

# PHARMACEUTICAL DRUGS: AN EVIDENCE-BASED AGENDA

A Policy Brief by the Center for State Innovation

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## DISCUSSION

Prescription drugs are one of the fastest growing pieces of overall health care costs. According to the Kaiser Family Foundation, between 1990 and 2005 spending on pharmaceuticals increased almost 500%. While some of this growth has been fueled by increased utilization of pharmaceuticals, drug prices increased approximately 7.5 percent annually in the period between 1994 and 2005. These cost increases limit consumer access to drugs, increase the cost of health insurance and increase state expenditures on public health care programs.

While the pharmaceutical industry insists that costs are being driven by research and development expenditures, a report by Families USA found that the top seven grossing pharmaceutical companies used more revenue for advertising, marketing, and administrative functions than on research and development.

State policy should promote effective medications whether they are patented name brand products or generic alternatives, but drug companies tend to promote their more expensive patented products. Many times cheaper generic alternatives are just as effective. To ensure the use of the most cost-effective and therapeutically appropriate drugs states can follow this three point agenda:

- Create evidence based preferred drug lists or formularies to promote effective medications.
- Create academic detailing programs to offer doctors unbiased information on drug performance.
- Regulate the gifts doctors receive from drug company representatives.

Effective management of state pharmaceutical benefits and regulation of pharmaceutical marketing practices can lead to higher quality care, greater use of generic drugs and lower state health care costs.

### ***Evidence Based Formularies***

Individual drugs typically enjoy 15 years of patent protection, and the de facto monopoly enjoyed by patented medications creates huge profits for pharmaceutical companies. Because patent protection bestows such significant profit margins, the market encourages the production and promotion of new and unique drugs whether their performance exceeds existing products or not.

Evidence-based formularies, or preferred drug lists, promote the use of the most effective drug interventions in each therapeutic class based on research by an objective third-party evaluator. Formularies promote the use of designated drugs by requiring higher patient cost sharing for non-preferred drugs, or by requiring written prior authorization for drugs not on the formulary. Evidence based formularies promote the use of cheaper generic drugs where therapeutically appropriate, and have been shown to lower expenditures in public health care programs.

## About CSI

The Center for State Innovation (CSI) believes every state can achieve shared prosperity, environmental sustainability, and efficient democratic government. We offer evidence-based, outcome-measured, fiscally prudent strategies for doing so.

A non-partisan, not-for-profit institution, CSI provides many types of assistance to state executives interested in implementing progressive policies.

To learn about CSI's Policy Briefings, Strategy Academies, and other services offered at no cost, visit [www.stateinnovation.org](http://www.stateinnovation.org).



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### Academic Detailing

Pharmaceutical companies invest exorbitant amounts of money into marketing and promoting their patented products. A study by Marc-André Gagnon and Joel Lexchin estimates that by 2004, the industry was spending \$57.5 million per year on marketing and advertising. A Families USA study found that the top seven grossing pharmaceutical firms in the United States spent an average of 32 percent of their revenues on marketing, advertising and administrative costs.

Academic detailing programs pay medical experts, normally based in Universities, to consult with doctors to provide objective information about pharmaceutical performance. Arkansas, New Hampshire, Vermont and Pennsylvania have all piloted some form of academic detailing program. Studies of these programs suggest that they result in reduced medical costs and reduced use of over-prescribed drugs.

### Regulation

Most drug marketing activities target health care providers. A 2004 National Health Policy Forum paper found that more than 80 percent of marketing dollars are used to lobby physicians, pharmacists and managed care entities. Amongst the tools pharmaceutical companies use to influence behavior are gifts, meals, and direct funding of continuing medical education programs. A 2000 Journal of the American Medical Association article on these practices found that they have a largely negative effect on physician behavior. Doctors subjected to such tactics tend to know less about the negative effects of marketed medications, tend to prescribe marketed drugs more often and prescribe fewer generic drugs.

Among the regulatory options available to states are:

- Gift bans
- Firmer regulation of pharmaceutical rep activities
- Requiring disclosure of drug company marketing activities
- Restricting the use of prescription records to target marketing towards specific doctors
- Ensuring that pharmaceutical firm contributions to continuing medical education are handled through a third party foundation to ensure that drug company interests do not bias the curriculum.

### Generic Drugs

Generic Drugs - when patent protection expires and generic competitors enter the market, drug prices tend to drop precipitously.

- Prices drop 6 percent with one generic competitor.
- Prices drop 78 percent with 10 generic analogues on the market..
- There is no evidence that these generics are any less effective than their name brand equivalents.

Source: Kaiser Family Foundation

## COSTS

*Evidence Based Formularies:* In a National Academy of State Health Policy survey of six states using some form of evidence based formulary, all six states reported that they had contained pharmaceutical costs in their public health programs without affecting patient health outcomes.

