

PRESCRIPTION DRUG ISSUES COMMITTEE

Study Assignment

A study of the problem of purchasing prescription drugs for people in South Dakota versus outside the state from mail order service.

A study to determine steps the Legislature could take with respect to the problems in the pharmaceutical area, including availability and finance programs.

A study of prescription drug issues relating to the state's role in the usage, coverage, and cost of, and access to, prescription drugs, including a review of current programs and the coverage, cost, and growth of the programs; state resources available to pay for prescription drug coverage; programs used in other states to provide coverage for both Medicare and non-Medicare populations; current pricing strategies of manufacturers; and the state's role, if any, in increasing access to pharmaceutical drugs and information.

Summary of Interim

At its first meeting, the Prescription Drug Issues Committee focused on the current situation of prescription drug coverage in South Dakota. The committee heard presentations from the Department of Social Services regarding publicly insured populations in the state, that is, those who receive pharmaceutical assistance from state or federal programs. The department also informed the committee about the Rx Access Program, which facilitates qualified senior citizens in accessing free prescription drugs from pharmaceutical manufacturers.

To get an overview of what is available in the private market for prescription drug coverage, the committee took testimony from Doneen Hollingsworth, Secretary of Health; Darla Lyon, Director of the Division of Insurance; Janet Griffin, Wellmark Blue Cross Blue Shield; and Dean Krogman, DakotaCare. Secretary Hollingsworth informed the committee that the department received a grant to conduct a survey to determine how many South Dakotans are uninsured and to better identify characteristics of that population. Director Lyon discussed the state of the insurance marketplace in South Dakota, noting that prescription costs are not the major cost but a significant cost of rising premiums. She also noted that within the last several months at least four insurance carriers left South Dakota as well as other states.

Janet Griffin informed the committee that about 78,000 South Dakotans had some form of prescription drug coverage with Wellmark. She stated that annual cost increases of 15 to 18 percent are expected for prescription drugs, with over half of the increase attributable to drugs used for the cardiovascular and central nervous systems. Griffin also stated that the average annual costs are highest among senior citizens; however, the rate of increase was highest among the 40- to 55-year olds with developing chronic conditions. Drivers of drug costs include the use of newer, brand name drugs, direct to consumer advertising, physician behavior, and demographic changes which prompt a demand for lifestyle drugs for such things as weight loss and hair growth. Finally, Griffin noted that although some drugs are used in place of more costly surgery, increased prescription drug costs and usage will raise health premiums, which in turn may prompt some employers to shift the cost to employees or drop the coverage.

Dean Krogman spoke about the pharmacy benefit provided to enrollees of DakotaCare. It includes a formulary specific to DakotaCare and contains both brand name and generic drugs with different copayments depending on the type of prescription drug the patient chooses.

Marjorie Powell, Pharmaceutical Research and Manufacturers Association, and Kelly Marshall, Pharmacia Corporation, discussed pricing acronyms, the patent process, and drug research. They noted that there has been a tremendous reduction in death by diseases since the 1920s and an increase in lifespan that is attributable to the development of drugs. They stated that pharmaceutical manufacturers invest more money as a percentage of sales in research and development than any other industry. Explaining the stages of bringing a drug to market, they noted that of the twenty-year patent life, most of that time is spent in research and development. Finally, they stated that only three of ten drugs return the research and development costs, so blockbusters must recover their costs and carry the load for the other drugs.

At its second meeting, the Prescription Drug Issues Committee examined a number of issues regarding prescription drugs, beginning with an overview of the responsibility of counties to pay for prescription drugs. By statute, counties, as the payer of last resort, must provide emergency medical services. The payment of all other services, including prescription drugs, is optional. Because the lack of certain drugs may result in costly hospital stays, counties often pay for prescription drugs but it varies among the counties. Those receiving assistance are typically the elderly, the disabled, and the working poor. Counties work with manufacturers of drugs, much like the Rx Access Program, to assist indigents in getting drugs free of charge.

Another issue examined by the committee was pricing. Harvey Jewett, Chair, Jewett Drug, a wholesale distribution company, spoke about the pricing structure of prescription drugs. Average wholesale price (AWP) is the manufacturer's suggested price, but it is not the actual wholesale price. Jewett suggested that the state should look at a formulary approach as a way to address the rising costs of prescription drugs.

