



Spending More on Drugs



By David J. Gibson, MD

The United States should - and inevitably will - be paying at least twice as much for drugs. The bad news is the likely source of those dollars.

A POPULAR PERCEPTION, belied by actual statistics, is that America spends too much for pharmaceuticals. We are inundated daily with reports of their runaway costs. Prescription drug expenditures are at an all-time high, with retail drug costs more than doubling from 1992 to 1999, the most current data available.

From 1992 to 1997, the number of retail prescriptions dispensed in the United States grew 23 percent, in 1998 by another 5 percent and in 1999 another 8 percent. Total pharmaceutical expenditures have now reached \$135 billion per year. **Figure 1** projects this trend over the next six years. As a result, the pharmacy benefit within group health insurance products now exceeds a compounded 15 percent annual growth rate.

Current projections show that employers will continue to face double-digit premium hikes, with prescription drug costs serving as the biggest driver of increased costs.¹ Predictably, employers are restive and are considering dropping their pharmaceutical benefit.

In response, HMOs have erected costly and uniformly ineffective cost containment strategies. Their prior authorization requirement is expensive and labor-intensive. Many plans quote costs of \$10 to \$25 per authorization request, with more than 80 percent of requests being approved. Upon review at six months, the approval rate approaches 100 percent.

Pharmacy's role in health care

In reality, an employer-sponsored group health insurance product without a pharmacy benefit is a shortsighted and non-viable option. Drug therapy is now the cornerstone of modern medicine. It is the primary mode of treatment for over 85 percent of conditions that would otherwise result in hospitalization of the patient.

Employers generally under-estimate costs of employee health conditions by as much as 80 percent, by overlooking disability absences and lost productivity. From this broader perspective, medical treatment costs comprise less than 20 percent of what employers spend on health-related costs.

Lost productivity, or the cost of replacement staff for employees absent from work due to short-term disability, account for the remaining 80 percent of the total cost.² In reality, strategies that optimize employee productivity through access to adequate medical care best serve the goals of the employer in reducing overall employee costs. Adequate medical care dictates access to pharmaceuticals.

What should we spend?

One of the biggest problems facing the healthcare system today is patient non-compliance with treatment. Approximately 50 percent of prescriptions written for chronic disease states are never picked up and over 66 percent of patients fail to comply with their doctors' orders to take

medications.³

Poor compliance is a leading cause of failed medical treatment. Even skilled professionals often miss detecting it in treatment failures. Poor compliance occurs in virtually all fields of medical care, including organ transplant management, oral contraception, hormonal blockade to prevent recurrent breast cancer, anti-viral treatment of AIDS, and blinding glaucoma - fields where many assume that strong motivation would ensure good compliance.⁴

Patients who poorly comply substantially under-spend on prescription drugs. They tend to delay prescription refills, are predisposed to early discontinuation of medicines intended for life-long use, and incur costly medical complications that could be avoided by correctly taking prescribed drugs. Pharmaceutical products that can reliably minimize these problems have a substantial unrealized market potential.

The annual cost of pharmaceutical noncompliance by patients in the United States is well documented.⁵ Included are the financial cost of deaths, workdays lost, hospital and nursing home admissions, and the cost to treat the resulting adverse drug reactions. These costs are conservatively estimated at \$100 billion or more per year in the United States.⁶

How much should America allocate for pharmaceuticals in its health care system? A conservative answer: at least twice the amount now spent. With current spending for pharmaceuticals in the U.S. at more than \$135 billion,⁷ that represents a current underpayment of \$135 billion per year. With compliance rates of 50 percent or less and the cost to treat result

ing complications exceeding \$100 billion per year, this is not a difficult proposition to advocate.

A Dose of Reality

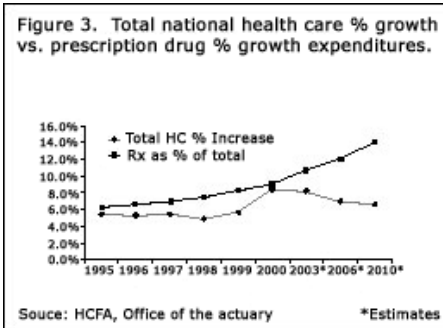
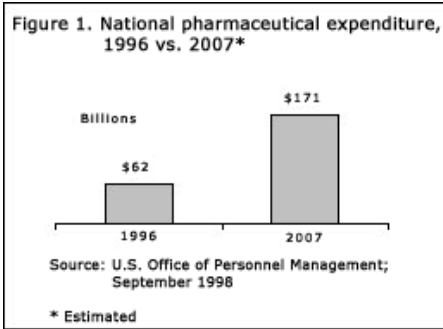
In reality, the inflationary trend for pharmaceuticals in health care represents a primal market self-correcting force. This trend cannot be moderated by current or yet unconceived insurance company cost containment efforts. Even though spending increases for pharmaceuticals in the U.S. outstrips hospital and physician spending growth by 4-5 times, the role of pharmaceuticals in the U.S. is still relatively small compared to European and Japanese systems (see **Figure 2**).

Until the U.S. health care system brings its resource allocation into conformity with other leading industrial economies, the inflationary trend for pharmaceuticals will continue unabated. Thus, it is reasonable to assume that the current spending level of 10 percent will continue to increase, until it reaches its natural level of 15 to 20 percent for overall health care resource allocation.

This is without factoring in the costs for genetics, biologicals and biopharmaceuticals on the horizon. These agents will drive the costs associated with pharmaceuticals even higher. **Figure 3** provides a glimpse into the future. It shows the predicted percent increase in spending for pharmaceuticals vs. total national health care spending, projected out to the year 2010.

From the perspective of relative health care spending allocation, two inescapable realities become apparent. First, America does not need to increase projected total health care spending. We spent \$1.2 trillion (13.6 percent of the Gross Domestic Product, or GDP) in 1999. Spending will continue to grow through 2008, at an average rate of 6.8 percent annually, and will reach \$2.2 trillion (16.2 percent of the GDP).

The second reality is more unpleasant for health care service providers to contemplate. Current trends dictate that we will accommodate the growth in spending for pharmaceuticals by decreasing the percentage of resources we currently allocate to pay for medical services. Redistributing current spending in health care will generate the \$135 billion in increased pharmaceutical spending over the next few years.



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