



# **What's Good for Washington: Fair Prescription Drug Pricing and the Biotechnology Industry**

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## **Executive Summary**

The rising cost of prescription drugs is consuming an ever-larger portion of limited funds for basic health care and other important services in Washington state. At the same time, there are almost one million Washingtonians who go without any prescription drug coverage, including the uninsured and the elderly.

During the 2002 legislative session, prescription drug legislation that would have saved Washington state millions on prescription drugs and extended prescription drug savings to seniors and the uninsured was blocked by heavy lobbying from the pharmaceutical industry. One of the arguments raised against the legislation was that lower prescription drug prices would create a hostile environment for biotech research. However, the evidence shows that the biotech industry can continue to thrive in our state alongside lower drug prices.

Allowing our state to be a wise consumer and to use its market power to rein in prescription drug costs is a sensible, near-term solution to skyrocketing health costs and will allow expanded access to prescription drugs.

### **1. Fair drug prices will not cause biotech firms to leave the state.**

- Biotech companies make location decisions based on the presence of strong research institutions, venture capital, human capital, and overall quality of life.
- Prescription drug legislation to make drugs more affordable in one state does not translate into a hostile environment for biomedical research in that state.
- The global market for prescription drugs determines profits for the bio-technology and pharmaceutical industries.

### **2. State government has a responsibility to prioritize spending and strive for efficiency.**

- Prescription drug costs are consuming scarce dollars needed for other important programs and populations.
- Meanwhile, many state residents have no prescription drug coverage, leading to poorer health outcomes and ultimately costing the state even more for expensive emergency room treatment.
- Two problems – cost and access – can be addressed with one solution – smarter shopping.

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## 1. Fair drug prices will not cause biotech firms to leave the state.

*Biotech companies make location decisions based on the presence of strong research institutions, venture capital, human capital, and overall quality of life.*

- According to a major report on biotechnology growth, the two key determinants of biotech location are:
  - the existence of strong research institutions that attract talented scholars and receive National Institutes of Health funding, and
  - the availability of local venture capital.<sup>1</sup>

As the Washington Technology Centers explains, “Because there is such a strong tie between the investors and the management of a company...[h]aving qualified and willing investors and investment institutions near the entrepreneurs is...key to growth in entrepreneurial companies”.<sup>2</sup> Thus it is far more likely that Washington’s biggest draws to the biotech industry are the University of Washington and the venture capital groups already headquartered here, not the high prices of prescription drugs.

- The chief financial officer of ZymoGenetics, a biotech company located in Seattle, claims that venture capitalists are focused on a slew of large national concerns, including “the bear market, a string of high-profile clinical-trial failures and a perceived shift toward more caution at the U.S. Food and Drug Administration”.<sup>3</sup>
- According to a report called “Ten Steps to a High Tech Future,” the top five things metropolitan areas like Seattle can do to attract high tech firms are:
  1. Understand the region’s high tech firms and competitive advantages (e.g. by investigating workforce needs and location preferences);
  2. Invest in human capital (e.g. by funding job training and career opportunities);
  3. Create a research development presence (e.g. by investing in higher education);
  4. Invest in physical capital (e.g. by building roads, telecommunications capacity and infrastructure); and
  5. Invest in quality of life (e.g. by developing transportation, housing, the arts and ensuring a clean environment ).<sup>4</sup>

*Prescription drug legislation to make drugs more affordable in one state does not translate into a hostile environment for biomedical research in that state.*

- Well over half of all U.S. states have enacted or are considering some sort of prescription drug legislation.<sup>5</sup>
- California implemented a preferred drug list for its Medicaid program that is much stricter than the one proposed for Washington state. California’s biotech industry is flourishing, with three of the top nine biotech firms in the nation located there, including Amgen, a powerhouse biotech with 1999 sales four times higher than its leading competitor.<sup>6</sup>
- Washington’s biotech industry is also faring very well. In 1999, the biotech industry in Washington had an average firm profit margin of 12.5%, well above that of the general manufacturing, semiconductor, and software industries.<sup>7</sup>

*The global market for prescription drugs determines profits for the biotechnology and pharmaceutical industries.*

