Drug Costs and Development Series, Part II

Protect Your
from the Crush of

By Ted Pigeon, Associate Editor
Patients
Rising Drug Costs

Pharmaceutical companies get the blame for rising costs of prescription drugs, but big pharmacy chains may be compounding the problem.

As the country grapples with the Medicare prescription program taking effect this year, doctors and patients continue to question its benefits. The new initiative seeks to help patients pay for medications, but it does little to counter ever-escalating prices of prescription drugs. In last month’s entry in our Drug Costs and Development Series, experts weighed in on the drug development and FDA review processes, identifying several associated problems regarding drug availability and apparent biases against certain specialties. While climbing drug prices to an extent reflect high research and development costs, they alone do not account for the rising costs patients—and their doctors—have to deal with. From some extravagant marketing campaigns to pharmacy price-fixing schemes, this final installment in the series explores various factors that contribute to high costs for patients and tries to uncover ways to counteract them.

Those not convinced that drug prices are becoming exorbitant might consider data from the National Association of Chain Drug Stores (NACDS) that show the average cost patients pay for brand name and generic prescription drugs has more than doubled in roughly a decade. In 1993, the average cost of a generic prescription drug was $12.82, and the average cost for a brand name drug was $35.28. In 2003, the average generic cost jumped to $30.58, while brand name drugs cost $83.66 on average. Based on most recent data (2004), the average cost of generic prescription drugs declined slightly (to $28.74), while the cost of brand name drugs further escalated to $96.01. Certainly, some increase is natural due to inflation. A report from AARP (www.aarp.org) confirms that generic drug prices are rising only slightly, while brand name prescription drugs are climbing drastically, at a pace much higher than that of general inflation.

Ethical Debate
The healthcare “industry” arose from a societal need to cure and prevent illness. In an ideal world, a patient with a health issue sees a doctor who, based on her or his medical knowledge, prescribes a treatment that best suits the patient’s needs and his or her illness. But the process is hardly so simple. The healthcare industry also emerged to make a profit. Where there is a need for profit there is a market. And where there is a market, inevitably, there is advertising. Today, drug advertisements are everywhere—on television, in magazines, on pens and pads of paper, jackets, umbrellas, and billboards—and patients and doctors cannot help but be influenced by them. Direct-to-consumer ads seem more prevalent than ever before. Doctors are targets of print advertisements in medical publications such as this, as well as in their own practices via communication from pharmaceutical companies and drug reps.

“The medical industry as a whole is market-driven, that cannot be changed,” observes Michael A. Glueck, MD, of Newport Beach, CA, who writes extensively on medical, legal, disability, mental health reform, and allied issues locally and nationally. “If the current advertising blitz contributes too much to the cost of medication, that is a legitimate patient complaint,” he says.

When it comes to rising drug costs, however, Dr. Glueck counters the tendency to point fingers at pharmaceutical companies, noting that the issue is complicated. “The increase in drug costs partly reflects the rising costs of research and development,” he notes. “When you consider inflation plus the cost of developing new drugs, current prices may not be that unreasonable,” he explains. “For example, if I develop a serious or fatal illness, coronary or stroke, it would be preferable to have the latest and/or best medications. If drug companies can’t
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“Rack-Rates” & Co-Pay Woes

Ironically, the impact of pharmacy price-setting is worse for patients with minimal or no health coverage. Joseph Jorizzo, MD points out that hospitals used to charge a “rack rate”—a practice many pharmacies have now adopted. This essentially means charging a higher rate for people with no insurance; the uninsured are being charged the most for drugs, and paying out-of-pocket. The insured aren’t off the hook, either. Sometimes, a patient’s co-pay is actually higher than the cost of the drug (consider the cost of a generic antibiotic). Yet many pharmacies will not allow the patient to purchase the drug outside their plan, forcing them to pay a cost potentially much higher than the actual price of the drug.

recoup their R&D investments/expenditures, new drugs would not be available.” If this were the only factor, the rise in prices would be understandable and perhaps deemed worthy. However, Dr. Glueck acknowledges that increased marketing has clouded the issue.

The amount of money drug companies spend on direct-to-consumer marketing is steadily increasing, despite recent guidelines from the Pharmaceutical Research and Manufacturers of America (PhRMA) meant to limit direct-to-consumer ads. According to figures from TNS Media Intelligence reported in a recent article from CNN, the drug industry spent $2.94 billion on DTC advertising through August 2005, slightly more than the $2.88 billion spent during the same period the previous year.

The FDA also recently has shown interest in DTC ads and held forums about it. However, some maintain that direct-to-consumer advertising may actually have a positive effect. As Dr. Glueck says, it educates the patient and keeps doctors “on their toes.” Others speculate that direct-to-consumer ads are aimed not at educating patients or even selling a specific product, but instead at selling patients on the disease itself (i.e., creating diseases and thereby creating a market).

