Incentivizing Drug Use

Healthcare-reform legislation, as currently proposed, will have little impact on the high cost of prescription drugs, experts say. And the price of prescription drugs -- especially newer, specialty drugs -- is skyrocketing. There are steps employers can take, however, to design healthcare programs that lower costs.

By Tom Starner

With prescription-drug costs skyrocketing, employers hoping the proposed healthcare reform legislation might help put the brakes on those costs are likely to be disappointed.

But that doesn't mean rising drug costs can't be contained with the right strategies and policies, say experts.

It won't be easy. One new report from the Government Accountability Office found "extraordinary" price increases for brand-name drug products from 2000 to 2008.

In its report, the GAO found that the number of "extraordinary price increases" each year more than doubled from 2000 to 2008, and most increases ranged between 100 percent and 499 percent. In addition, nearly 90 percent of all brand-name drug products that experienced extraordinary price increases stayed at that price or went even higher.

Drugs that treat depression, infections and heart disease were among those with the highest price increases, according to the GAO. The report also found that some of the prices increased by more than 1,000 percent during the last eight years.

The GAO, which is non-partisan, pins the rise in prices on several causes, including industry consolidation and hikes tacked on by companies that repackage drugs for patients.

The GAO report hits Congress as members attempt to finalize Senate and House versions of legislation aimed at healthcare reform. Some experts say the proposals do not go far enough in forcing the pharmaceutical industry to control skyrocketing drug costs, which, of course, can have a negative impact on employers that pay those costs as part of their annual healthcare tabs.

In June, the pharmaceutical industry made an $80 billion, 10-year pledge with President Barack Obama and Senate Democrats, mainly in the form of annual taxes as well as helping to lower prices for some participants in the Medicare prescription-drug program.

Some critics, however, believe more price increases in the private sector will be needed to make up for those lost dollars.

Mark Merritt, president and CEO of the Pharmaceutical Care Management Association in Washington, says the price increases are largely fueled by the "lack of therapeutically equivalent drugs" and "limited competition" among drugmakers.

The situation underscores the need for policymakers to promote health reform that increases competition and lowers costs, he says.

"History shows that companies -- including drug companies -- raise prices when they don't face competition and lower prices when they do," Merritt says. "That's why consumers have saved literally hundreds of billions of dollars since the Hatch-Waxman law first allowed generic drugs to compete with their brand-name counterparts 26 years ago."

With healthcare reform on center stage, now is the time to take the next step, he says, and allow affordable generics to compete with expensive biotech medicines.

"Health reform can always use more cost controls," he adds. "For example, it's also time to scrap 'protected drug class' laws which protect 'me-too' drugmakers from having to compete with one another in Medicare. These reforms alone would save billions and address the root cause of higher drug costs."

Terry Seligman, president of Navitus Health Solutions, a Wisconsin-based pharmacy-benefits manager, says some of the effort to control costs in prescription drugs in the current healthcare legislation has been "watered down," and that when there were rumors of a public component to healthcare reform, pharmaceutical makers took that as a mandate to hike prices.

"They raised prices though you can't say it was across the board," he says. "Rather, it came in products that have been instrumental in driving up a huge cost increase like we see in the GAO report.

"The price hikes are a way to compensate for a market that has less blockbuster drugs and more generics, so the prices of specialty drugs went up," Seligman says. "Even a 10 to12 percent increase in drug prices, looked at globally, is unconscionable in a year with a poor economy and low inflation."

Without help from healthcare reform, he says, it's critical that employers/payers try to manage specialty drugs to the best of their ability. One way to do that, Seligman says, is by making sure employees are appropriately utilizing prescription drugs, knowing that they are on the right drug for the right period of time and taking it correctly.

Seligman notes that specialty drugs are expensive, as 1 percent to 2 percent of those prescriptions account for 20 percent to 25 percent of overall drug use, and with the vast majority of what's in the drug pipeline being bio drugs or specialty drugs, price increases could get even worse.

"Some of these products are life-saving and great products, and some increase lives for 3 days, but they also are expensive," he says. "We need to make affordable the products that have a real quality of life benefit."

Another way in which employers can work with PBMs to control costs is to determine whether or not an employee could be using a more traditional drug to treat their condition. For example, can ibuprofen work for someone with mild arthritis, rather than using a much more expensive prescription drug?

"Employers should make sure that incentives to use appropriate drugs with lowest net costs are in place with their PBM," he says, adding that emphasizing generic drugs should also be part of any cost-saving prescription drug plan -- as long as the generic drug is proven as effective, of course.

"Employers should demand that their PBM is giving them the lowest net cost alternative that are clinically appropriate for members, and generics should be the first choice," he says. "They also need to make sure they know exactly what they spend on drugs, avoiding hidden costs."

Dr. Mark Fendrick, professor in the Department of Internal Medicine and professor of Health Management and Policy at the

University of Michigan, says there are very few, if any, specifics about cost control for drug prices in the proposed healthcare reform legislation, especially when it comes to innovative new -- and expensive -- drugs.

But, Fendrick says, healthcare is not about cost alone, noting there is "legitimacy" on both sides of the debate about rising prices.

Fendrick is a proponent of value-based insurance design, which is designed to lower costs on the most beneficial drugs and services for those who need them the most.

Fendrick and Harvard economist Michael Chernew created the VBID idea, which Fendrick says can be used to simultaneously address quality improvement and healthcare cost containment, the main -- and elusive -- goals of healthcare reform.

"Cost containment should not be the sole focus of healthcare reform," says Fendrick, who also is co-director of the University of Michigan's Center for Value-Based Insurance Design. "We need to realize that the reason employers provide health insurance and wellness programs is to produce health."

According to Fendrick, benefit-plan designers should consider reversing the rising trend of co-payment increases for services considered to be indicators of high quality care. Moreover, payers desiring to optimize health gains per dollar spent should avoid "across the board" cost sharing, and instead implement the "value-based" design that removes barriers and provides incentives to encourage desired behaviors for patients and providers.

"Almost all of the discussions regarding health reform have focused on the economics," Fendrick says. "If we can create a program that incentivizes individuals and health systems to do the right things, we can guarantee more health for the dollar spent.

"What we find more interesting is not what employer pays, but what the employee pays when it comes to medications," he says. "If you make people pay more, they will buy less and consequently not get the best care. We have raised prices indiscriminately on all drugs, whether they are life savers or ones that don't work very well. That makes little sense."

Going a bit further, he says, while there is distinction between prescription drugs and over-the-counter drugs, there is an unfounded belief that prescription drugs always have more value than nonprescription drugs -- which is not the case.

Fendrick says employers need to provide benefit coverage for drugs that are available over the counter. Some drugs are just as effective, and, in most cases, are less expensive, such as heartburn medication. A leading prescription drug for heartburn may cost $3 a pill, but there are several OTC drugs available for a fraction of the price, as well as "generic" versions (store brand) of the OTC drugs that are even less costly and just as effective.

"The important thing is restoring health to the healthcare-cost debate," Fendrick says. "It's not only about money, but also about value. Employers need to focus on both and they can drive down costs and boost health among their workforce."

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