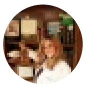
On the Prescription Drug Battlefield, Hospitals Put Generics in Play



By Jamie Wells, M.D. — January 11, 2019

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The high cost of prescription drugs is a source of universal frustration. It is also a public relations nightmare for health systems and the much maligned pharmaceutical industry who have been going at each other a lot lately in an elaborate blame game (see here [2]). Last year, positioned as a mission to lower drug prices and reduce shortages, Intermountain Health [3] announced they would be leading a multi-system collaborative effort to make a strategic play in the generic drug market. Together, with the likes of the Mayo Clinic, Ascension and HCA Healthcare, thereby controlling 500 U.S. hospitals, they launched a not-for-profit generic drug company called Civica Rx [4] with the stated goal of lowering prices and reducing drug shortages. That number just ballooned [5] to 750 hospitals as twelve more health systems have now joined.

This evolving behemoth wants to become a U.S. Food and Drug Administration (FDA)-approved manufacturer to make the drugs themselves or farm out to those who can produce such a supply. By expanding the generic market in this manner, they expect to increase competition with the hopes of delivering greater affordability. What actually trickles to the patient in fighting consolidation with consolidation remains to be seen. And, it is likely Amazon-type companies are waiting in the wings to take hold of distribution as the CVS-Aetna merger [6] shows promise for a stronghold on the information monopoly so vital to controlling the traditionally opaque sector.

Given that hospitals can barely manage their own inventory let alone run a generic pharmaceutical program that will have to be global in sourcing, it is quite suspect that this plan is a walk in the park. The reality is many sectors influence pricing. Hidden costs abound within this complicated ecosystem that involves ever expanding cogs in the wheel: retailers, manufacturers, wholesalers, payers who fund the supply chain (e.g., insurance, government, mostly us), distribution lines, pharmacy benefit managers, etc. These groups are largely ignored in the ongoing public narrative.

Reducing prescription drug prices is like a game of whack-a-mole, you stamp out one factor and unintended, relentless other consequences follow suit to maintain equilibrium. Due to the sheer complexity of the pharmaceutical ecosystem and its many moving parts, one concession merely shifts changes as each component adapts to enhance its own margins.

In the end, through co-pays, deductibles and taxes the actual burdens typically fall on us. In the Fall, the Pharmaceutical Research and Manufacturers of America (PhRMA) published a report Nearly 1 in 5 Hospitals Marks Up Medicine Prices at Least 700 Percent [7] to which the American Hospital Association (AHA) fought back with a press release named The Only Thing Transparent about PhRMA is Their Attempt to Blame Others for Rising Drug Prices [8]. Epic patent gaming, pay-for-delay agreements to slow-walk introduction of cheaper generics to market, in part brought us here, but the jury is out if those stakeholders with a robust pattern of not extending savings to patients actually will ease the public's hardship.

To get a more comprehensive picture, review these articles:

- As President Trump Calls For Low Drug Prices, Media Hypes Pharma's Recent Increases [9]
- Hospital Systems Getting Into The Big Pharma Game [10]
- Is It Checkmate For Pharma's Epic Gaming Of Patents? [11]
- Pharma And Hospital Systems Now Playing The Drug-Pricing Blame Game [2]
- Are Cancer Drugs Cheaper To Make Than Previously Thought? New Study Claims So. [12]

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[2] https://www.acsh.org/news/2018/09/15/pharma-and-hospital-systems-now-playing-drug-pricing-blame-game-13414
[3] https://intermountainhealthcare.org/news/2018/01/leading-us-health-systems-announce-plans-to-develop-a-not-for-profit-generic-drug-company/
[4] https://www.biospace.com/article/hospitals-launch-generic-drug-company-civica-rx-to-drive-down-drug-prices-jc1n-/
[5] https://www.medscape.com/viewarticle/907483
[6] https://thehill.com/business-a-lobbying/419971-judge-adds-new-hurdle-to-cvs-aetna-merger
[7] https://www.phrma.org/nearly-1-in-5-hospitals-marks-up-medicine-prices-at-least-700-percent
[8] https://www.aha.org/news/blog/2018-09-06-only-thing-transparent-about-phrma-their-attempt-blame-others-rising-drug
[9] https://www.acsh.org/news/2019/01/08/president-trump-calls-low-drug-prices-media-hypes-

pharma%E2%80%99s-recent-increases-13713
[10] https://www.acsh.org/news/2018/01/22/hospital-systems-getting-big-pharma-game-12453
[11] https://www.acsh.org/news/2018/07/23/it-checkmate-pharmas-epic-gaming-patents-13219
[12] https://www.acsh.org/news/2017/09/13/are-cancer-drugs-cheaper-make-previously-thought-new-study-claims-so-11819