From the retail perspective, Bill Ladwig, Pharmacy Director, Lewis Drug Stores, also spoke to the committee on pricing. Ladwig indicated that in the retail sector four out of five prescription drugs are priced by third-party plans. Ladwig emphasized that education of the consumer is a key component in addressing the rising costs of prescription drugs. Ladwig noted that few consumers are aware of costs because of co-payments. Ladwig favors shared co-pays so the consumer is more aware of the costs of prescription drugs.

Ruth Krystopolski, Executive Director, Sioux Valley Health Plan, provided information regarding Medicare + Choice plans, which are provided in some areas as an option to traditional fee-for-service Medicare. Krystopolski testified that Valley Choice is the only Medicare + Choice provider in the state. It covers thirteen counties in this state but extends to counties in Minnesota and Iowa.

The committee then examined what other states are doing to address the rising costs of prescription drugs. Richard Cauchi, Program Manager, Pharmaceuticals Project, Health Care Program, National Conference of State Legislatures, testified that the cost of prescription drugs is a very active topic and many states are proposing legislation to address the problem. Cauchi said that the Medicaid programs in all fifty states provide pharmaceuticals, most with cost containment programs, and twenty-four states provide subsidies for pharmacy assistance to

seniors. Many states are proposing measures to lower the cost of prescription drugs to broader segments of residents through discount programs, bulk purchasing programs, expanded manufacturer rebates, price negotiations, or price controls.

David Gross, AARP Public Policy Institute, stated that some of the state approaches designed to help residents pay for prescription drugs include price reduction and buying pool programs, direct benefit programs, pharmacy assistance programs, and income tax credits for Medicare beneficiaries. Gross listed key issues to consider when designing a state pharmacy assistance program: (1) what are the goals – expand coverage, subsidize, or reduce costs? (2) what revenues are available? (3) what income groups or at-risk groups are the targets? (4) what kind of coverage should be provided? (5) will the program expand access? (6) will the program address double-digit growth? and (7) how will the program address administrative issues associated with fixed budgets?

Turning to a local program, Jim Stephens, Vilas Pharmacies, explained the Pierre Pilot Project, which is a cooperative effort between the retail pharmacies and physicians in Pierre and the South Dakota Bureau of Personnel. The program provides state employees and their families with prescription services using techniques and practices that are cost effective to the state. A pharmacy and therapeutics committee, consisting of local pharmacists and physicians, developed a list of frequently prescribed drugs and a protocol for prescribing pharmaceutical drugs. The program was implemented and resulted in significant savings. This program is now being expanded to six more cities in South Dakota and may be expanded to include the Medicaid program as well as other in-state programs.

The final portion of the second meeting focused on disease management. Jo Prang, Medicap Pharmacies, told the committee of her experience as a pharmaceutical case manager and suggested these services can save a lot of money. Dr. Michael C. Rost, President, Health Care Medical Technology, Inc., said that the South Dakota state employee health plan has in place a disease management program for high-risk pregnancies and will have a cardiac disease management program starting soon. Dean Krogman, South Dakota Medical Association, provided the committee with information on a quality care management program and how it saves money. Dr. Jerry Walton, Medical Director of the Sioux Valley Health Plan, stated that disease management is a team approach and doctors need to be the leaders on the team. Lynn Thomas, Health Services Director for Sioux Valley Health Plan (SVHP), testified that SVHP has management programs for diabetes, heart disease, migraines, adolescent health, healthy pregnancy, home health, and hypertension.

The third meeting of the Prescription Drug Issues Committee was held shortly after the events of September 11. As a result about half of those persons on the agenda testified via teleconference. Nonetheless, the committee examined a number of issues relating to prescription drugs such as Canadian pricing and pending federal legislation. The committee meeting began with comments from the president of the South Dakota State Medical Association (SDSMA), Dr. Richard P. Holm. Dr. Holm remarked that the increased cost of prescription drugs reflects the advances that have taken place in the field of pharmaceuticals, noting that anti-depressant drugs are the most expensive; however, they are not only a wonderful improvement in treatment but also are cost effective. Dr. Holm also stated that the issues of safety and undue influence of pharmaceutical companies on physicians were issues being addressed by SDSMA this year.

Another issue examined by the committee was Canadian pricing. Chris Ward, former Canadian lawmaker and current consultant, and Dr. Tony Lorden, Canadian physician, testified via teleconference from Canada. Mr. Ward stated that the price of prescription drugs is one of the top issues in Canada. There are ten provincial drug programs in Canada that provide some prescription drug coverage to disabled persons, very poor persons, and persons over 65 years of age. However, even in these programs there are delays in access to new drugs. Dr. Lorden emphasized that access, excellence, and choice are the key issues with regard to prescription drugs. He reiterated that access to drugs is just the first step. Even if prescription drugs are available more cheaply, responsible prescribing is also important. Finally, he advocated choice in prescribing drugs rather than the use of a restricted formulary as is done in his province, where he must write a special letter to prescribe drugs that are commonly prescribed in the United States.

