

# Ideas in Action

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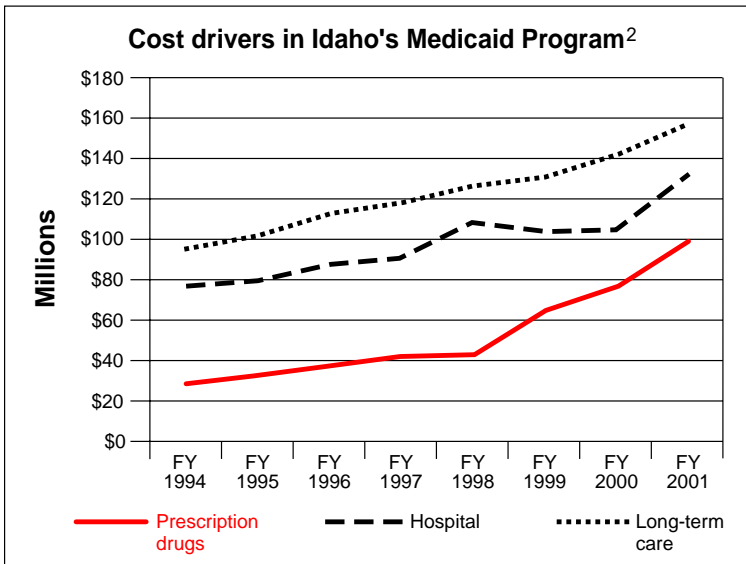
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## Idaho's Drug Costs on the Rise, Reforms Now Could Save Millions

Prescription drug use has changed radically: more drugs are available, they are more frequently prescribed, and they play an increasingly significant role in health care. Much of our current health care system now depends on prescription drugs: prescription drugs prevent and control conditions once thought untreatable, including chronic diseases. Some drugs offer safer and quicker treatment for conditions that might otherwise have required hospitalization or other costly services.<sup>1</sup>

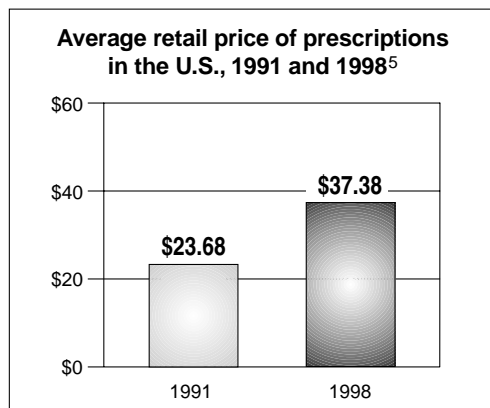
Prescription drug costs, however, are rising dramatically in Idaho and across the country. For state public health programs such as Medicaid, skyrocketing prescription drugs costs lead to greater stress on state budgets. With Idaho facing a fiscal crunch, important public health care programs for low-income families face budget cuts. Legislators fear that increasing enrollment in these programs drives up the cost of the program. But the real cost-driver is the rapidly rising cost of prescription drugs.



Prescription drugs are the most rapidly rising health care cost in Idaho and across the country. In fact, state Medicaid officials from 48 states cited pharmaceutical costs as one of the top reasons for Medicaid cost increases in 2001.<sup>3</sup> Sharply rising drug costs strain Idaho's budget, and Idaho's families.

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Access to cheaper prescription drugs is important for Idaho's families, especially low-income families who often must defer health care service and prescription drug purchases because they cannot afford them. In 2000, over 10 million prescriptions were filled in Idaho, amounting to eight prescriptions filled per person, a total of \$467 million in retail drug sales, and an average cost per prescription of \$44.<sup>4</sup> As prescription drug costs rise, this vital form of health care becomes unobtainable for more and more Idaho families.

