

INDEX

- 340B hospitals
 - reimbursement of drug costs, 52–53
- AbbVie, 20, 50–51, 66, 165
- acquisitions
 - concerns over concentration in the drug delivery chain, 100
- Adderall, 29–30
- Advil, 30, 140
- Aetna, 41, 128
- Affordable Care Act, 10–11
 - 80/20 rule for health insurers, 35–36
 - unintended consequences, 87–88
- Allergan, 8, 25–26, 111, 137
- Alzheimer medications, 46
- Amazon
 - joint venture with Berkshire Hathaway and J.P. Morgan, 102
- AndroGel, 66
- Anthem, 11, 41, 47
- antitrust action
 - SmithKline action against Eli Lilly, 26–28
- antitrust laws, 22–23
- artificial intelligence (AI)
 - potential use for collusion, 102
- Asacol, 73
- AstraZeneca, 21, 160
- Average Wholesale Price (AWP) of drugs, 12
- barriers to market entry, 23
- Berkshire Hathaway
 - joint venture with Amazon and J.P. Morgan, 102
- biosimilars, 26, 137, 157
- Biosimilars Act, 108
- Biosimilars pathway, 103
- bipolar disorder medication, 48
- blockbuster drugs
 - strategies to extend the protection period, 75–76
- Blue Cross, 11, 13
- branded drugs
 - contribution to prescription drug price rises, 7–8
 - cost compared with generic drugs, 6
 - effects of the monopoly position, 28
 - increase in Medicare spending, 1
 - monopoly pricing, 6
 - prescription drugs, 5–10
 - strategies to delay the introduction of generic versions, 65–70
- bundled rebates, 24–29
- Caraco v. Novo Nordisk*, 68, 160
- Caremark, 40–41
- Carter, Jimmy, 5
- Centers for Medicare and Medicaid Services (CMS), 8
- cephalosporins
 - SmithKline antitrust action against Eli Lilly, 26–28
- cholesterol-lowering drugs, 54
- Cigna, 11
- class actions
 - against CVS Caremark, 30
 - against Teva Pharmaceuticals, 110
 - against Walgreens, 30
 - Anthem Class Action Complaint, 47, 124, 127, 132, 147
- colitis medication, 73
- collusion strategies, 101–2
- combination drugs
 - patenting, 68

- combinations of existing medications
 - use of patent protection, 6
- competition
 - barriers to market entry, 23
 - collusion strategies, 101–2
 - effects of incentives for doctors and hospitals, 50–52
 - effects of the intellectual property system, 57–59
 - stifling effect of evergreening, 85
- competition-free zones for pharmaceutical companies, 3–4
- competitive barriers
 - key findings of the evergreening study, 61–62
- concentration in drug markets
 - proposals to reduce, 100–2
- concentration of the PBM industry, 14–15
- Congressional Budget Office
 - on price negotiation by federal regulators, 92
- consumers
 - financial pressures caused by drug costs, 2
 - harms from perverse incentives for drug companies, 3–4
 - information disadvantage in health care, 7
 - view of the healthcare system, 2
 - See also* patients
- cost burden shifting by health insurers, 39–42
- coupon plans
 - problems with, 53–54
- CVS Caremark, 30, 48–49, 128, 130, 139, 147, 148, 149
 - complaint about pricing, 12–13
- CVS Health, 14
- CVS pharmacies, 47
- Delzicol, 73, 162
- Department of Health and Human Services
 - proposed regulation of rebates, 31
- 3,4-diaminopyridine (3,4-DAP), 82
- discounts on drug prices, 18–19
- doctors
 - incentives from drug companies, 50–52
 - incentives to use higher-priced drugs, 52–53
 - key opinion leader payments, 50
 - rebates offered on drug prices, 51–52
- drug approval process, 63–70
- drug companies. *See* pharmaceutical companies
- drug development
 - consequences of the intellectual property system, 57–59
 - cost to bring a drug to market, 5
- drug over-consumption
 - encouragement by drug companies, 54
- drug prices
 - Average Wholesale Price (AWP), 12
 - budgetary pressures caused by, 2
 - customers who pay full list price, 9–10
 - discounts, 18–19
 - distorted incentives in the healthcare system, 56–57
 - effects of going off patent, 37–39
 - failure of conventional price-constraint mechanisms, 2
 - formulary tiers, 13
 - incentives that drive price increases, 2–4
 - influence of PBMs, 2–3
 - list price concessions and rebates, 9
 - monopoly position and market control, 28
 - negotiation by PBMs, 11–13
 - patients with no health insurance coverage, 10
 - price pledges by drug companies, 86–87
 - rebates, 15, 17–19
 - secrecy of net prices, 13–14
 - ultimate payers of higher prices, 42–43
 - See also* evergreening
- drug sales
 - concentration of the PBM industry, 14–15
 - flow of payments through the supply chain, 15–17
 - health insurers' information gaps, 13–14
 - how they should operate in the public interest, 17
- drug spending
 - annual increases, 1–2
- drug substitution laws, 64
- drug supply chain
 - concerns over concentration, 100
 - flow of payments through, 15–17
 - role of pharmacies, 44
- drugs market
 - barriers to entry, 23
 - incentives to drive prices higher, 18
- Duexis, 30, 140, 146

