A Proposal for an Electronic Comparison System and Personal Health Formulary

Implementing A "Travelocity"-style Model of Prescription Drug Purchasing

Center for Health Transformation

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Table of Contents

A Modern Medicare Prescription Drug Program 1

The Result: Strengthen the Patient and Mimimize the Middlemen 4

Additional Benefits of the “Travelocity”-style Comparison Model 5

Comparison Tools Drive Down Price 6

A Working Model of Drug Comparisons 6

Conclusion 6

About the Center for Health Transformation (CHT) 7

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With the advent of the Internet, market competition has become more intense and has led to more empowered consumers. The World Wide Web has levelled the playing field allowing large and small businesses to compete for customers and making information that was once hard to maintain, available with a the touch of a button. Competition has never been as fierce because information has never been so transparent.

In addition to adding coverage of prescription drugs to the current Medicare benefit, the Center for Medicare and Medicaid Services (CMS), the government agency that administers Medicare, should also create an electronic prescription drug comparison system -- a “Travelocity-for-drugs”-- modelled after some of the most empowering technology that consumers have ever experienced.

Some opponents will argue that the infrastructure and variants to create and maintain this system are unrealistic and that seniors cannot be trusted to make these kinds of decisions.

Yes, Americans have grown to rely on electronic systems, once thought absurd and dangerous, for many marketplace transactions and product information.

- The majority of America uses an automatic teller machine (ATM). In fact over 71% of consumers have an ATM card resulting in 40 billion transactions a year globally[1],[2].
- Millions of Americans use self-service gas pumps and trust the technology to the extent that many do not get a receipt.
- 94% of consumers that have begun the car shopping process have conducted online research, while only 67% have visited a dealership in person[3].
- Millions of Americans are using one of the online travel services such as Travelocity, Expedia, or Orbitz.

Users of these systems will easily understand the benefits and feasibility of this type of comparison system for drugs. In fact, users of these systems will eventually demand this information.

A Modern Medicare Prescription Drug Program

The Center for Health Transformation proposes that an online system should be built that allows senior citizens, doctors, care providers, and other interested parties to have access to the full range of drugs and prices that are appropriate in a given situation.

The government would then subsidize a large amount, for example 90% to 100%, of the least expensive drug for the given situation and would apply the same dollar value to any of the more expensive drugs.

The senior who chooses a more expensive drug would pay the difference. If, however, the senior had a unique medical need, the doctor could prescribe the one appropriate medication, which the government would then subsidize.

Hypothetically, assume an individual went to the doctor and the doctor gave the person two prescriptions. One prescription was for a unique one-of-a-kind drug that has no real alternative for his medical condition. The other prescription was for a drug that exists in a class (the base of tiering and formularies in the current pharmacy benefit manager (PBM)-centered prescription drug model).

In the first case, the individual would receive exactly the one-of-a-kind drug the doctor prescribed, and the cost of the drug is subsidized to the degree CMS has agreed upon.

So far, nothing is dramatically different from the current system, although with the information transparency, the price pressure, even on a unique drug, would be much greater in a "Travelocity"-style system than it is in the current system.

For the second drug in this hypothetical situation, the individual (or his family member or caregiver) can use the electronic prescription-drug comparison system on his computer, at a kiosk in his local drug store, or by using an 800 number. By using this system, he would learn that there are seven drugs in this group, including medically appropriate, over-the-counter drugs. (The idea that Claritin could be the most popular and effective prescription medication in its class one year and then be considered a less desirable medication once it goes off over the counter and was much less expensive is symbolic of the absurdity of the current system.)

The government would pay either 90% or 100% of the least expensive drug. For ease, say that the government pays 90% of the least expensive drug. In this case, the least expensive drug is $50 so the government is going to pay $45, no matter what drug he chooses. If the drug in his class that he wants for his own particular personal reasons is $60, the government is still paying 90% of the lowest-priced drug, $45. So, if the consumer purchases the $60 drug, he will pay $15.

This type of system, a "Travelocity"-style personal drug formulary, is similar to many systems we currently use today in other industries. For example, if you are flying from New York to Los Angeles, you have many options:

- You can fly first class.
- You can fly coach.
- You can fly coach during a non-peak time.
- You can fly coach and change planes two times.

The final result is that the Federal Aviation Administration (FAA) requires all of these airlines to follow the same safety guidelines and no matter how you got there, at the end of the trip you are safely in Los Angeles.

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It could work much the same with prescription drugs, which have been approved by the Food & Drug Administration (FDA).

- You can take a name brand advertised drug
- You can ask for and receive a different brand name drug that accomplishes the same goal but requires fewer doses or results in different side effects
- You can get a generic.
- You can find a generic that may require more doses per day

The final result is that the FDA has a strict approval process and the drugs you take will successfully treat your condition.