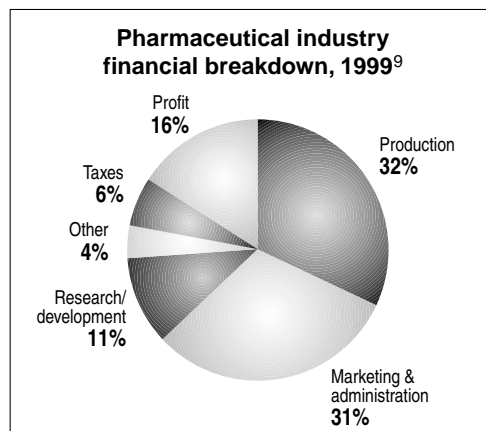


## Why are prescription drugs so expensive?

Although all health care costs are rising, prescription drug costs are increasing most rapidly. In April 2000, *Forbes* ranked the pharmaceutical industry as the most profitable in the world.<sup>6</sup> One of the reasons these companies are so profitable is drug prices significantly outpace both production costs and the cost of living. In each of the past six years the prices of the 50 prescription drugs most

used by older Americans increased considerably faster than inflation.<sup>7</sup>

Although the pharmaceutical industry claims that high prescription drug prices are needed for research and development, only 11 percent of the pharmaceutical industries' spending went to research and development in 1999. Thirty-one percent was spent on marketing and administration and 16 percent was pure profit.<sup>8</sup>



Americans pay more for prescription drugs than their counterparts just across the border. A comparison of the ten best-selling prescription drugs found that drug companies set higher prices for the same drug in the U.S. than they do in other countries.<sup>10</sup>

Overall, drugs are more expensive in the U.S.; per-person spending on drugs in the U.S. is almost twice that of other countries like the U.K. and Canada.

**Per capita spending on  
pharmaceuticals by country<sup>11</sup>**

Country	Per capita spending
Canada	\$251
U.K.	\$251
U.S.	\$408

Several prescription drug companies have recently been the subject of investigations, fines, and lawsuits — particularly pertaining to pricing schemes — and the U.S. government has increased its scrutiny of the business practices of pharmaceutical companies.<sup>12</sup>

For example, in the largest penalty to date against a health care company in a fraud prosecution, TAP Pharmaceutical Products has agreed to pay \$875 million for charges of illegally manipulating the Medicare and Medicaid programs by inflating the reported price of its prostate cancer drug Lupron.<sup>13</sup> To settle charges under the False Claims Act, TAP will pay over \$560 million to the federal government for Medicare and Medicaid violations, and \$25.5 million to the states and the District of Columbia for Medicaid liabilities.<sup>14</sup>

**Idaho's state budget  
strategies ignore the rising  
costs of prescription drugs,  
target low-income health  
care programs instead**

After years of surpluses, Idaho faces a state budget deficit. Despite high prescription drug prices and the strong need for public health care programs like Medicaid, Idaho state legislators are targeting programs and services that provide health care for low-income families and children. Legislators are making a mistake if they roll back their commitment to low-income families.

The major target has been the state's Medicaid program, especially the Children's Health Insurance Program (CHIP). Since its inception in 1999, CHIP has successfully enrolled nearly 12,000 new children that otherwise would not receive health insurance. Providing health insurance for children at this crucial time in their lives will pay off in the long run for Idaho. And focusing cost-cutting efforts on children makes no fiscal sense — they are inexpensive (only \$300 to \$400 a year) and, as a group, need the fewest medical services.

On February 13, 2002, the members of the Joint Finance-Appropriations Committee (JFAC) of the Idaho Legislature proposed further capping the CHIP program. Legislators fear that children enrolling in Idaho's new CHIP program are driving up the costs of the Medicaid program, even though children are the

cheapest population to cover under the Medicaid program.

If the JFAC proposal passes the full legislature, it will result in an immediate cap of enrollment in the CHIP program. That means the over 11,000 uninsured Idaho kids under 150 percent of the federal poverty level who desperately need health insurance will be shut out of the program.