*Academic Detailing:* A Community Catalyst study examining academic detailing programs in Arkansas, New Hampshire, Vermont and the District of Columbia found that states saved \$2 on Medicaid for every \$1 they invested in an academic detailing program. In Australia, the National Prescription Service academic detailing program has saved an estimated \$324 million (Australian) since its inception in 1997.

*Increased Regulation of Pharmaceutical Marketing Practices:* While it is difficult to assess the savings associated with increased regulation of pharmaceutical marketing, there is no question that drug company practices increase the use of more costly name brand products at the expense of cheaper generics.

## PUBLIC PERCEPTION

According to a Kaiser Family Foundation survey, 70 percent of Americans believe that drug companies place more emphasis on profits than on helping people. 74 percent believe that pharmaceutical companies make too much profit and 79 percent believe that the cost of drugs is unreasonable (see chart).

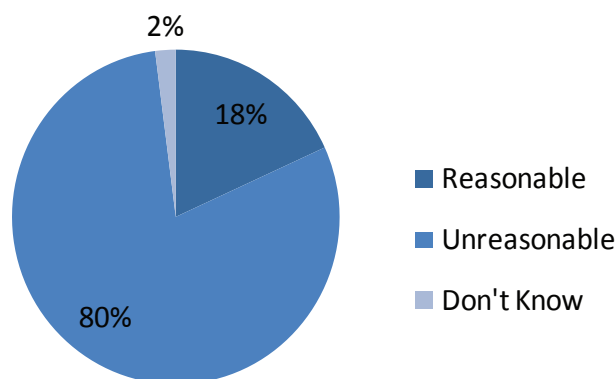
Nevertheless, the overall perception of the pharmaceutical industry remains relatively favorable. Forty-seven percent of Americans have a favorable view of pharmaceutical companies with only 44 percent holding an unfavorable perception. For the drug industry, this is a slight improvement over 2005 when only 44 percent of those surveyed had a favorable view of pharmaceutical companies compared to 50 percent who viewed them unfavorably.

According to a 2005 Center for Public Integrity article, the pharmaceutical industry spent \$675 million on federal and state lobbying between 1999 and 2005, more than any other US industry.

Given the massive lobbying effort by the industry, and the somewhat ambivalent public view of drug companies, reform of state pharmaceutical policies remains challenging. Nevertheless, a strong majority of Americans believes pharmaceutical profits to be exorbitant. If reform is strongly tied to the cost of medications, it stands a better chance of retaining strong public support.

### CHART

#### In general, do you think the cost of prescription drugs is reasonable or unreasonable?



## TALKING POINTS

***Aren't pharmaceutical representative interactions with doctors one of the only ways for physicians to get information about new drugs?***

A well structured state academic detailing program would be a great improvement over the way physicians currently receive information about pharmaceutical products. An article in the Journal of the American Medical Association found that doctors who receive information through contacts with pharmaceutical reps tend to know less about the negative effects of marketed medications. Academic detailing has been found to be an effective tool for continuing medical education and has a significant impact on health.

***Don't most pharmaceutical revenues go right back into research and development? Won't we slow the pace of innovation if we artificially lower drug prices?***

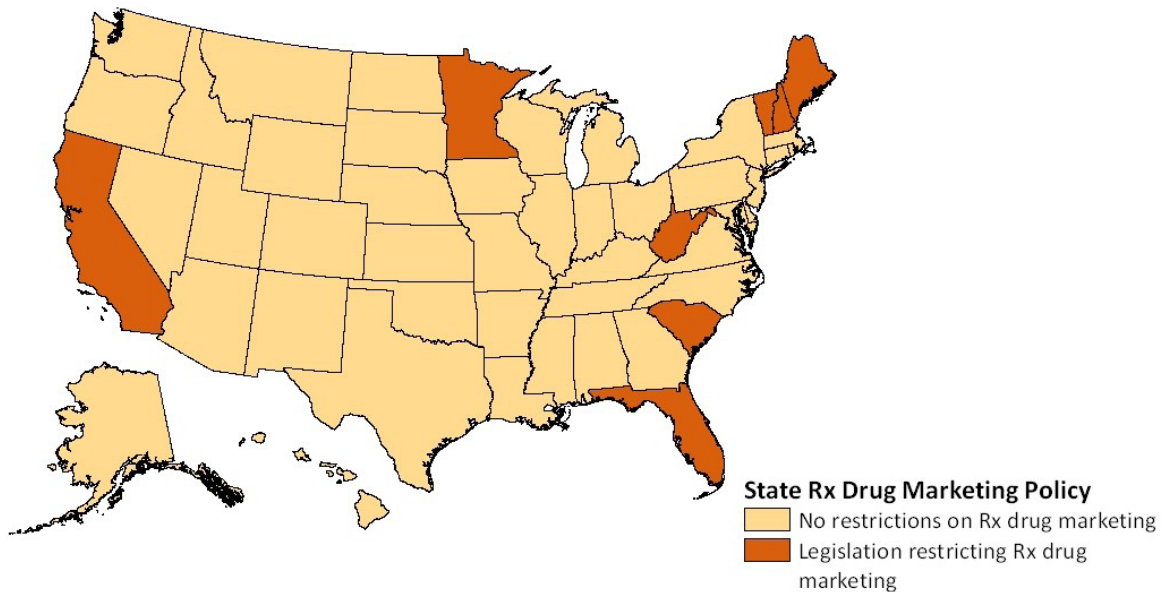
Though research and development spending has increased over the past twenty years, this does not appear to be correlated to the production of new drug therapies. The National Health Policy Forum found that by 2004 most of the drugs receiving patents were modifications of drugs already on the market, not new drugs themselves. Top pharmaceutical companies spend more of their revenue on advertising, marketing and administrative costs than on research and development. Indeed, in a financial review of the top seven grossing pharmaceutical firms, Families USA found that profits accounted for an average of 18 percent of total revenues, while research and development accounted for 14 percent. Pharmaceutical firms could maintain their current investment in research and development even if policies were implemented to lower drug costs.

