

***Employer's Perspective on
the Role of Pharma, Biotech
and Device Sectors:***

**The Future Isn't What It
Used To Be**

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June 7, 2004***

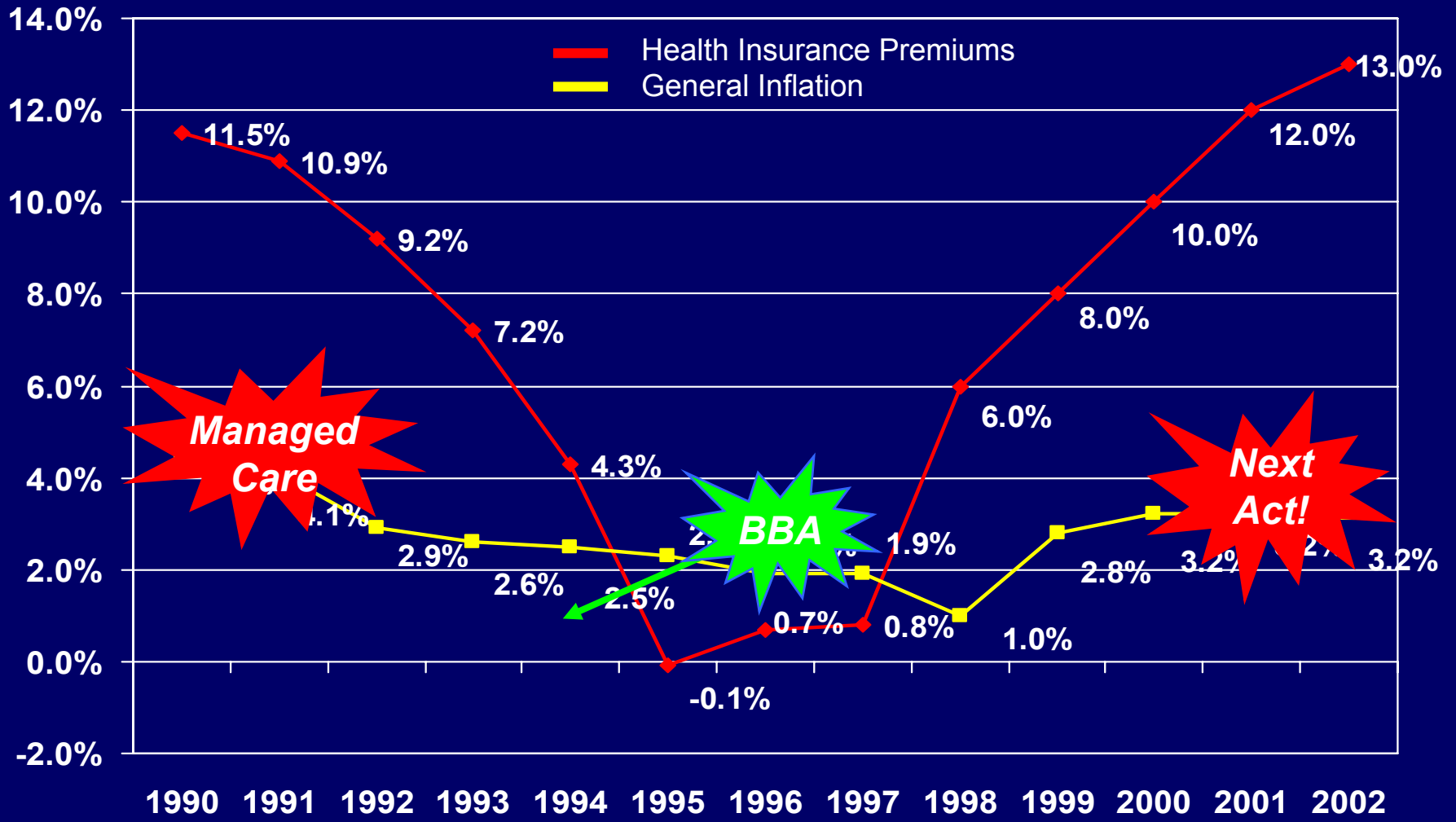
Anyone Who Doesn't See the Value of Innovation Hasn't Been Ill.....

- TNF Inhibitors for Inflammatory Arthritis
- SSRI's for Depression
- Coated Stents
- Gamma Knife
- Implantable Defibrillators
- Computerized Physician Order Entry

Anyone Who Doesn't See the Overuse of Innovation Hasn't Done Rounds.....