### **Strategies Idaho's legislature has used to cut Medicaid programs:**

- **Outreach efforts halted.** Despite the great benefits of offering insurance coverage to children, the legislature passed SB 1274 in 2000, which limits outreach to additional eligible uninsured children and terminates state funding for low-income children once the CHIP match has been exhausted. In 2001, the House Health and Welfare Committee rejected SB 1305, which would have removed these limitations on expenditures by the Department of Health and Welfare for CHIP outreach. The committee rejected this bill by a vote of 2-5 despite receiving two days worth of positive testimony.
- **Capping coverage for children.** The Idaho Legislature capped spending of CHIP money at \$4.6 million for FY 2001 in SB 1274, and is now proposing to further cap spending at \$3.8 million for 2002. Once the \$3.8 million has been used, the state will no longer provide insurance to eligible low-

income children. This cap has been proposed despite the fact the state has \$57 million in unspent federal CHIP money in the bank right now, money that could be helping Idaho's children and families.<sup>15</sup>

- **Cost-sharing under consideration.** Currently, Idaho imposes few cost-sharing requirements for most individuals enrolled in Medicaid. Imposing cost-sharing for families with already limited incomes would mean fewer families can enroll in the program due to cost barriers. Ultimately, fewer low-income families will get the health care they need. Cost-sharing is expensive to implement, and unlikely to produce any savings for the state.

Unfortunately, these attempts do nothing to deal with the real cost drivers in the Medicaid program. The solution is to address prescription drug prices directly.

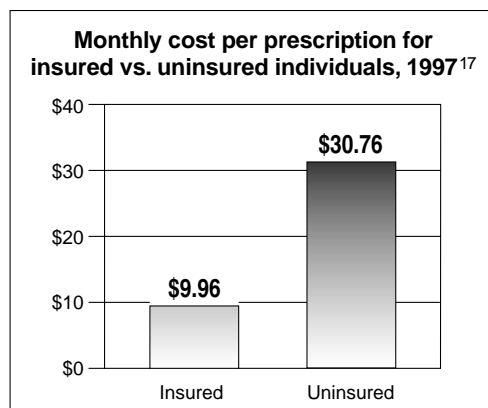
### **High prescription drug prices disproportionately harm uninsured low-income families**

High prescription drug prices affect everybody in Idaho, but the uninsured must pay more than the insured for the same drugs.

- Those without drug coverage cannot benefit from volume discounts gained by sharing the cost of drugs with other insurers (i.e. companies or public agencies).

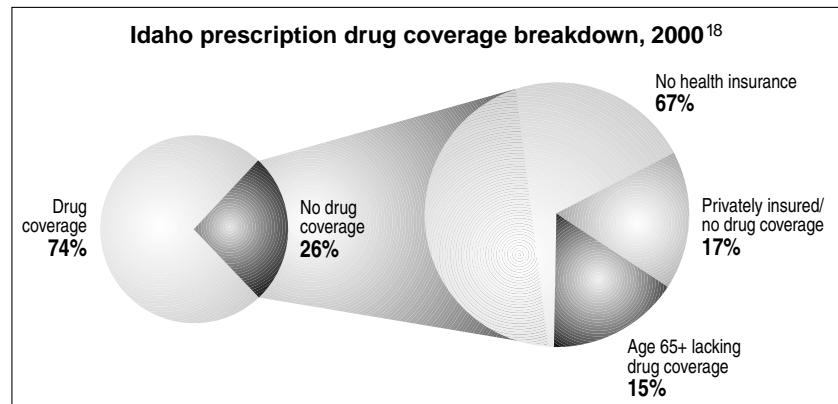
- Drug companies sell drugs to insurers — and, by extension, their insured customers — at lower prices.

*“The exact same name-brand medicine and dosage sold at retail to an uninsured person for \$100 will, on average, be sold to an HMO or the Medicaid program for \$65, and to the U.S. Departments of Defense or Veterans Affairs for \$46. In other words, for the same prescription, an uninsured American pays over 50 percent more than an HMO or the Medicaid program, and over twice as much as the Departments of Defense or Veterans Affairs.”<sup>16</sup>*



Idaho’s high prescription drug prices prevent many low-income families from accessing the prescription drugs they

need. Compounding the problem is the high rate of residents without prescription drug coverage. In 2000, more than 26 percent of Idaho residents lacked insurance for prescription drugs, the 13th highest rate in the country. Of the 26 percent of Idaho residents without prescription drug coverage, 67 percent had no insurance at all.