Brian Kaatz, Head of the Department of Clinical Pharmacy, SDSU, spoke to the committee about trends in pharmacy education and practice. Like other speakers, he emphasized that problems associated with prescription drugs do not begin and end with cost, citing other issues like the misuse of drugs and drug interactions. Kaatz remarked that pharmacists are an untapped resource in dealing with such problems. Under the current system pharmacists are paid according to the number of interactions they have with products, so the more they dispense the more they get paid. However, the more prescription drugs a person takes, the more likely the person is to have bad interactions with those drugs. Kaatz stated that pharmacists should get paid for their knowledge, not just for dispensing drugs.

The committee also heard from Senator Tim Johnson and Congressman John Thune. Senator Tim Johnson remarked that in light of the events of September 11, priorities have changed, but there is still a domestic agenda that includes prescription drug coverage. Johnson commented that the issue of reimportation may be reexamined in the context of farm legislation, but it would be limited to FDA-approved prescription drugs from Canada. Another piece of legislation is one Johnson introduced that would require that the best price be available to senior citizens. Johnson noted, however, that the larger debate is over the addition of prescription drug coverage to Medicare. He added that an allocation of \$28 billion over 3 years to reduce the number of uninsured through the use of tax credits and expansions in CHIP and Medicaid has a greater chance for passage. Congress is also looking at increasing Medicaid reimbursements for rural states. Although there is no consensus on a comprehensive solution, some of these separate pieces could garner bipartisan support. Johnson ended by stating that the issue of prescription drug coverage is fundamentally important to South Dakota and he is hopeful something can be done in Washington on this issue.

Congressman John Thune noted that the issue of prescription drugs is a pocketbook issue for South Dakota. In terms of potential solutions, last year the House passed a prescription drug program for Medicare-eligible seniors, but the Senate did not take it up. The legislation would provide 100 percent coverage for those under a certain income level. After that level, there is cost sharing with a cap on out-of-pocket costs. The legislation was designed with three principles in mind--availability, affordability, and voluntarism. The other big question is whether the program should be run by Medicare or on a market-based approach. Other federal issues are the reimportation of prescription drugs and the length of patents for prescription drugs. State issues include waivers such as in Florida and how to use block grant moneys if they become

available. Thune concluded by stating that although these issues remain fluid and may not currently be in the forefront of discussions in Washington, there is a strong interest in doing something in the area of prescription drugs.

Dan Crippen, Director of the Congressional Budget Office and a native of South Dakota, addressed the committee regarding the issue of access to pharmaceutical drugs for the elderly. Crippen noted that 70 percent of the elderly have some insurance coverage for prescription drugs, although that coverage may not be adequate in all cases. The remaining 30 percent still get some prescription drugs, although fewer prescriptions than those with coverage. Adding prescription drug coverage to Medicare without other reforms would greatly increase the cost of the program. Currently there are three persons paying in to support each beneficiary. Crippen noted that by the time he retires, there would only be two. Adding prescription drug coverage to Medicare would add to the already large burden on the next generation of taxpayers unless the coverage was financed by enrollee premiums.

The following websites are designed to help people who need prescription drugs find programs that may provide those drugs. A website that provides information regarding the programs that manufacturers have to assist people who cannot afford the drugs they need is www.needymeds.com. A website that helps seniors and their families connect with federal and state programs available to provide assistance is www.BenefitsCheckUp.org.

South Dakota Public Broadcasting provided audio recordings of the second and third meetings of the committee, which are available on the 2001 interim page of the LRC website.

Listing of Legislation Adopted

None.

Summary of Meeting Date & Places and Listing of Committee Members

The committee met on June 25, August 7, and September 20. All the meetings were held in the State Capitol in Pierre.

Committee members were Representative Phyllis Heineman, Chair; Senator Kenneth Albers, Vice Chair; and Representatives Julie Bartling, Jarvis Brown, Larry Frost, Tom Hansen, Jim Hunstad, Jean Hunhoff, Frank Kloucek, Claire Konold, Casey Murschel, David Sigdestad, Dale Slaughter, and Donald Van Etten; and Senator Ed Olson.

Staff members were Jacquelyn Storm, Principal Legislative Attorney; and Phyllis Petersen, Senior Legislative Secretary.