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## WHO ELSE IS DOING IT?

Eight states restrict prescription drug marketing practices (CA, FL, ME, MN, NH, SC, WV, VT) according to The Prescription Project. One state (NH) banned the “data mining” practice, in which pharmaceutical companies purchase a doctor’s drug selections in order to target advertising to that doctor. Vermont requires the doctor’s signature to release this information to pharmaceutical companies.

## SPOTLIGHT ON INNOVATION

### *State Regulation of Pharmaceutical Marketing Practices*

- 2007 Vermont Act 80 now requires disclosure of drug firm funded physician education programs and requires drug sales reps to distribute evidence based performance information for all drugs in some therapeutic class as the drug they are marketing.
- 2008 Maine Chapter 362 has recently restricted the use of pop-up ads or other marketing tools in medical and drug software used by doctors and pharmacists.

### *States with Evidence Based Formularies*

- Thirteen states are currently members of the Drug Effectiveness Review Program which develops drug comparison data used to create evidence based drug formularies (AK, ID, KS, OR, MI, MN, MO, MT, NY, NC, WA, WI, WY).
- Numerous other states utilize pharmaceutical and therapeutic committees to review drug performance data and make recommendations on Medicaid formularies. These states include Florida, Louisiana, and Texas.

### *State Examples of Academic Detailing*

- Pennsylvania uses the Independent Drug Information Service to provide evidence based drug performance information to doctors in its Pharmaceutical Assistance Contract for the Elderly program.
- Vermont gives its health care professionals access to independent drug assessments from the University of Vermont Medical School.
- South Carolina began an academic detailing program in October 2007 using professionals from the University of South Carolina College of Pharmacy.

## WHAT CAN YOU DO?

In most states, changes to public health care programs or regulations of pharmaceutical companies require legislative changes. To that end, Community Catalyst's Prescription Project has published model legislation on the regulation of pharmaceutical marketing practices, academic detailing, data mining and gift bans.

## RESOURCES

### Policy Reports

#### The Commonwealth Fund

- Using Clinical Evidence to Manage Pharmacy Benefits: Experiences of Six States  
[http://www.commonwealthfund.org/usr\\_doc/899\\_Bergman\\_using\\_clinical\\_evidence\\_manage\\_Rx\\_bene.pdf?section=4039](http://www.commonwealthfund.org/usr_doc/899_Bergman_using_clinical_evidence_manage_Rx_bene.pdf?section=4039)

#### Families USA

- The Choice: Health Care for People or Drug Industry Profits  
<http://www.familiesusa.org/assets/pdfs/The-Choice.pdf>

#### Marc-André Gagnon and Joel Lexchin

- The Cost of Pushing Pills: A New Estimate of Pharmaceutical Promotion Expenditures in the United States

#### The Henry J. Kaiser Family Foundation

- Prescription Drug Trends: 2007  
[http://www.kff.org/rxdrugs/upload/3057\\_06.pdf](http://www.kff.org/rxdrugs/upload/3057_06.pdf)

#### Independent Drug Information Service

- <http://www.rxfacts.org/>

#### National Association of State Health Plans

- State Experience in Creating Effective P&T Committees  
[http://www.nashp.org/Files/Issue\\_Brief\\_1\\_Effective\\_P\\_and\\_T\\_Committees.pdf](http://www.nashp.org/Files/Issue_Brief_1_Effective_P_and_T_Committees.pdf)

