ANI: The Healthcare Finance Conference



Come to Las Vegas June 26-30 for HFMA's 2005 Annual National Institute (ANI)! You'll hear from leading healthcare finance professionals who will give you the tools, practical solutions and approaches you need to achieve outstanding financial and operational results. You'll also find plenty of events for networking with your colleagues and sharing your experiences with other healthcare professionals. Remember, what happens in Vegas...can improve your organization's performance!

ANI 2005 topic areas provide a wide range of ideas, tools and results for every facet of your organization. You'll go home with a comprehensive CD-ROM that contains handouts and tools from all six topic areas -- that's complete information from 72 sessions! Print the Full Brochure now!

### Who Should Attend?

CFOs, CEOs, COOs, CIOs, SFEs, PFS directors, revenue cycle officers, financial vice presidents, financial managers, analysts, controllers, home health providers, managed care officers, directors of admission, business office managers, board members, reimbursement staff, compliance team, operations staff, and all other hospital administrators that operate departments.

Visit <http://www.hfma.org/education/ani/index.htm> for more information on ANI.

## Health Care Finance 101 ...

HFMA Region Three Presented Health Care Finance 101: A Program for Financial and Clinical Managers on April 25th. The featured speaker was William J. Ward, Jr., MBA.

Mr. Ward is the director of the MHS Degree Program in Health Finance and Management at the Johns Hopkins University Bloomberg School of Public Health where he teaches accounting and finance. In addition, he is a principal with Healthcare Management Resources, Inc., a Baltimore area consulting firm.

This seminar was of particular interest to chief financial officers, directors of finance, nurse managers, and compliance officers new to the health care field. Clinical staff with finance responsibilities hoping to gain an understanding of the health care finance field may also benefit from the presentation.

Attracting and retaining professional qualified financial and clinical managers to the health care field is critical to the industry. An important step in that process is to provide education to new staff on the unique characteristics of the health care finance environment. Obtaining a firm grounding in the basics of the industry helps the finance and accounting staff better understand and succeed with their daily responsibilities.

The seminar was well attended with over 125 registered from the Region Three area. We would like to thank the following sponsors for their support of this program: McBee Associates, Inc., ARC Group Associates, Parente Randolph, LLC, and PATHS, LLC.





## Past Presidents of the Metropolitan Philadelphia Chapter of HFMA

Photos taken at the Past President's Dinner held in February 2005. The President's Dinner is held annually to recognize individuals that have given their time and efforts to our organization as past Presidents. It is also an opportunity for our future leaders to gain insight from these past Presidents. We would like to thank these individuals for their contributions and accomplishments to the Metropolitan Philadelphia Chapter of HFMA.



(Standing Left to Right): Charles D. Oettle 87-88, Kevin J. Connor, CPA 98-99  
Soon W. Lee, CPA, FHFMA 84-85, Richard I. Bennett 00-01, Mark L. Richards 92-93, Harry  
S. Owens, CPA 90-91, Loretta M. McLaughlin 96-98, Patricia A. Underwood, CPA,  
FHMA 99-00, Thomas G. Donaghue 03-04, Robert J. DeLuca 02-03  
(Sitting Left to Right): Arthur H. Piper 88-89, James W. Heflin 77-78, Paul M. Long, CPA,  
FHFMA 71-72



(Left to Right): Loretta M. McLaughlin 96-98, James W. Heflin 77-78,  
Paul M. Long, CPA, FHFMA 71-72, Patricia A. Underwood, CPA, FHFMA 99-00  
Arthur H. Piper 88-89

## The John Yannacone Scholarship Award

The John Yannacone Scholarship is intended to benefit those outstanding individuals interested in a health care industry career and to aid them in furthering their education in the field. The award is given in memory of John A. Yannacone, a leader in HFMA and the healthcare industry who pursued the advancement of healthcare issues among financial professionals and the community for many years before his untimely death. This year's scholarship award will be given to Andrea Puig. Andrea will be entering the doctorate program at The Wharton School of The University of Pennsylvania in the fall. The following essay was submitted by Andrea Puig.

### ***Reimportation of Pharmaceuticals from Canada: Would it Hurt Canadians?***

#### ***Introduction***

A major challenge for U.S. health care policy is the high price of prescription drugs, especially when compared to similar products in other developed countries. This problem is aggravated by the fact that a high percentage of U.S. prescription costs are not covered by insurance. This burden falls most heavily on the relatively small but politically powerful population of seniors who are without drug coverage. In order to solve this problem, politicians have proposed that reimportation of prescription drugs from Canada be permitted so U.S. consumers can benefit from Canadian price controls. Two issues make this proposal particularly problematic; enacting this policy will have adverse economic consequences on the United States. The proposal also exudes a lack of sympathy by Americans towards Canadians. In this paper, I attempt to address both these issues by explaining why I think reimportation might cause more harm than good for the US economy, and by showing how this policy might severely hurt Canadians.