- Washington state's share of the international drug market is tiny, accounting for only 1.7% percent of the total US prescription drug market and only 7/10 of 1% of total global sales.<sup>8,9</sup>
- Global sales of Prilosec were \$6.1 billion in 2000.<sup>10</sup> Washington state spent \$15.5 million on this drug during the same year, accounting for only ¼ of 1% of global sales.<sup>11</sup>
- Meanwhile, the pharmaceutical industry is the most profitable in the world, outpacing average profits for all Fortune 500 companies by 3-5 times over the past decade and spending 250% more on sales, marketing, and general administration than on research and development.<sup>12</sup>

## **2. State government has a responsibility to prioritize spending and strive for efficiency.**

*Prescription drug costs are consuming scarce dollars needed for other important programs and populations.*

- An almost 600% increase in Department of Social and Human Services DSHS spending on prescription drugs since 1997 threatens to consume funding for a broad range of agency services, including juvenile rehabilitation, child protective services, assistance for aging and disabled adults, cash and food assistance programs, and alcohol and substance abuse prevention and treatment.<sup>13</sup>
- Prescription drugs account for around 25% of all DSHS health spending, or over \$800 million per biennium.<sup>14,15</sup> Drug spending for DSHS programs is expected to increase by 34% over the next two years, drastically outpacing the costs of any other factor, benefit, or caseload.<sup>16</sup>
- In 2000, Washington state agencies spent over \$85.4 million on just nine name-brand drugs. Nearly half this spending was for just two drugs: Zyprexa and Prilosec.<sup>17</sup>
- Continually increasing prescription drug spending makes it more difficult to expand access to health care and necessary prescription drugs to seniors and the uninsured.

*Meanwhile, many state residents have no prescription drug coverage, leading to poorer health outcomes and ultimately costing the state even more for expensive emergency room treatment.*

- While the state is spending more each year on prescription drugs, there are 644,000 Washingtonians who do not have health insurance or prescription drug coverage. There are an additional estimated 200,000 elderly without a prescription drug health benefit, which means they must pay for all their drug costs out-of-pocket.<sup>18</sup>
- At least 30% of those without drug coverage cannot afford to fill a needed prescription.<sup>19</sup>
- Those who cannot afford prescription drugs often skip doses or forego filling a prescription even for a life threatening condition, which can lead to poorer health, higher future costs and even avoidable death.<sup>20</sup>
- When people are uninsured, they do not get the care they need, or they delay care to the point where minor health concerns become major health problems. The uninsured turn up in already overburdened emergency rooms and are unable to pay the bill, but their care is not free. It is picked up by providers, employers, the insured and taxpayers in the form of higher premiums and taxes.

- While implementing fair drug pricing will not hurt the biotech industry, *inaction* on this item will force the state to cut health budgets and enrollment in health programs, creating a ripple effect that does not end until it hurts taxpayers and the state economy.

*Two problems – cost and access – can be addressed with one solution – smarter shopping.*

- By being a better consumer, Washington state can help its residents. Only by evaluating the benefits and costs of various and competing prescription drugs can Washington state insure that taxpayers and patients are getting quality outcomes in return for each dollar. By demanding that better health *outcomes*, not new health *products*, are the focus, we can insure more effective, cost-efficient care.
- The money saved through shopping smarter and negotiating lower drug prices for currently covered groups will make it possible to expand necessary health and prescription drug coverage to many of the uninsured.

<sup>1</sup> Joseph Cortwright and Heike Mayer, "Signs of Life: The Growth of Biotechnology Centers in the U.S.," Brookings Institution Center on Urban and Metropolitan Policy, 2002, pgs 15 & 21, <http://www.brook.edu/dybdocroot/es/urban/publications/biotech.pdf>.

<sup>2</sup> Washington Technology Center, "Index of Innovation and Technology: Washington State 2001," June 2001, p17, <http://www.watechcenter.org/techindex/01iitw.pdf>.

<sup>3</sup> Jim Johnson, CFO of ZymoGenetics, quoted in Luke Timmerman, "Biotechs on edge as money evaporates," *Seattle Times*, August 19, 2002, <http://archives.seattletimes.nwsource.com/cgi-bin/texis.cgi/web/vortex/display?slug=biosurvival19&date=20020819&query=timmerman+biotechs>.

<sup>4</sup> Paul Sommers, et. al., "Ten Steps to a High Tech Future: The New Economy in Metropolitan Seattle," Brookings Institute, Center on Urban and Metropolitan Policy, December 2000, [www.brookings.edu/dybdocroot/es/urban/sommers/sommersreport.pdf](http://www.brookings.edu/dybdocroot/es/urban/sommers/sommersreport.pdf).