Direct to Doctor Advertising

Then, of course, there is marketing aimed at doctors, a matter that has been equally contested. Perhaps the longest-standing form of marketing to physicians is drug sampling. Ethically, detractors say, the practice of sampling may invite bias, something that doctors avoid. Sampling, like other forms of “direct-to-doctor” advertising could taint objectivity, though many clinicians attach important patient benefits to sampling.

A recent study published in the American Journal of Medicine examines the possible influence of sampling on physician practice. “There is a lot of opinion in published literature, but we could not find a good randomized controlled trial, which is why we decided to conduct one,” says one of the study’s chief investigators, Richard Adair, MD, from the University of Minnesota and Abbott Northwestern Hospital. He notes, “There was conflict about whether to keep the sample cabinet in a teaching setting, specifically regarding the benefit sampling is to indigent patients versus sampling as an inappropriate means for residents to learn about new drugs.”

The study found that access to drug samples in the clinic influences resident prescribing decisions, which may affect resident education. “To my knowledge, no one has expressed surprise at our findings,” Dr. Adair says. “We need to make sure that doctors in training understand the reality of how patients behave and commit to keeping costs down in every way possible…Doctors are just as susceptible to marketing as other human beings, despite our general proclivity to think we can ignore marketing and do what’s best for our patients,” he says.

For dermatologists, however, sampling may have strong benefits, says Joseph Jorizzo, MD, Professor, Former and Founding Chair of Dermatology at Wake Forest University. “Because there are so few molecules in our specialty, samples allow doctors and patients to familiarize themselves with new and potentially exciting medications,” he says. Access to samples may cut costs to patients and increase compliance. Dr. Jorizzo points out that sampling may have an adverse effect in other specialties, where there are new formulations coming out all the time.

Of course, some companies have used (or continue to use) well-known and more overt marketing strategies. In recent years, PhRMA has set guidelines for pharmaceutical companies’ interactions with physicians. Gone are vacations, free meals, and various other perks offered to doctors in attempts to push a new drug. Instead, the most recent PhRMA guidelines emphasize educational programs and materials as well as promotional items that can be used in practice. Some funds appear to have been diverted toward more education-based promotions.

Still, some doctors are pushing for even more, calling for all marketing towards doctors to stop. In a recent issue of the
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Journal of the American Medical Association, a working group called the relationship between the industry and physicians a crisis that potentially threatens medical professionals’ integrity and the welfare of patients. The 11-member group points out that because the average amount spent per doctor by pharmaceutical companies is almost $13,000, the abolition of gifts and payments to physicians by drug companies could ultimately reduce the costs of drugs.

This small but vocal group is not the only one among doctors calling to abolish advertising to doctors. No Free Lunch (www.nofreelunch.org) believes that pharmaceutical promotion should not guide clinical practice. According to the website, the group’s mission is to “encourage health care providers to practice medicine on the basis of scientific evidence rather than on pharmaceutical promotion.” The website contains advice for doctors, readings, studies, and general information about pharmaceutical promotion, why it should be stopped, and what doctors can do to help.

The NFL and the Little Pill Blues

Is the tide turning against consumer advertising? The NFL recently announced plans to stop advertising erectile dysfunction drugs during game telecasts next season. ED drugs have been among the biggest direct-to-consumer advertisers in recent years, and the spots have certainly caught the attention of the public. Time will tell if this marks a change in TV drug ads and subsequently affects the escalating prices that pharmaceutical companies spend on patient-focused marketing.
Though the PhRMA guidelines for interaction are voluntary, the majority of companies seem to comply—perhaps, Dr. Jorizzo suggests, funneling the money from those budgets toward consumer advertising.

Wearing the White Hat
It may be impossible to gauge how much of the rising costs of drugs can be attributed to the money major pharmaceutical companies spend on drug marketing. A lesser known but arguably more important factor in the straining relationship between patients and the drug industry is the crucial role of pharmacies. As doctors have pointed out, blaming pharmaceutical companies for the rise in drug prices is too simple a solution to a very complicated problem.

“Pharmacists at big chain pharmacies such as CVS and Walgreens are given a white hat by the media,” Dr. Jorizzo says, noting that while pharmaceutical companies and physicians are demonized, the positive image of pharmacies gives them power. There are scattered reports in the media about big pharmacies and their tendency to profit off of generic drug sales. What few reports mention, Dr. Jorizzo notes, is that many of the chain pharmacies are marking up generic drugs to sometimes 20 times more than what they actually cost. As a result, pharmaceutical companies, notably smaller specialty companies such as those serving dermatology, are suffering enormously.