This paper first reviews some important issues regarding the rationale of pharmaceutical pricing and price differentiation. The paper then analyzes the relationship between Canadian governmental controls on drugs prices and low drug prices in Canada. Given this background, I then examine the current state of reimportation. This is followed by an analysis of the consequences that a reimportation policy from Canada would have for the current prices of pharmaceuticals, the innovation in the industry, and the safety of the population.

### ***Pharmaceutical Pricing and Country Differentials***

The key feature of the pharmaceutical business is the up-front outlay for drug discovery. Recently, it has been estimated that the average cost of obtaining marketing approval for a new product is close to \$802 millions (DiMasi et al., 2003). Thus, it is undeniable that research-based pharmaceuticals entail sizable fixed costs of research and development (R&D) that must be recouped. This R&D cost is a global joint cost which once incurred can benefit consumers worldwide, with relatively modest marginal cost of production (Danzon, 2003). According to Lyebecker, "economic theory holds that the most efficient mechanism for recovering this shared cost is to charge different consumers different prices, based on price sensitivity, to obtain the set of prices that generate revenue sufficient to cover the shared R&D cost as well as the highest level of consumer welfare" (2004). Thus, this differential pricing system (often termed as Ramsey pricing) is based on demand elasticity and will result in a profit maximizing price for pharmaceutical firms at each country.

Supporters of reimportation quite often reject the differential pricing system by arguing that prices in developed countries like Canada are well below what they should be. Therefore, many Americans firmly believe that for well-off Canada, profit-maximizing prices should be closer to American prices in order to share the burden of R&D. In other words, there is a widespread belief that Canada is "free-riding" on the U.S. system. Such accusations however are seldom supported by reliable data and lack sound analysis. To correctly measure the right dimensions of price differential, it is necessary to account for correct currency conversion and income differentials. In a ground-breaking research article published recently in *Health Affairs*, Danzon and Furukawa argued that allegations that drug prices in the U.S. were 67% higher than in Canada might be exaggerated (2003). Danzon and Furukawa show that when "converting foreign currencies at GDP Purchasing Power Parities (PPP's) rather than exchange rates and normalizing for income differentials, the Canada-U.S. price differentials reduces from 33 to 14 percent" (Danzon and Furukawa, 2003).

Furthermore, drug comparisons are usually unfair since they tend to focus on price paid by the general population and not the one available to third-party payers. Consequently, price advantages in Canada are overestimated. In fact, some of Canada's drug benefit programs may also be paying more than a fair price relative to institutional purchasers in the U.S. market. This fact should remind us of the need of perform adequate price comparisons where all payers are taken into account in the right equation.

In sum, drug price differentials between countries reflect the interaction of drug manufacturers and pricing strategies, using income as a rough proxy for demand elasticity (Danzon 2003). Therefore, it should not surprise the American population that Canada, a less wealthy country than the U.S., pay less for pharmaceuticals. In addition, as we will see in the next section, the system of drug price regulation is essential for explaining international price differences.

## ***The Canadian Control on Drug Prices***

With Federal cost sharing and provincial administration, the Canadian Medicare system has provided universal coverage for all medically necessary hospital and physician services since 1971. Although outpatient prescription drugs are not included in this program, Canadian provinces have independently developed a variety of public drug benefit plans over the past three decades. Currently, all provinces provide prescription drugs at little or no cost to virtually all seniors. In addition, some provinces also offer some kind of drug coverage for non-seniors.

The government has a central role in the structure of drug supply and pricing in Canada. According to Morgan et al, "financing 42 percent of national prescription expenditures, the provincial drug benefit plans have the capacity to greatly influence the Canadian pharmaceutical marketplace" (2004). Although some provinces, like Ontario, seek agreements with drug manufacturers, provincial drug plans generally do not negotiate drug prices with suppliers. More frequently provincial drug plans control costs of drugs by the use of formularies. Additionally, the Patented Medicine Prices Review Board (PMPRB) monitors the prices charged by manufacturers of patented medicines to ensure that they are not excessive (Morgan et al. 2003).

Undoubtedly, the Canadian system of drug pricing and supply has been key to control not only drug pricing but also drug expenditures. Any potential change to the U.S. reimportation policy that affects Canadians would have to face a reaction from the federal and provincial governments. It is likely that the Canadian government would use all its political power and means in order to prevent massive reimportation of drugs to the U.S.