Index

181

- Eli Lilly, 8, 10, 130, 149–50
 - antitrust action brought by SmithKline, 26–28
- Epogen, 81–82
- ERISA, 96, 99, 173
- evergreening
 - definition, 60
- evergreening study
 - background, 60–61
 - evergreening strategies used by drug companies, 66–70
 - extending the protection of blockbuster drugs, 75–76
 - frequency of serial additions of protections, 77–78
 - gaming of the orphan drug exclusivity system, 80–83
 - growing problem of evergreening, 79
 - increase in new use codes in the Orange Book, 83–84
 - indications of competitive barriers, 61–62
 - key results, 61–62
 - methodology, 70–71
 - number of all drugs that had market barriers added, 76–77
 - overview of results, 71–72
 - particular exclusivities that are increasing over time, 79–84
 - reality of the drug approval process, 63–70
 - recycling and repurposing old drugs, 72–75
 - results, 71–85
 - stifling effect on competition, 85
 - stifling effect on innovation, 85
- exclusivity period
 - one-and-done proposal, 102–8
- exclusivity protection. *See* evergreening; patents
- export market for pharmaceuticals, 5
- Express Scripts, 9–10, 14, 20, 33, 47
 - SEC comments on undifferentiated revenue figures, 98–99
- Federal Trade Commission (FTC), 9
 - report on PBM-owned mail-order pharmacies, 50
- Fifth Amendment Takings Clause, 106–8
- Food & Drug Act, 96
- formularies
 - inducements to include branded drugs, 29–31
 - payment for a preferred position, 20–21
 - purchaser choice and, 28–29
 - tiers, 13
- gag clauses
 - preventing pharmacies suggesting lower-priced alternatives, 44–45
- generic drugs
 - approval under the Hatch-Waxman system, 64–65
 - cost compared with branded drugs, 6
 - drug substitution laws, 64
 - financial penalties for using, 29–31
 - Hatch-Waxman system for approval, 5
 - pricing, 6
 - strategies to circumvent the Hatch-Waxman system, 60
 - strategies to delay the introduction of, 65–70
- government
 - budgetary pressures caused by drug costs, 2
- Hatch-Waxman Act, 108, 163
- Hatch-Waxman system, 5, 69, 103
 - approval for generic drugs, 64–65
 - drug companies' strategies to circumvent, 60
- health insurance
 - drug costs to patients with no coverage, 10
 - patient contributions based on full list price of drugs, 9–10
 - payment for prescription drugs, 11
 - types and methods of funding, 11
- health insurers
 - Affordable Care Act 80/20 rule, 35–36
 - bargaining disincentives for the bigger players, 32–36
 - bargaining disincentives for the smaller players, 36–37
 - competition risk of alliances with pharmaceutical companies, 15
 - cost burden shifting, 39–42
 - drug price negotiation by PBMs, 11–13
 - information asymmetries, 13–14, 32
 - lack of knowledge of net drug prices, 13–14
 - nature of their contract with PBMs, 13–14
 - pricing of drugs that are about to go off patent, 37–39