#### National Health Policy Forum

- Fundamentals of the Prescription Drug Market  
[http://www.nhpf.org/pdfs\\_bp/BP\\_RxIndustry\\_08-24-04.pdf](http://www.nhpf.org/pdfs_bp/BP_RxIndustry_08-24-04.pdf)

#### The Prescription Project

- Control Pharmaceutical Marketing to Improve Health Care Quality and Cost  
[http://www.prescriptionproject.org/tools/solutions\\_resources/files/0004.pdf](http://www.prescriptionproject.org/tools/solutions_resources/files/0004.pdf)
- State Legislative Activity in 2007 Relating to Conflicts of Interest, Evidence-Based Prescribing, Marketing and Data Mining  
[http://www.prescriptionproject.org/tools/solutions\\_reports/files/0009.pdf](http://www.prescriptionproject.org/tools/solutions_reports/files/0009.pdf)
- Cost-Effectiveness of Prescriber Education (“Academic Detailing”) Programs  
[http://www.prescriptionproject.org/tools/solutions\\_reports/files/0010.pdf](http://www.prescriptionproject.org/tools/solutions_reports/files/0010.pdf)
- Academic Detailing: Evidence-Based Prescribing Information  
[http://www.prescriptionproject.org/tools/solutions\\_factsheets/files/0007.pdf](http://www.prescriptionproject.org/tools/solutions_factsheets/files/0007.pdf)
- Regulating Industry Payments to Physicians: Identifying and Minimizing Conflicts of Interest  
[http://www.prescriptionproject.org/tools/solutions\\_factsheets/files/0006.pdf](http://www.prescriptionproject.org/tools/solutions_factsheets/files/0006.pdf)

#### RxFacts.org Independent Drug Information Service

- <http://www.rxfacts.org/>

#### Opinion Polls

##### Kaiser Family Foundation

- Kaiser Public Opinion Spotlight: Views on Prescription Drugs and the Pharmaceutical Industry  
[http://www.kff.org/spotlight/rxdrugs/upload/Rx\\_Drugs.pdf](http://www.kff.org/spotlight/rxdrugs/upload/Rx_Drugs.pdf)

#### State Programs

##### Florida

- Agency for Health Care Administration  
[http://www.fdhc.state.fl.us/medicaid/prescribed\\_drug/pharm\\_thera/index.shtml](http://www.fdhc.state.fl.us/medicaid/prescribed_drug/pharm_thera/index.shtml)

##### Louisiana

- Pharmaceutical and Therapeutics Committee  
<http://www.dhh.louisiana.gov/offices/?ID=134>

##### Oregon

##### Oregon Health & Science University

- Drug Effectiveness Review Program  
<http://www.ohsu.edu/drugeffectiveness/>

##### South Carolina

- University of South Carolina College of Pharmacy  
<http://www.sccp.sc.edu/SCORxE/>

**Texas**

- Texas Pharmaceutical and Therapeutics Committee  
<http://www.txvendordrug.com/PT/PT.html>

**Vermont**

- University of Vermont Medical School  
<http://www.med.uvm.edu/ahec/HP-DEPT.ASP?SiteAreaID=286>

**State Legislation****Maine**

- Maine PL 2007, Chapter 362  
<http://janus.state.me.us/legis/ros/lom/LOM123rd/PUBLIC362.asp>

**Vermont**

- Vermont Legislature 2007, Act 80  
[http://www.lexisnexis.com/us/lnacademic/mungo/lexseestat.do?bct=A&risb=21\\_T5397648888&homeCsi=10837&A=0.7085122487530073&urlEnc=ISO-8859-1&&citeString=2007%20VT%20ALS%2080&countryCode=USA](http://www.lexisnexis.com/us/lnacademic/mungo/lexseestat.do?bct=A&risb=21_T5397648888&homeCsi=10837&A=0.7085122487530073&urlEnc=ISO-8859-1&&citeString=2007%20VT%20ALS%2080&countryCode=USA)

**Model Legislation****The Prescription Project**

- Implementing an evidence-based academic detailing program  
[http://www.prescriptionproject.org/tools/solutions\\_resources/files/0021.pdf](http://www.prescriptionproject.org/tools/solutions_resources/files/0021.pdf)
- Limiting drug company “data mining” of providers’ prescribing practices  
[http://www.prescriptionproject.org/tools/solutions\\_resources/files/0017.pdf](http://www.prescriptionproject.org/tools/solutions_resources/files/0017.pdf)
- Limiting drug company gifts to providers  
[http://www.prescriptionproject.org/tools/solutions\\_resources/files/0026.pdf](http://www.prescriptionproject.org/tools/solutions_resources/files/0026.pdf)
- Regulating pharmaceutical firm marketing practices  
[http://www.prescriptionproject.org/tools/solutions\\_resources/files/0006.pdf](http://www.prescriptionproject.org/tools/solutions_resources/files/0006.pdf)