<sup>5</sup> National Conference of State Legislatures, "2002 Prescription Drug Discount, Bulk Purchasing, and Price-Related Legislation," <http://www.ncsl.org/programs/health/drugdisc02.htm>.

<sup>6</sup> Cortwright and Mayer. Los Angeles, San Francisco, Boston, Philadelphia, New York, San Diego, Seattle, Washington-Baltimore, and Raleigh-Durham account for ¾ of the nation's largest biotech firms and for ¾ of the biotech firms formed in the past decade.

<sup>7</sup> Washington State Department of Revenue, "Washington State Tax Structure DRAFT - Equity Findings," May 10, 2002, p12.

<sup>8</sup> Kaiser State Health Facts Online, "Retail Prescription Sales, 2001," <http://www.statehealthfacts.kff.org/cgi-bin/healthfacts.cgi?>

<sup>9</sup> IMS Health, <http://open.imshealth.com/dept.asp?dept%5Fid=3>. The United States represents 95.6% of North American sales, which are projected to total \$169.5 billion in 2002, out of an estimated \$406 billion sales globally, or 40% of the world market.

<sup>10</sup> IMS Health, March 15, 2001, [http://www.ims-global.com/insight/news\\_story/0103/news\\_story\\_010314.htm](http://www.ims-global.com/insight/news_story/0103/news_story_010314.htm)

<sup>11</sup> Washington State Prescription Drug Project: Phase I Final Report, June 2001, Appendix B. Spending was calculated after rebates.

<sup>12</sup> Kaiser Family Foundation, "Trends and Indicators in the Changing Healthcare Marketplace, 2002," May 2002, Figure 4.11, [http://www.kff.org/content/2002/3161/marketplace2002\\_finalc.pdf](http://www.kff.org/content/2002/3161/marketplace2002_finalc.pdf). Kaiser Family Foundation, "Prescription Drug Trends: A Chartbook Update," November 2001, <http://www.kff.org/content/2001/3112/RxChartbook.pdf>.

<sup>13</sup> DSHS spent \$121 million on prescription drugs during the 1987-89 biennium, and expects to spend \$800 million during the 2001-03 biennium. Medical Assistance Administration 2001-03 Biennium Funding fact sheet, October 30, 2001 <http://www1.dshs.wa.gov/budget/pdf/080BudSum.pdf>.

<sup>14</sup> Washington State Prescription Drug Project.

<sup>15</sup> Dennis Braddock's power point presentation.

<sup>16</sup> Projections for 2001-03 biennium from DSHS Secretary Dennis Braddock's power point presentation, May 10, 2002, [http://www1.dshs.wa.gov/Budget/ppt/stk\\_May\\_02.ppt](http://www1.dshs.wa.gov/Budget/ppt/stk_May_02.ppt). DSHS and the Health Care Authority account for approximately 90% of state health care spending on prescription drugs. Other state agencies that purchase or provide prescription drugs are the Department of Corrections, the Department of Veteran's Affairs, the Department of Health and Labor and Industries.

<sup>17</sup> Washington State Prescription Drug Project, Appendix B.

<sup>18</sup> Figure for those under age 65 come from Kyung Song, "1 in 10 Washington residents now without health insurance," *Seattle Times*, November 11, 2002, [http://seattletimes.nwsource.com/html/healthscience/134581608\\_uninsured220.html](http://seattletimes.nwsource.com/html/healthscience/134581608_uninsured220.html). There are at least 200,000 Washingtonians over age 65 who do not receive drug coverage through Medicare. The Medicare figure is an estimate based on a nationwide number. *The Medicare Program: Medicare and Prescription Drugs* (Washington: The Henry J. Kaiser Family Foundation, May 2001).

<sup>19</sup> The Newshour with Jim Lehrer/Kaiser Family Foundation National Survey on the Uninsured, 2000, as cited in the Kaiser Family Foundation, "*Uninsured in America: A Chart Book, 2nd Ed.*," March 2000. Henry J. Kaiser Family Foundation, Commonwealth Fund and Tufts-New England Medical Center, "Seniors and Prescription Drugs: Findings from a 2001 Survey of Seniors in Eight States," July 2002, <http://www.kff.org/content/2002/6049/6049.pdf>.

<sup>20</sup> Jan Blustein, "Drug Coverage and Drug Purchases By Medicare Beneficiaries With Hypertension," *Health Affairs* 2000 19(2):219-230.