

A Healthy Dose of Reality

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Myth: HIGH DRUG PRICES DRIVE UP HEALTH CARE COSTS

Reality: MEDICATIONS SAVE US ALL HEALTH-CARE DOLLARS

In 2007, the U.S. spent \$286.5 billion on prescription drugs. That same year, biomedical and pharmaceutical giant Pfizer Inc. reported revenues of about \$50 billion, outranking Microsoft, Lockheed Martin, Wells Fargo and many household corporate names on the Fortune 500 list.

Those are big numbers—and hardly one-year anomalies. Drug spending now accounts for more than 10 percent of the overall dollars spent on health care each year, which is higher than it has been historically. During the last 30 years of the 20th century, the percentage of health dollars spent on drugs hovered between 5 percent and 8 percent.

Critics often point to these facts as proof that drugs are driving up health-care costs nationwide.

Simply put, they're wrong.

In many circumstances, prescription medicines can replace the need for more costly treatments, such as prolonged hospital stays, surgery, anesthesia and other procedures.

Any discussion of health-care costs needs to include talk of chronic diseases, conditions like diabetes, heart disease, arthritis, cancer in remission and HIV. Today, treating chronic diseases accounts for about 85 percent of all U.S. health-care spending. Those costs have been rising quickly in recent decades and are far and away the biggest drains on the health-care system nationwide.

Older people are more vulnerable to chronic diseases, and we have an aging population. About one in eight Americans is now over 65. By 2030, that number will increase to one in five Americans. The treatment of these illnesses will become more important as time goes on.

Clearly, controlling chronic conditions is one of the most effective ways to lower health-care costs. Drugs have proven to be one of the most effective—and least expensive—ways to help people live with disease. They also allow those sufferers to lead longer and more normal lives.

A 2005 study monitored patients with blood pressure, cholesterol and diabetes. For every dollar spent on drugs to treat these conditions, other medical spending decreased by \$4 to \$7. In other words, drugs save America's health-care system a fortune. Think about it for a minute, and it makes sense. A daily dosage of Lipitor is cheaper than emergency heart surgery.

Still, one may ask why drugs cost so much. Simply, they cost a lot to develop. Most drugs never make it to the pharmacy shelf, and inventing new medicine is rife with risk. For every 5,000 compounds tested, only five will make it to clinical trials. Of those, only one typically will make through FDA review and to the market. This isn't a speedy process either. On average, it takes 10 to 15 years for a drug to go from a discovered compound to FDA approval.

The process of developing drug treatments is incredibly expensive, time consuming and risky, but the benefits can be measured not just in dollars made, but more importantly in human lives saved. The FDA approved nearly 350

new medicines last decade. Those include treatments for conditions such as stroke, heart disease, diabetes, cystic fibrosis and cancer.

Take cancer, for example. Between 1971 and 2003, the number of cancer medications tripled. Today, the U.S. leads the world in treating cancer. The American health-care system has a better survival rate for 13 of the 16 most prominent cancers when compared with its European and Canadian counterparts.

A drug eventually becomes cheaper when its patent expires and generic versions are produced. Generic drugs are chemically identical to their brand-name counterparts, and they're more popular than ever. In 2007, generics accounted for 65 percent of all prescriptions filled in U.S. pharmacies. That percentage likely will increase in the near future as the patents for a host of blockbuster drugs will expire soon.

Generics are one of the main reasons the drug-price inflation has slowed. In September of 2007, the U.S. Department of Labor reported that the annual inflation rate for drug prices was 1 percent, the lowest inflation rate in the three decades the Labor Department had been tracking those figures—and well below the overall inflation rate.

Some members of Congress are now pushing to impose price controls and other innovation-stifling regulations on the pharmaceutical industry. If they succeed, it would have a disastrous effect on the inventions of medical cures. Life-saving breakthroughs will be lost, and ironically, overall health-care costs will rise as more people wind up in the emergency room for treatment.

In short, those who complain about high drug prices are pennywise and pound foolish.