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International research reveals proven ways to reduce drug costs

A study of drug costs around the world revealed proven methods that could be used to reduce costs in the United States, according to a researcher from Wake Forest University School of Medicine.

"Americans don't need to pay the highest prices in the world for prescription drugs – with our average expenditures increasing by 12 to 15 percent every year," said Curt Furberg, M.D., Ph.D., professor of public health sciences. "No documented health benefits are associated with the excess cost, and many elderly and low-income Americans cannot afford current prices without major sacrifice."

Furberg is widely recognized as a drug safety expert and has served on the FDA Drug Safety and Risk Management Advisory Committee. In 2004, he was awarded a Rockefeller Foundation Residency to gather information about drug costs around the world. He relied on published information as well as personal interviews.

"The goal of the project was to provide essential information to health planners, politicians, health care professionals and others with the desire to improve public health in the face of limited resources," said Furberg.

Furberg studied drug costs in 13 countries and presented the results in December to the World Health Organization. During the project, Furberg said he was struck by proven methods to reduce costs that could be put to use in this country.

"Taking steps to reduce drug costs doesn't have to hamper drug development, as drug makers claim," Furberg said. "Adapting policies and tools already in widespread use around the world could produce major savings for U.S. consumers without compromising the quality of medical care."

Furberg said the proven methods being used in other countries are:

1. Government establishment of drug reimbursement rates. The U.S. is the only country with open, essentially unrestricted pricing. A drug maker can set any price that the market can bear, and payer reimbursement rates are based on this price. In all other countries, governments establish drug reimbursement rates based on potential benefit to patients, disease severity, availability of treatment alternatives, numbers of potential users, cost-effectiveness and drug prices in other countries.

Furberg said drug companies have the option of rejecting the reimbursement rate and setting a higher price, but patients must pay the difference, which can affect overall sales.

2. Restrictions on price increases. While there are no restrictions on price increases in the U.S., some other countries restrict increases and regularly review drugs every two to four years after initial approval. After these reviews, drug prices may be adjusted (typically downward).

3. Mandated price cuts. Countries such as Australia, Germany, Japan, and the United Kingdom impose mandated price cuts. China recently announced plans to cut the average cost of prescription drugs by 40 percent.

4. Reference pricing. In contrast to many high-income countries, the U.S. has never accepted reference pricing, which sets reimbursement at or near the lowest-price drug within a drug class. This policy can lower prices for the more expensive drugs within a class.

5. Manufacturer rebates. Many countries use this option, leading to major cost savings. The rebate amounts are not openly discussed, as part of the negotiated agreement. In return for rebates, drug companies typically require that health plans limit access to competitors' drugs. The U.S. has allowed this on a limited basis -- the departments of Veterans Affairs and Defense have negotiated very favorable deals with pharmaceutical companies.

6. Competitive bidding. Although competition may be good for price control, brand-name drugs are shielded from direct competition through patent protection. In the U.S., competitive bidding for purchasing contracts applies mostly to generic drugs. After the patent on a brand-name drug expires, several companies typically market their less-expensive generic versions. Bidding has been adopted by many governments,

especially in middle- to low-income countries and by non-federal health plan payers in the U.S.

"Something must be done to counteract the escalating cost of prescription drugs," said Furberg, who estimates that drug expenditures could be reduced by 30 percent to 50 percent by lowering the cost of brand-name drugs and stimulating the use of generic products. He said that congressional action would be required to institute some of the other practices that are common in the rest of the world.

"Congress already mandates that Medicare contain costs in most other areas of health care," said Furberg. Why should prescription drugs be treated differently?"

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Wake Forest University Baptist Medical Center is an academic health system comprised of North Carolina Baptist Hospital and Wake Forest University Health Sciences, which operates the university's School of Medicine. U.S. News & World Report ranks Wake Forest University School of Medicine 30th in primary care, 41st in research and 14th in geriatrics training among the nation's medical schools. It ranks 32nd in research funding by the National Institutes of Health. Almost 150 members of the medical school faculty are listed in Best Doctors in America.
