

Prescription Drugs and Medical Costs: Four Opportunities for Health Plans and Physicians to Make a Difference

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Today's blockbuster drugs entice consumers at every turn – driving up demand and healthcare spending. *"Ask for the purple pill... Find out if the blue diamond is right for you..."*

In an election year, prescription drugs will be a favorite topic for politicians – and for good reason. Just look at the demographics. As our population ages, more people need prescription drugs, yet fewer can afford them. So how do we address these challenges? How do physicians and health plans balance consumer demands for choice and affordability? The following discussion offers four opportunities for health plans and physicians to help meet these challenges in the coming years.

As the state's largest health insurer, Blue Cross and Blue Shield of North Carolina receives over \$800 million in prescription drug claims each year. Clearly, prescription drug costs are a major concern for us and our customers.

While the advent of new drug therapies has resulted in dramatic increases in healthcare spending, the increased use of pharmaceuticals has revolutionized medical treatment, and in many cases reduced the need for hospitalization. For example, drugs for peptic ulcers and reflux disease have virtually eliminated the need for certain gastric surgeries.

Asthma is another good example. Asthma continues to be a leading cause of hospitalizations and emergency room visits. In a North Carolina Medicaid study, asthma patients taking inhaled corticosteroid therapy had a 50% decrease in hospitalizations and a 26% decrease in outpatient visits compared with a control group. In addition, since medication is more cost-effective than hospitalization, the group taking the inhaled corticosteroids reduced total monthly healthcare costs by 24% per patient per month.¹ For these reasons, it's in everyone's interest to make sure patients with chronic illnesses get and use the medications they need.

Blue Cross and Blue Shield of North Carolina and other health plans offer a host of programs to help patients with chronic conditions like asthma, diabetes and many others. These programs offer valuable information, support and services to patients. We would like to see physicians encourage more patients to take advantage of these programs.

Opportunity 1: Health plans and physicians should work

together to encourage more patients to participate in disease management and health improvement programs. These programs help make sure patients get the care they need and use their medications properly. That means lower overall medical costs and a better quality of life for the patient.

One factor that impacts affordability is the elasticity of demand for certain prescription drugs. Depending on the medical condition being treated, the market demand for drugs can be both elastic and inelastic. The market for drugs viewed as necessary and life-sustaining is inelastic. However, the market for prescriptions viewed as discretionary is much more elastic. Use of these drugs is highly dependent on the out-of-pocket cost.

In a recent analysis conducted by Medco Health Solutions, a pharmacy benefit management company, the ratio of drug users per eligible members was analyzed by several therapeutic categories and on various benefit plan structures. For conditions like diabetes and high cholesterol, the market was inelastic, and the ratio of users per eligible member was largely unchanged among benefit plans with higher copayments vs. lower copayments. For other conditions, like allergies, the ratio of users per eligible member varied widely. Utilization for these conditions was much higher in benefit plans with lower copayments. In high copayment plans, the utilization decreased dramatically.² This analysis is one of many that demonstrate that in certain disease states, the market for pharmaceuticals is elastic, and the utilization is largely dependent on the price to the user.

Thus, it is important for patients to have support from their physicians and their health plans so they can understand their options for prescription medicines. That includes both the cost of the member's copay, and the total cost of the drug – which most members never see.

Opportunity 2: Health plans and physicians should work together to help patients consider true costs when making decisions on prescription medicines.

Another factor that remains front and center in the prescription drug debate is the impact of direct-to-consumer (DTC) advertising. Clearly this practice has increased consumer awareness and demand for advertised drugs. According to the 2003 DTC

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Monitor™, 23% of consumers call or visit their physicians as a result of seeing a DTC ad in the media. Of patients who do contact their physicians, 47% specifically request the brand they see advertised, and physicians comply with 74% of those requests. These 2003 results are increased from the same time period in 2002.³

Drug advertising is a widely known contributor to the cost equation, but there is another more significant driver that gets far less attention. To provide some perspective, pharmaceutical companies spent almost \$3 billion in 2001 on consumer advertising. Those same companies spent \$18.5 billion on direct-to-physician promotion – over six times what was paid to reach consumers. Over half of this amount was spent on drug samples for provider offices, while the remainder was used on drug detailing efforts through the use of drug representatives, and medical journal advertising.⁴

Physician promotional efforts are extremely effective at increasing awareness of newly marketed medications and influencing prescribing habits. The same drugs that have large DTC advertising budgets also have large physician promotional budgets. In fact, for 58% of the DTC-driven discussions mentioned above, the physician writes a prescription or provides a sample supply for the advertised brand—whether or not the patient directly asks for the product.⁵ Gradually, some physicians are starting to evaluate the impact of this direct intervention by drug companies. Some have even begun to limit their contact with drug representatives.

Opportunity 3: More physicians should take the opportunity to evaluate their relationships with drug companies and foster those contacts that provide the best information and value for patients.

Generic drugs are another important component of the drug pricing equation. At Blue Cross and Blue Shield of North Carolina, we have seen a significant increase in the prescribing and use of generic drugs in 2003. This increase is driven by several factors, including our efforts to educate our members about generic drugs and several recent patent expirations for popular brand-name drugs. Our generic dispensing rate, which represents the percentage of all prescriptions that was dispensed as generic, has increased by seven percent in 2003 to a total of 43 percent. In addition, among our membership, 93 percent of drugs that can be dispensed as generic are in fact being filled as generic.⁶

Generic drugs represent a great bargain to patients – but they also generate significant profits for virtually all the companies along the distribution chain, from manufacturers to wholesalers

to pharmacies. A recent *New York Times* article said that large manufacturers of generic drugs make a profit before taxes of more than 20 cents on every dollar of sales when they obtain exclusive rights to a newly available generic drug. These margins, however, often dip below 20 cents per dollar of sales when they lose exclusive rights to market a generic medicine.⁷

The companies that are responsible for distribution of generic drugs often find them more lucrative than brand-name drugs. The same *New York Times* article said that the three largest wholesalers often mark up generic drugs 10 percent to 15 percent, compared with a typical five percent markup on brand-name drugs. Retail pharmacies also earn a healthy profit margin on generic drugs, with significant mark-ups from the wholesale prices.⁸

Generic drugs still offer health plans, their members and consumers significant savings compared to brand name drugs. Multiple manufacturers and significant price competition allow health plans to negotiate greater discounts for selected generic medications. In this way, health plans are able to pass generic savings along to members and employer groups by charging lower copays for generics to keep the prescription drug benefit more affordable.

For Blue Cross and Blue Shield of North Carolina, this approach to reimbursement – along with a strong generic education program – helps lower out-of-pocket costs for our members and reduces our overall medical spending.

Opportunity 4: Physicians and health plans should continue their partnership to encourage the use of generic drugs where appropriate.

Prescription drugs pose important policy considerations for our communities, our state and our nation. Policymakers at all levels are looking for solutions to make affordable drugs accessible to those who need them. Health plans continue to look for ways to keep prescription drug benefits affordable for their customers.

As we all look at potential solutions, it is critical that we understand the benefits – and potential unintended consequences – of any policy decision. This is a complex issue that is not going to be resolved overnight. The one way we know we can make a difference is to support patients in making good, informed decisions about their health – including their use of prescription medicines. Health plans and physicians must continue to work together to support informed decision-making. Meanwhile, everyone should watch the public policy arena closely in the coming months.

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