The appeal of the "Travelocity"-style personal drug formulary is that the patient has the relevant information, and he is given the choice. Choice creates competition, and competition drives down price.

This system could also be used for employer-sponsored insurance and private insurance. Instead of the government paying a percent of the lowest-price drug, the employer or insurance company would pick up that percentage. In this model, there is an open formulary and again the choice is up to the individual.

Imagine having the Agency for Healthcare Quality and Research partner with the FDA to develop an outcomes-based, data-rich system with a nightly tracking of real prices paid. This model creates a market-centered, science-based system of guaranteeing access to the lowest-cost drug while creating downward market pressure.

Under this new system, seniors would be better off than they are now because the government would pick up virtually all of their least expensive choice. If an individual wanted to spend more, he could, but it would be his choice and his money, all of which is consistent with the principles of a free-market society. In this model there are no bureaucratic controls; no drug company is having its product stolen by confiscatory pricing, and people have access to the medicine they need. However, in this model the price pressure is relentlessly downward, and the drug company has to decide what price it needs to charge to be competitive.

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The Result: Strengthen the Patient and Mimimize the Middlemen

This comparison drug model would make transparent a very complicated system and specifically affect the current practices of PBM's and pharmaceutical manufacturers. In essence, it would be the end of the rebate schemes, the end of "Average Wholesale Price (AWP) minus," and the end to the third-party-decision mess that currently makes it impossible to know what drugs truly cost.

For example:

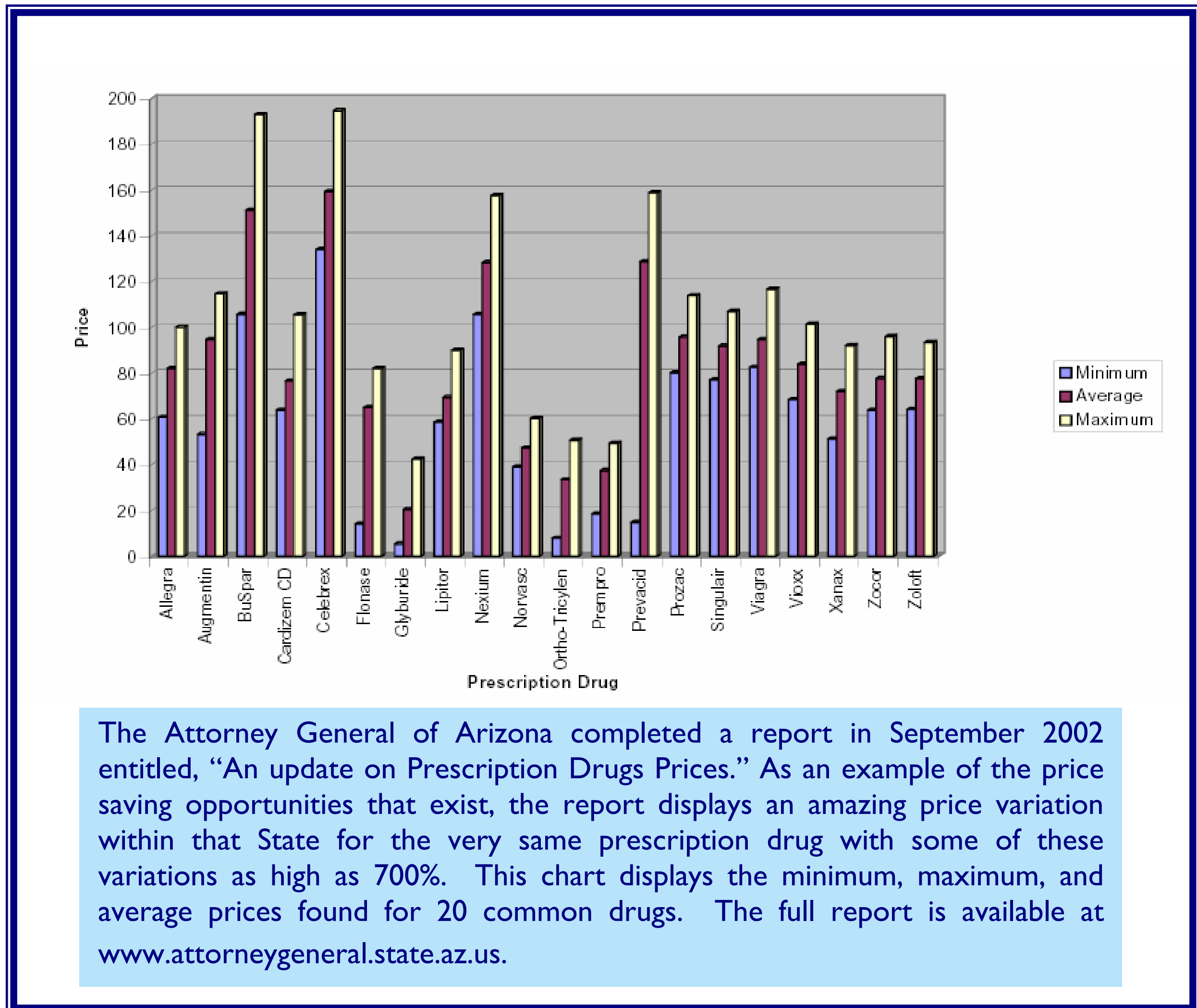
1. It would transition PBMs from being managers to truly only being pharmacy benefit administrators.
2. The drug companies would have to list true prices and there would be no rebates. The PBM would make its money on transaction fees rather than on rebates.