- health insurers (cont.)
 - problems in bargaining for a better deal, 32
- healthcare system
 - disincentivizing innovation, 57–59
 - distorted incentive structures, 56–57
 - factors influencing purchasing decisions, 7
 - information disadvantage of consumers, 7
 - nature of the market, 6
 - spending model, 2
 - view of consumers (patients) and, 2
- hemophilia therapies
 - cost of, 1
- hepatitis C
 - cost of Sovaldi treatment, 2
- Horizon pharmaceutical, 30
- hospitals
 - 340B hospitals, 52–53
 - incentives from drug companies, 50–52
 - nonprofit hospitals, 52–53
 - rebates offered on drug prices, 51–52
- hub-and-spokes arrangements
 - collusion mechanism, 101
- Humira, 50–51
- imperfect substitution of drugs, 22
- In re Brand Name Drug Litigation*, 87
- information asymmetries
 - for health insurers, 13–14, 32
 - issues for larger health insurers, 32–36
 - issues for smaller health insurers, 36–37
- innovation
 - disincentives in the healthcare system, 57–59
 - stifling effect of evergreening, 85
 - unintended consequences of the intellectual property system, 57–59
- intellectual property system
 - effects on competition, 57–59
 - proposal for ruthless simplification, 108–10
 - standards-based approach, 109–10
- J.P. Morgan
 - joint venture with Amazon and Berkshire Hathaway, 102
- Johnson & Johnson, 24, 26, 137, 160
- Journal of the American Medical Association*
 - report on Medicare spending on combination drugs, 68
- Kaiser Permanente, 11, 41
- Karst, Kurt, 60
- key opinion leader payments to doctors, 50
- kickbacks, 31, 50, 135, 146, 149, 151–52
- Kymriah, 1, 117, 167–68
- Lipitor, 54
- Lovenox, 51–52
- loyalty rebates, 24–26
- market information
 - proposals for more transparency, 95–99
- market power
 - consideration of multiplicity effects, 100–1
- McCarran-Ferguson Act, 94, 169
- Medicaid, 6, 11, 14, 92, 96
 - increasing spending on drugs, 1–2
 - role of, 92
- medical practitioners
 - incentives from drug companies, 50–52
- Medicare, 6, 10–11, 96
 - Caremark complaint, 12
 - choice among private health plans, 34
 - coverage of drug costs, 13
 - direct negotiations on prices with drug companies, 91–93
 - drivers of rising costs and premiums, 39–40
 - increasing spending on drugs, 1–2
 - reimbursement of drug costs, 52–53
 - role of, 92
 - spending on branded combination drugs, 68
 - unintended consequences of the Affordable Care Act, 87–88
- Medicare Payment Advisory Commission (MedPac) report, 7, 118, 122, 123–24, 143
- Menactra, 26
- Merck, 87, 137, 165
- mergers
 - concerns over concentration in the drug supply chain, 100
- Microsoft, 100
- migraine medications, 6
- monopolization
 - patents and market control, 28
 - SmithKline action against Eli Lilly, 26–28
- monopoly pricing of branded drugs, 6
- Mossoff, Adan, 106

