

# Can Pharmacy Benefit Managers Get Control of Prescription Drug Spending? Yes, No, and Maybe

A Perspective By:  
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June 2011

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## Is it time to declare victory in the battle to control prescription drug spending?

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At first glance, it might seem so, because spending on prescription drugs has moderated. In 2010, spending on prescription medications rose by 2.3 percent. That's lower than the 5.1 percent growth rate in 2009, and below the continuing annual trend of 5 percent or lower annual growth rate since 2007. Total spending in 2010 came in at \$307 billion, an increase of about \$60 billion since 2005 and \$135 billion since 2001. And real per capita spending on all medicines increased by only 0.6 percent in 2010.

Managed care organizations and pharmacy benefit management companies (PBMs) aggressively manage prescription drug spending, in large part by focusing on programs that encourage the use of generic alternatives to branded prescription medications. And these programs have succeeded. In the United States, the use of generic drugs has risen significantly, and we lead industrialized economies in our acceptance of generics.

## Cheaper generic medicines now account for 78 percent of all retail prescriptions dispensed.

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Spending on generics rose 21.7 percent in 2010 compared with a spending decline

of 0.7 percent for more expensive branded drugs. The financial incentives put in place by health plans and PBMs are powerful. In 2010, within six months of a medication's patent loss, patients received the generic form of the molecule 80 percent of the time.

Upcoming patent expirations will provide further economic tail winds that will lower pharmacy spending. Between 2010 and 2015, brands with annual sales of about \$80 billion will lose patent protection, including Pfizer's top-selling Lipitor, which had sales in 2010 of more than \$7 billion.

## Is it safe, then, to declare victory in the fight against rising prescription drug costs? Not by a long shot.

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Just as many large brand name drugs are coming off patent protection, many expensive, specialty drugs are coming online. By 2014, specialty drugs are expected to grow to become 40 percent – or more than \$160 billion – of the more than \$400 billion spent on drugs in the United States. This is up from approximately \$72 billion spent in 2009. Within the next three years, specialty drugs will represent the lion's share of drug spending increases.

Up to now, PBMs have successfully offset increases in the cost and use of patent-protected brand drugs with generic drug alternatives, but this strategy alone

may not be sufficient to enable them to manage pharmacy benefits into the future. Even with the expected patent expiration of many popular name brand drugs over the next few years, total drug spending is expected to increase by more than 30 percent by 2014. What's more, the already high use of generics in the United States will make it more difficult to extract additional savings through further increases in the use of generics.

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### **Does this mean that efforts to manage drug costs are stuck in neutral? Not necessarily.**

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Peter Drucker, the noted management guru, once said, "What gets measured gets managed." This holds true for managing drug costs. Substituting generic alternatives for higher-priced, name brand drugs has been a primary goal of PBMs for some time. And with the focus it has received, it should come as no surprise that they have achieved such high generic-use rates. But now that PBMs have accomplished this goal, it's time to redefine success.

Although prescription drugs represent the largest portion of total spending by Americans on medications, Americans spend an additional \$22 billion on over-the-counter (OTC) medications. These medications offer convenient solutions for people who would otherwise go to the doctor and become patients.

### **OTC medications are widely available because the Food and Drug Administration (FDA) has determined that people can safely self-select for treatment.**

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OTCs are safe for use by following the label and they are typically excluded from pharmacy benefit programs. Is this a pharmacy benefit cost-management opportunity?

It seems so. PBMs have traditionally not considered the OTC market a source for cost savings. But if PBMs and health plans broaden their cost-saving view to include non-covered OTC products, they may find cost-management opportunities. Many classes of prescription drugs are candidates for reclassification to OTC status. The most promising classes include allergy relief, cholesterol management, digestive health, and hypertension. Consumers have shown an ability to self-manage their conditions effectively when taking these drugs with relatively little risk of abuse.

Admittedly, switching from prescription to OTC status is not novel. In fact, Claritin, Zyrtec and Allegra are three products in the allergy class that have recently migrated to OTC status. Nicorette and Prilosec are two more examples of prescription drugs that have made the transition. Users of these medications may initially object to such a move because they will now purchase these medications outside their drug benefit. However, the merits of this approach are compelling.

## As medications become available OTC, the pharmacy benefit cost budget gets relief, but only for a time.

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Removing these products from the prescription drug benefit will help make room for other, more expensive specialty drugs that require more intensive oversight and management.

As they consider all the medication options available to consumers, health plans and PBMs should consider whether a drug's safety profile makes it a suitable candidate for OTC use. If they conclude that these products are safe for OTC use, they should implement programs that encourage drug manufacturers to switch these medications to OTC status. Supporting the switch of such medications to OTC status will provide financial relief for managed-drug programs and create room for new specialty medications within the pharmacy drug benefit while providing consumers with convenient, safe access to many remedies that are only available by prescription today.

### Jim Parker



Jim Parker is a senior health care executive with 20 years of experience leading organizations through mergers and acquisitions, driving market share, growing revenue, and building high-performing organizations.

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## About The Foundation

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The Foundation for HealthSMART Consumers is a not-for-profit organization dedicated to activating health care consumers by informing them about their health responsibility and care accountability, with an emphasis in the realm of self-care. The Foundation believes consumers need to be better educated about the decisions they make to manage their own personal health and the health of other family members so that they can achieve wellness and avoid unnecessary health care costs. Consumers want to be active and need to be confident in their ability to create health. The Foundation also conducts research to educate consumers and its partners on policy, social, and economic trends that may impact the progression of smart health care consumers.

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