3. The doctor and patient would be making the decision based on real information about price and efficacy rather than on formulary tiering.
4. Rather than a negotiated formulary with rebates, there would be an open formulary with the government financing the least expensive, unless the doctor designates a unique drug rather than a negotiated formulary with rebates.

Additional Benefits of the "Travelocity"-style Comparison Model

In addition to transparency and increased choice, an electronic system of drug comparison has numerous benefits.

- With electronic comparisons and purchasing, outcomes based data could begin to be developed with massive statistical databases in the near future. Companies like Anceta, a spin-off of the American Medical Group Association, are mining the rich data of individual medical groups to find amazing trends in drug effectiveness. The data that could be mined from the "Travelocity"-style system could advance modern medicine dramatically.



The Attorney General of Arizona completed a report in September 2002 entitled, "An update on Prescription Drugs Prices." As an example of the price saving opportunities that exist, the report displays an amazing price variation within that State for the very same prescription drug with some of these variations as high as 700%. This chart displays the minimum, maximum, and average prices found for 20 common drugs. The full report is available at www.attorneygeneral.state.az.us.

- Doctors' prescription trends and habits could be tracked. Doctors who are not utilizing best practices and/or are practicing unnecessarily expensive medicine could be notified and corrected. In the same way, this information would accelerate the transforming health trend of incentivizing patients to choose best practice doctors.

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- Perhaps the greatest benefit of implementing an electronic system of drug comparison is its ability to drive down the price of drugs, thus making them more accessible.

Comparison Tools Drive Down Price

All the evidence from Internet-based price comparison tools like Travelocity and Expedia indicate that buyers get lower prices by shopping online. Various studies indicate average cost-savings range from 9% to 16% on books (Jules Kaplan, University of Colorado), 28% on prescription drugs (Jules Kaplan, University of Colorado), 10% or higher on airline tickets (Thomas Weisel Partners), and 40% on automobile insurance (Daniel Finnegan, Quality Planning Corporation). Buyers' access to Web-based price comparisons has been responsible for at least ¾ of the 20% industry-wide reduction in the cost of life insurance policies. Finally, while there is generally the absence of a binary (buyer-seller) healthcare market in America, a recent study of cosmetic surgery, which is one of the few areas in healthcare with a binary market, indicates that markets do work. The price of cosmetic surgery rose 16% since 1992 compared with a 47% increase in the price of medical services and a 26% increase in the Consumer Price index in the same time period.[4]

A Working Model of Drug Comparisons

A cardiologist in Chicago has already created a similar system called Rxaminer (www.rxaminer.com). Rxaminer allows patients to go online, find lower-priced equivalents for prescribed drugs, and then take that information to their doctors to discuss whether the lower-priced options are feasible. According to Rxaminer, the usual result is a 20% to 40% cost savings. This can be even greater if the patient then goes to various online drugstore websites to compare prices for the selected lower-priced option, which Rxaminer says can reduce prices by another 10%.

Conclusion

By creating a pharmaceutical comparison system, policymakers can bring market forces to a system plagued with the same bureaucracy and command-and-control models that the United States has so often criticized when employed by other countries.

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About the Center for Health Transformation (CHT)

The Center for Health Transformation, founded by former House Speaker Newt Gingrich, is a unique collaboration of leaders dedicated to accelerating the adoption of transformational solutions, policies and technologies in order to create a 21st Century Intelligent Health and Healthcare System characterized by better outcomes and more choices at lower cost. The Center accomplishes this by: acting as a catalyst to accelerate transformational change; identifying better solutions that provide more choices, better health and lower cost; sharing those solutions with the widest array of opinion leaders and decision-makers across all sectors and levels to accelerate their adoption by the system; and helping to create, advance and improve the public policies (state and federal) that will accelerate health transformation.

For more information, please visit www.healthtransformation.net.

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