Index

183

- most-favored-nation clauses, 23–24
- multiplicity effects
 - contribution to market power, 100–1
- Namenda
 - maneuvers to extend its protection, 67–68
- naproxen, 6, 117
- narcolepsy medication, 110
- National Academy of Sciences, 9, 88
- National Institutes of Health (NIH), 96
- new drug application (NDA), 64
- Nexium, 21, 160
- nonprofit hospitals
 - reimbursement of drug costs, 52–53
- Novartis, 1, 46, 88, 150, 167–68
- off-label use of drugs, 81–82, 163
- opioid crisis, 55
- OptumRx, 10, 14, 133
- Orange Book
 - concerns about inaccurate use codes, 68–69
 - increase in new use codes for drugs, 83–84
 - listing of drug patents, 64–65
- Orphan Drug Act, 80–81
- orphan drugs, 69, 103
 - cost of, 1
 - gaming of the exclusivity system, 80–83
- outcomes-based pricing, 88–91
- packaged rebates, 24–26
- patents, 23, 157
 - approval of generic drugs under Hatch-Waxman, 64–65
 - combination drugs, 68
 - concerns about inaccurate Orange Book use codes, 68–69
 - cost of obtaining, 63
 - for combinations of existing medications, 6
 - increasing frequency of added patents for drugs, 79
 - legislative changes for one-and-done drug exclusivity, 102–8
 - length of the market exclusivity period, 63
 - market control and pricing, 28
 - Orange Book listing of drug patents, 64–65
 - pricing of drugs that are about to go off patent, 37–39
 - purpose of patent protection for drugs, 5
 - secondary patents, 67–68
 - ways of extending patent protection, 6
 - See also* evergreening
- patient advocacy groups
 - donations from drug companies, 55
 - vulnerability to deception, 53
- patients
 - choice to pay for their original drug, 22
 - continuous coverage laws, 22
 - gift inducements for brand advocacy, 54–55
 - pharmacies restricted on suggesting lower-priced alternatives, 44–45
 - problem with patient coupons, 53–54
 - psychology of higher-priced drugs, 56
 - refusal to switch drugs, 22
 - ultimate payors of higher drug prices, 42–43
 - vulnerability to deception, 53 *See also* consumers
- pay-for-delay strategies, 38, 65–66
- pediatric acute lymphoblastic leukemia, 89
- Pepcid, 30, 140
- persuasion payments, 22, 50
 - forms of, 21–26
 - to PBMs, 20
- perverse incentives in the healthcare system, 56–57
- pharmaceutical companies
 - acquisition of PBMs, 15
 - administrative fees paid to PBMs, 19–20
 - competition blocking using PBMs, 21
 - competition-free zones, 3–4
 - competition risk of alliances with health insurers, 15
 - controversial price pledges, 86–87
 - donations to patient advocacy groups, 55
 - encouragement of drug overconsumption, 54
 - financial incentives to pharmacies, 45–46
 - incentives to PBMs to drive prices higher, 18–21
 - incentives to specialty pharmacies, 45–46
 - pay-for-delay strategies, 38, 65–66
 - persuasion payments to PBMs, 20
 - perverse incentives, 3–4
 - preservation of monopoly profits, 3–4
 - price drop associated with introduction of generics, 65

- pharmaceutical companies (cont.)
 - pricing of drugs that are about to go off patent, 37–39
 - profit growth on existing drugs, 8
 - profits on drugs, 10
 - salami-slicing strategy for orphan drug exclusivity, 82
 - secretive negotiations with PBMs, 11–13
 - spending on lobbying activities, 55
 - spillover pricing for orphan drugs, 81–82
 - strategies to circumvent the Hatch-Waxman system, 60
 - strategies to delay the introduction of generic drugs, 65–70
 - strategy of coupon plans, 53–54
 - tactics to get branded drugs into formularies, 29–31
 - tax benefits of donations to patient groups, 55–56
 - use of rebates to engage in monopolization, 26–28
- pharmaceutical industry
 - cost to bring a drug to market, 5
- pharmacies
 - acquisition by PBMs, 15
 - clawbacks by PBMs, 49–50
 - concerns over mergers with PBMs, 46–48
 - drug substitution regulation, 17
 - gag clauses, 44–45
 - how PBMs squeeze independent pharmacies, 49–50
 - incentives from drug companies for higher prices, 45–46
 - information gained by PBMs after mergers, 48–49
 - mark-up on drugs, 15–17
 - restriction on suggesting lower-priced alternatives, 44–45
 - role in the drug supply chain, 44
- Pharmacy Benefit Manager (PBM)
 - consultants, 14
- Pharmacy Benefit Managers (PBMs)
 - acquisition by pharmaceutical companies, 15
 - acquisition of pharmacies, 15
 - administrative fees from drug companies, 19–20
 - competition blocking for drug companies, 21
 - concentration of the PBM industry, 14–15
 - concerns over mergers with pharmacies, 46–48
 - creation of formularies, 28–29
 - difficulty of breaking into the PBM market, 37
 - drug price negotiation on behalf of health plans, 11–13
 - flow of payments through the drug supply chain, 15–17
 - how they squeeze independent pharmacies, 49–50
 - incentive structure, 42–43
 - incentives from drug companies to drive prices higher, 18–21
 - increases in industry income and profit, 10
 - inducements to put branded drugs in formularies, 29–31
 - influence on drug prices, 2–3
 - information gained after mergers with pharmacies, 48–49
 - nature of their contract with health insurers, 13–14
 - persuasion payments from drug companies, 20
 - proposals to reform or eliminate, 93–95
 - role of, 11–13
 - secrecy of their operations, 2–3
 - secretive negotiations with pharmaceutical companies, 11–13
 - timing effects in dealings with drug companies, 37–39
 - why they may prefer higher prices, 18–31
- Physician Payments Sunshine Act, 96
- predatory pricing, 38
- prescription drugs
 - branded drugs, 5–10
 - growth in spending on specialty drugs, 8–9
- influential factors in purchasing decisions, 7
- payment by health insurance, 11
- rates of price increases, 7–8
- Prilosec, 21, 160
- product hopping, 73, 145
- Provigil, 110, 177
- Public Health Service Act
 - Section 340B, 52
- purchaser choice
 - effects of bundled rebates, 26–29
- purchasing decisions
 - influential factors in health care, 7