## Reducing prescription drug costs benefits all Idaho families, protects public programs, and helps the state budget

Although the Idaho Legislature, like every state, is concerned with rising prescription drug prices, they have made only limited attempts to address the issue and most of their efforts fail to directly deal with issues of cost.

Governor Kempthorne touched on the issue of prescription drugs with some of his proposals to save money in Medicaid. The Governor wants to require

prior authorization when over four drugs are prescribed for Medicaid consumers, and limit drug refills to when a prescription has been fully used. Both are reasonable ideas worth discussing, but neither cuts into the outrageously high prices that Idaho pays for Medicaid prescription drugs: about \$100 million in fiscal year 2001, double what Idaho spent just four years ago. Idaho's Department of Health and Welfare expects the cost of prescription drugs to continue to increase.

As Idaho's legislature struggles to deal with a declining state budget and growing health care costs, they need to stop cutting health care programs that help low-income families and address the real cost-driver in Idaho's health care system: the skyrocketing costs of prescription drugs. High prescription drug prices not only affect the uninsured and low-income families using Medicaid, they also affect senior citizens and families with prescription drug needs. For citizens of Idaho, it is more important than ever to pursue state-based solutions to the prescription drug crisis. The following solutions address rising drug costs while protecting vital public programs like Medicaid.

- **Regional or statewide buying pools:** To better control prescription drug costs, states are forming purchasing alliances with other states and among state agencies and health insurance programs to use their bulk purchasing power to negotiate prescription drug savings with the manufacturers of the

drugs.<sup>19</sup> Idaho (along with Washington) passed a resolution in 2000 urging joint action with Oregon and other Northwestern states, but no action has been taken yet.

- **A Prescription Drug Fair Pricing policy:** Similar to a law in Maine, this policy directs state governments to use their bulk purchasing power to negotiate steep discounts and pass these savings on to those who have no prescription drug insurance coverage — including seniors on Medicare.<sup>20</sup>
- **Prescription drug formularies or “preferred drug lists:”** These programs evaluate drugs on their cost and effectiveness. Among classes of drugs found to be equally effective, the most cost-effective drugs are prioritized for initial treatment. With proper consumer protections that allow doctors to quickly prescribe any drug essential to the patient's quality of life and health, drug formularies can help control drug costs.

Numerous states already have started implementing these strategies. Texas, Georgia, and Massachusetts have passed legislation to create multi-agency purchasing programs and are in the process of setting up these programs.<sup>21</sup>

Michigan and several other states have set up state preferred drug lists that apply to multiple state prescription purchasing programs.<sup>22</sup> The state of Washington has introduced legislation that would pool the prescription drug

purchases of its state agencies, open these pools up to the uninsured, and enable the state to pool prescription purchases with other states. The state of Oregon passed legislation in 2001 to set up a preferred drug list for the Oregon Health Plan, and estimate they will save almost \$20 million dollars annually.<sup>23</sup>

Two major multi-state prescription drug purchasing coalitions are underway. The New England Tri-State Prescription Drug Purchasing Coalition — composed of Maine, New Hampshire, and Vermont — will start by implementing a purchasing initiative for the states' Medicaid populations, initially including 330,000 individuals. The uninsured and public employees may be added later. They estimate they will save 10 to 15 percent annually on prescription drug costs by pooling their purchases. The Southern States Coalition Pharmacy Working

Group includes five states, and will initially include state employee plan beneficiaries, state Medicaid populations may be added later.<sup>24</sup>

## Conclusion

As Idaho's legislature works to control rising health care costs and a shrinking state budget, their strategies should address the root cause of escalating costs. Unfortunately, state legislators have focused on Medicaid, particularly the CHIP program, even though children are the cheapest population to insure. Idaho should shift its focus to reducing prescription drugs prices, an issue that will benefit all Idaho families, especially low-income families, as well as the state budget. Idaho should lead the effort for a Northwest regional prescription drug purchasing pool.

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## Endnotes

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