“Big pharmacy chains mark up generic drugs such as the isotretinoin generic formulations to as little as five percent below the price of Accutane, when in reality the generic formulation costs much less than that,” Dr. Jorizzo explains. Comparing the price of a brand-name drug to the cost of generic formulations, patients see that they save on the out-of-pocket payment for the cheaper formulation, but in reality, they aren’t “saving” anything; they are overpaying. With the greater profit margin attached, pharmacies are often incentivized to sell generic formulations as opposed to brand-name drugs.

Big pharmacies have national formularies of drugs: lists of (mostly) generic drugs that they will profit most by selling. “Because of major profit involved with generics, pharmacy chains are shifting their focus to generic drugs, and pharmacists are incentivized to use drugs on their own formulary instead of brand name drugs,” Dr. Jorizzo says. “Pharmacists will often tell customers that the drug they were prescribed is ‘no longer being made,’ when in fact it is; it is just not on the formulary and that pharmacy is not making any money from selling it, but their approach makes the doctor look foolish.” As patent losses on big drugs keep adding up, pharmacies will continue to profit immensely from the sale of generics.

Clearly, ethical issues come to mind when discussing formularies and incentives. But because pharmacists are often labeled as unbiased, trustworthy, and good, incentives and formularies go largely unnoticed. This, Dr. Jorizzo says, is a serious misuse of power.

The Dermatologist’s Perspective
The new Medicare prescription coverage may make it even more difficult for pharmacies to profit from brand name prescription drugs, making the profits from the sale of generic drugs more important to them. At the same time, patients may increasingly seek out “money saving” generics. All this while the cost of name brand drugs continues to climb.

“Within the first three months that a generic drug is on the market, the profit that a drug company makes from their brand-name drug or innovator drops 80 percent,” Dr. Jorizzo notes. “The drug company therefore must attempt to recoup its investment over the short period of time they have exclusivity of a drug, and usually the only way to do that is to raise the price.”

Plus, pharmacists may treat dermatology differently than other, “bigger” specialties, such as cardiology or oncology, Dr. Jorizzo suggests. After all, when dealing with a topical medication for “skin disease” pharmacists might give less thought to the generic substitution, even if it is a different molecule and patients think that they are saving money. But this overlooks the science. “Brand-name formulations such as Duac and Benzaclin, for example, are carefully formulated products that have extensive data showing their stability and effectiveness, as opposed to generic clindamycin and over-the-count-

Save On Generics at Wholesale Clubs
To help patients get around drastic price mark-ups at large national chains, consider sending them to one of the nation’s wholesale clubs, such as Sam’s Club or Costco. Their generic drug prices are generally considerably cheaper than those at CVS and Walgreens, says Dr. Jorizzo, who recommends that doctors educate patients about this option. Not only will it help demonstrate how “big pharmacy” chains are over-pricing, but it will provide patients with an alternative so they aren’t paying so much.

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er benzoyl peroxide, which the patient is told to mix themselves,” Dr. Jorizzo says. “This is not an allowed substitution from a regulatory standpoint, but it happens all the time.”

**No Easy Fix**
Coupled with the fact that escalating caution within the FDA review process already disadvantages dermatology, the decrease in brand name drug sales and rise in development costs may greatly affect the well-being of the specialty. Dermatology as a specialty must keep pace with drug development so that there are new drugs available for the future, Dr. Jorizzo stresses, but the phenomenon reviewed above is not moving things in the right direction.

It will be difficult to turn things around, especially since the media often portray pharmacies so positively and the pharmacy lobby is powerful. Both Dr. Jorizzo and Dr. Glueck point out that it’s simply too easy to place all of the blame on the pharmaceutical companies. The fact that they continue to spend more and more on marketing isn’t helping their detractors, or the general public, see the larger scope of the problem.

The best thing a doctor can do is to educate her or his patients and raise awareness about the issue, Dr. Jorizzo suggests. This will raise consciousness nationally and help empower patients so they are not simply at the mercy of the pharmacist when they fill their prescriptions. Well informed patients that are made active participants in their own care can then ensure that they receive the medication they were prescribed, while doctors can also follow-up as needed.

American business has a tendency to seek to reduce individuals to consumers in every aspect of their lives. The millions of dollars spent on marketing and the millions made by mega-pharmacy chains would suggest the healthcare industry is no different. As physicians know, patients are not truly “consumers” in any traditional sense of the word. Most would agree that pharmacies and pharmaceutical companies are entitled to make a profit, but patients are also entitled to receive the best treatments available, and equally important, to receive fair, unbiased, honest information about their own health. That standard applies not just to doctors who take an oath to patients, but to the drug companies and pharmacists who, despite the absence of an official promise, have no less of a responsibility to them.

1. money.cnn.com/2005/10/31/news/fortune500/dtc