### ***Recent Data on Reimportation***

Currently, it is illegal to reimport drugs in to the United States. Although the U.S. enacted a reimportation bill on November 2000, this legislation was never implemented because the Food and Drug Administration (FDA) had several safety concerns regarding the quality of the drugs entering the country. Nevertheless, a significant percentage of Americans has ignored the illegality of importation and has increasingly engaged in this practice. Nowadays, not only are patients physically crossing borders to Canada and Mexico to purchase medications, but the proliferation of Internet access and online pharmacies has enabled reimportation to occur across the country (Dickinson, 2004). In a study by IMS Consulting, the number of prescription drug sales through Internet pharmacies in the third quarter of 2003 increased by 35% (Saatsoglou, 2004). In the same study, the author reports that the combined Internet and foot traffic full-year sales in 2003 were close to \$700 million.

Given the evidence above, it is clear that issues of safety and legality are not slowing down reimportation. Hence, the increasing discomfort of Americans regarding drug prices calls for immediate action. Adequate regulation is urgently needed in some direction, either towards allowing and legalizing reimportation or so as to prevent reimportation from taking place. From a realistic point of view, I doubt that the current trend towards free trade of pharmaceuticals can be stopped. However, this does not mean that reimportation is entirely desirable or that it would not carry significant consequences. In the next section I present some of the most important effects and consequences that reimportation of drugs from Canada already has and will most likely continue to have for both Americans and Canadians.

### ***Consequences: Increased Global Prices***

As reviewed before, the market for pharmaceuticals is characterized by price differences across countries, which reflect distinct demand patterns, as well as differences in governmental regulations and health care policies. However, such price differentials can only be sustained as long as pharmaceutical companies are able to segment the markets. If reimportation barriers from Canada were eliminated, the manufacturing companies would more likely charge a uniform price at least in both countries. In the long run, the tendency would be for prices to rise in Canada rather than decrease in the U.S. Considering that the American drug market is 10 times larger than the Canadian market (Lyebecker, 2004), the logical reaction of manufacturers would be to stop selling at discount prices and forgo the smaller Canada market for the American. If that was the case, then neither Canada, nor the United States would end up saving money from instating this policy.

An alternative solution for manufacturers would be not to increase the Canadian price, but simply to limit the supply of drugs to Canada. In fact, there is some evidence that this practice is already taking place. Lyebecker reports that "GlaxoSmithKline, Pfizer, AstraZeneca, and Wyeth, are electing to limit sales to Canada to curb reimportation" (2004). In addition, manufacturers now are selling their products directly to pharmacies and hospitals instead of going through wholesalers or distributor, so as to allow them to enforce their terms of sale more effectively. Thus, allowing reimportation could lead to an undersupply of drugs in Canada, leaving also none of these drugs available to American consumers. This, of course, would defeat the entire intent of the reimportation policy.

Though perhaps inescapable, reimportation from Canada is not the answer for the increasing prices of pharmaceuticals in the U.S. since this policy cannot force U.S. prices to Canadian levels. In fact, it would work the other way. Congress might then look beyond Canada into other countries, where prices are especially cheap, and try to link U.S. prices to these other countries rather than just Canada. Nonetheless, this tendency toward uniform pricing would unlikely solve the American problem either and would cause other countries, especially, low income countries to suffer.

### ***Consequences: Decreased Innovation***

Prices are the driving force behind reimportation, but they are only part of the problem. Another important issue regarding parallel trade of pharmaceuticals relates to intellectual property. As with patents, parallel imports involve a tradeoff between rewarding innovation and market power (Lyebecker, 2004). The ultimate value of a patent depends on the geographic reach of this protection. Imports may reduce the patent holder's ability to capture returns for R&D thus diminishing the incentive to innovate. Furthermore, many see in reimportation a symbolic crusade in order to diminish what many consider the excessive profits of pharmaceutical companies. However, it is worth noticing that an unintended consequence of sinking profits for pharmaceutical companies via price cutting strategies, such as reimportation, might be a reduced number of new products available worldwide. This issue is of particular importance for countries that value innovation and benefit substantially from research activities, like the United States.

### ***Consequences: Safety***

One of the main concerns about reimportation of pharmaceutical has to

do with the safety of the traded drugs. Given the relative sizes of the U.S. and Canadian markets, it is evident that if reimportation were permitted, Canadian pharmacies would not be able to meet U.S. demand. Thus, even if Americans allowed reimportation only from Canada, many foreign companies would still export to the U.S. using Canadian suppliers. Advocates of importing prescription drugs from Canada into the United States dismiss any safety concerns this may raise, by pointing to the highly regulated approval, supply, and distribution of prescription drugs in Canada. However, as Ward remarks, "drugs either manufactured in Canada or imported from other countries into Canada for exportation are exempted from Canadian regulatory oversight" (Ward 2004).