Index

185

- Racketeering Influence and Corrupt Organizations Act (RICO), 30
- Raising Rival's Costs strategy, 38
- rebates
 - based on market share, 87–88
 - bundled rebates, 24–29
 - Department of Health and Human Services proposed regulation, 31
 - offered to doctors and hospitals, 51–52
 - on payments for drugs, 15, 17–19
 - pass-through provisions, 30–31
 - used to engage in monopolization, 26–28
 - volume rebates, 21–26
- regulatory exclusivities, 69
- regulatory property, 69
- Remicade, 26, 175
- Restasis, 25
- rheumatoid arthritis medication, 50
- salami-slicing strategy for orphan drug exclusivity, 82
- Sanofi, 26, 51–52, 149
- schizophrenia medication, 48
- secondary patents, 67–68
- Secretary of Health and Human Services
 - role in overseeing Medicare, 92
- Securities and Exchange Commission (SEC)
 - comments on Express Scripts revenue composition, 98–99
- Shire Pharmaceuticals, 25–26
- SmithKline
 - antitrust action against Eli Lilly, 26–28
- society
 - cost of higher drug prices, 42–43
 - harms from perverse incentives for drug companies, 3–4
- solutions
 - challenging the perverse incentive structures, 86
 - direct negotiations on prices by Medicare, 91–93
 - federal powers to mandate pricing transparency, 95–96
 - future prospects if drug prices continue to soar, 111
 - one-and-done for the exclusivity period, 102–8
 - outcomes-based pricing, 88–91
 - paving a better road, 111
 - proposals with potential (but problems), 86–95
 - reduce concentration in drug markets, 100–2
 - reform or eliminate PBMs, 93–95
 - rethink the shape of markets, 100–2
 - ruthless simplification of the intellectual property system, 108–10
 - state powers to mandate pricing transparency, 96–97
 - transparency of market information, 95–99
 - value-based pricing, 88–91
- Sovaldi
 - cost of hepatitis C treatment, 2
- Spark therapeutics, 1
- specialty drugs
 - defining, 47
 - growth in spending on, 8–9
- specialty pharmacies
 - concerns over mergers with PBMs, 46–47
 - incentives for higher prices, 45–46
- spillover pricing for orphan drugs, 81–82
- Syrprine, 30
- takeovers
 - concerns over concentration in the drug delivery chain, 100
- tax incentives for drug companies, 55–56
- taxpayers
 - harms from perverse incentives for drug companies, 3–4
- testosterone replacement drugs, 66
- Teva case, 107–8, 162
- Teva Pharmaceuticals, 30, 110
- TINA (Truth-in-Negotiations Act), 99
- Treximet, 6, 117
- Truthful Cost of Pricing Data Act, 99
- US Food and Drug Administration (FDA), 61
 - concerns about inaccurate Orange book use codes, 68–69
 - conditional approval of drugs, 46
 - drug exclusivities available from, 69
 - handling of citizen petitions, 109–10
 - Orange Book listing of drug patents, 64–65
- US Government Accountability Office
 - report on drug price increases, 8

US Patent and Trademark Office (USPTO), 64	Walgreens, 30
Valeant, 30	Walmart, 13, 41
value-based pricing, 88–91	whistleblowers
Veterans Administration	<i>Behnke v. CVS Caremark Corp.</i> , 12
drug benefits, 92	Xiidra, 25
health insurance benefits, 11	Zyprexa, 48–49, 148
volume rebates, 21–26	