Drug Licensing: A Novel Approach to Pricing Pharmaceuticals

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Introduction

In the United States and many other Westernized countries, pharmaceutical spending is surpassing growth in total health-care spending. From 1998 to 2003, drug spending in the United States increased by 10%, compared to a 5% increase in overall health care spending. Despite its little proportion to overall health-care spending, increased drug spending has sparked worries about rising health-care expenses in general, as well as the impact that high pricing may have on access to much-needed pharmaceuticals.

The most important effect of this trend for physicians may be the dramatic growth in patients' out-of-pocket spending and how this influences their behaviour and health outcomes. Physicians frequently urge behaviour geared to reduce high fees, out of concern for their patients' compliance and access to treatment. Physicians, for example, frequently give away free samples to low-income patients. Also popular is pill splitting, which is the practise of cutting higher-dose tablets into smaller pieces in order to avoid paying expensive copayments. Patients and physicians aren't the only ones who practise pill splitting; the Illinois Medicaid programme now requires it for some prescriptions, and United Healthcare in Arizona has lately started requiring that its beneficiaries do so as well. However, pill splitting comes with dangers and isn't doable with many medications.

The main clinical issue is that excessive prices make it difficult for patients to stick to their treatment regimens. Financial factors were stated as a motivation for noncompliance by 35% of individuals in a Wall Street Journal/Harris Interactive study. Numerous investigations back up these conclusions. The influence of high pricing on patient compliance is critical since, among other things, uncontrolled hypertension, excessive cholesterol, untreated psychiatric illness, and resistant bacterial infections can all lead to poor health outcomes. Noncompliance can also have a negative impact on productivity and raise medical expenditures significantly.

Search Update Strategy

Drug Prices That Are More Affordable?

The most commonly touted remedy to high copays and pricing is mandating lower drug prices, such as enabling reimportation of drugs from Canada or other nations or compelling Medicare to negotiate drug prices.

However, there are two major roadblocks in the path of pricing regulation. The first is that cutting costs may undermine the patent system's goal of encouraging future pharmaceutical Research and Development (R&D). Although several notable critics have rightly questioned the link between profitability and R&D, the lack of R&D into unprofitable third-world diseases and the growth in R&D for specific rare diseases following the United States Orphan Drug Acts suggest otherwise.

Furthermore, the (limited) economic evidence implies that price restriction can slow the introduction of new drugs, limit their availability, and slow the rate of innovation. Critics argue that this link is shaky, and that the current system provides too much incentive for R&D, particularly "me-too" innovation. These problems are especially pertinent in the field of health care, where the existence of health insurance may drive excessively costly innovation. Regardless of one's point of view, the reality is that the pharmaceutical business is fiercely opposed to reduced costs, making them politically difficult to adopt.

Drug Licensing Is Another Option

Fees for A License

It's easy to see how, with the right medication license charge, both the health plan's costs and the drug manufacturer's revenues can stay the same. We begin with the current situation, in which the medication manufacturer charges the health plan a price for each prescription that, even after rebates, exceeds the cost of production. Private health insurance spent an average of $73 per thirty day equivalent for brand-name statins in the eighty-eight health plans we looked at. The health plan pays the rest, which is financed by usual premiums issued to both statin users and nonusers.

Profits of the manufacturers

The drugmaker can be subjected to a similar investigation. The overall profits from sales to the health plan under the current situation are $569,400, which is equal to the manufacturer's net profit ($73 per prescription) multiplied by the number of prescriptions filled annually (when the copay is $25) multiplied by the number of statin users. The insurance plan just pays a $569 up-front cost per statin user under a licensing scheme, which keeps the manufacturer's earnings the same as before.

All Parties Benefit

This example shows how a properly determined drug license price can significantly enhance patient compliance at no additional expense to patients or health plans, and with no change in manufacturer revenues. And, while the recent arrival of generic Zocor (simvastatin) makes a statin illustration less compelling today than it was two years ago, the top-selling Lipitor remains on patent, making the key implications of our graphic still relevant. To the extent that patients value the health benefits associated with improved compliance, or health plans save money as a result of lower medical spending due to improved compliance, or both, plans and manufacturers can share in these welfare gains, making drug licensing a win-win situation for all parties.
Drug licenses also keep incentives for medical advancement alive. According to recent study, pharmacological therapy offers a tremendous societal value. This emphasises the need of a pricing structure that lowers the cost of compliance while ensuring that patients benefit from these medical improvements and keeps manufacturers' incentives to create new technologies intact. We believe there is a solid case to be made for altering the existing pharmaceutical price structure to the licensing model that we propose, assuring patient adherence to medical therapy without jeopardising future drug availability. We encourage pharmaceutical companies, Medicare, and commercial health plans, as well as other parties involved in the purchase or sale of pharmaceuticals, such as employers and pharmacy benefit managers, to look into drug licensing options.

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