Safety concerns gain special relevance when drugs are traded from unknown foreign companies using mail orders or the Internet. In the U.S., the FDA has already stated that imported drugs tend not to be safe. For instance, in the summer of 2003, the FDA examined a sample of 1,153 pharmaceutical products that had arrived in U.S. mail facilities. The spot checks revealed that nearly 90% of mail order imported drugs coming into the U.S. were either not FDA approved, contaminated samples, or counterfeit drugs (Sheperd, 2004). Moreover, reimportation can also carry some unintended risks to Canadian patients too. In this regard, Ward warns that "unregulated exports and imports through Internet pharmacies in Canada are making it increasingly difficult to ensure the adequate supply of drug to Canadian patients" Ward 2004). By stressing the Canadian drug supply system, and encouraging the use of unregulated Internet pharmacies, reimportation already poses a significant risk for both Americans and Canadians.

Finally, there is another potential safety concern regarding reimportation of pharmaceuticals from Canada. Despite the similar high manufacturing standards upheld in Canada and the U.S., the assumption that drugs marketed in Canada are identical to those in the United States is flawed. According to Ward, "there are often important differences in formulation and manufacturing processes. Canadian prescription drug labeling and prescribing information are never identical in the United States" (2004). In sum, reimporting drugs from Canada might not only carry economic consequences, but it also might cause medical problems.

### ***Conclusion***

A growing number of U.S. politicians at the municipal, state, and federal level seek to import Canadian prescription drugs to reduce their drug plan costs. Drug prices in Canada are lower than those in the United States primarily due to Canada's government-imposed price controls and income differentials. The magnitude of such price differentials is often exaggerated or incorrectly measured. In any case, the quest for reimportation as a means to reduce price differential and to force Canadians to pay their dues for R&D will unlikely be successful. If reimportation was legalized, my hypothesis is that pharmaceutical companies would adjust the price of pharmaceuticals to some intermediate range between the current Canadian and American prices for prescription drugs. However, since the size of the American market is much larger, the price will more likely resemble the current American price causing only marginal savings to Americans and major additional expenses to Canadians. Considering the power that the Canadian government has regarding pharmaceutical pricing and regulation, the expectation is that Canada would respond to this reimportation policy by refusing to pay for pharmaceuticals. Canadian patients would then suffer an undersupply of drugs and Americans would have not seen any benefit in pushing reimportation.

The reimportation of drugs from Canada is perceived as a means to reduce the rather generous rates of return for pharmaceutical companies. Given the structure of the industry however, I argue that such a policy would harm innovation and would prevent patients, Canadians and Americans, from obtaining new and improved drugs.

Allowing the reimportation of prescription drugs from Canada might further open the door to unsafe products in both countries. Although Canadian and U.S. pharmacies and wholesalers are subject to similar rigorous regulations, it is not clear whether the definition of reimportation would include products of unknown origin (e.g., products imported into Canada from another country). Provenance of a product becomes a serious issue if quality and safety are to be ensured. In order to guarantee the safety of newly reimported drugs, the FDA would have to enhance its activities and invest in new surveillance systems. These investments would do nothing to add to the projected savings that supporters of reimportation promise.

Undoubtedly, the world is moving towards increasing free trade and further globalization. Reimportation of drugs from Canada, seems to me to be some kind of grass-root movement difficult to stop. My forecast is that reimportation from Canada will eventually have to be legalized. However, for the reasons stated above, it seems that the outcome of this policy will harm Canadians rather than solve the problem of seemingly excessive pharmaceutical prices in the U.S. Other ways do reduce price of drugs in the U.S. do exist that will not lead to incurring costs of moving drugs to and from Canada. This, of course, is a subject of a whole different analysis.

### **Referentes**

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## PATIENT FRIENDLY BILLING® Project

### **Explores How Hospitals Can Improve Financial Assistance Policies**

To better serve patients, many hospitals are evaluating their discounting and collections policies and practices for uninsured and underinsured patients. Through a new report, Hospitals Share Insights to Improve Financial Policies for Uninsured and Underinsured Patients, the PATIENT FRIENDLY BILLING® project is sharing knowledge and practical ideas to help hospitals and health systems revise their policies and procedures and implement those revisions quickly and effectively. The report explores seven key questions that hospital leaders find useful when reviewing their financial assistance policies. It also provides tools and practical ideas to help hospitals and health systems revise their policies and procedures and implement those revisions quickly and effectively.

The report was developed through interviews with hospitals and health systems and with input from state hospital associations. The information provided is anecdotal and based on the experiences of the hospitals interviewed for the project. Individual hospitals should use the report and tools within the context of their own institutional and community circumstances.

To download Hospitals Share Insights to Improve Financial Policies for Uninsured and Underinsured Patients: A Report from the Patient Friendly Billing Project, go to [www.hfma.org/pfbwebsite/2005report/2005\\_pfb\\_report.pdf](http://www.hfma.org/pfbwebsite/2005report/2005_pfb_report.pdf).