- Cox II NSAIDS for All
- Third Generation Cephalosporin's for Uncomplicated Infections
- Thallium ETT → Echo → EBCT → Cardiac Cath for Every Chest Pain
- MRI for Every Headache
- Non-Sedating Histamines for All

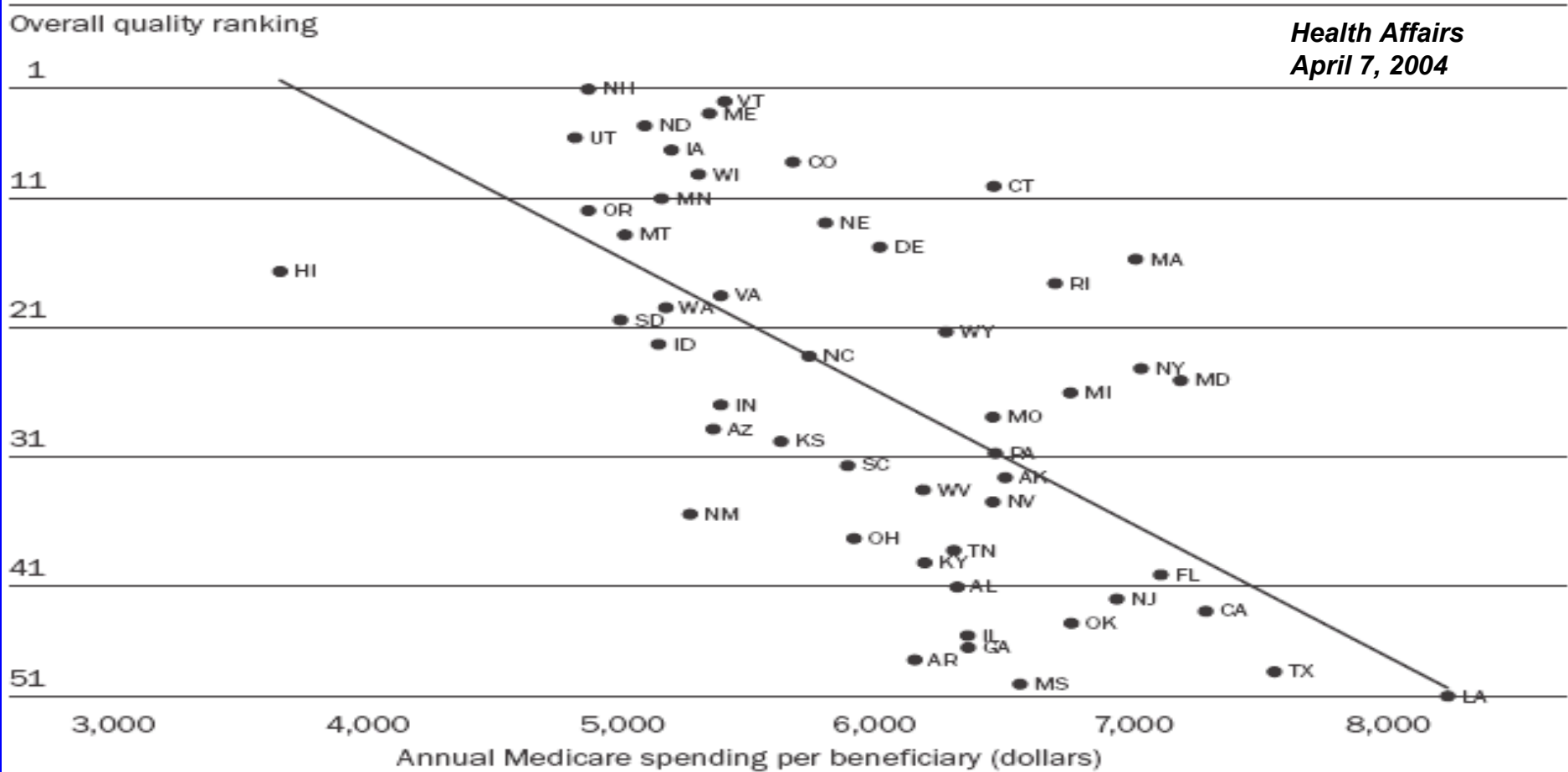
Costs Are On The Rise



Every 1% in Costs Leads to 300,000 Additional Uninsured

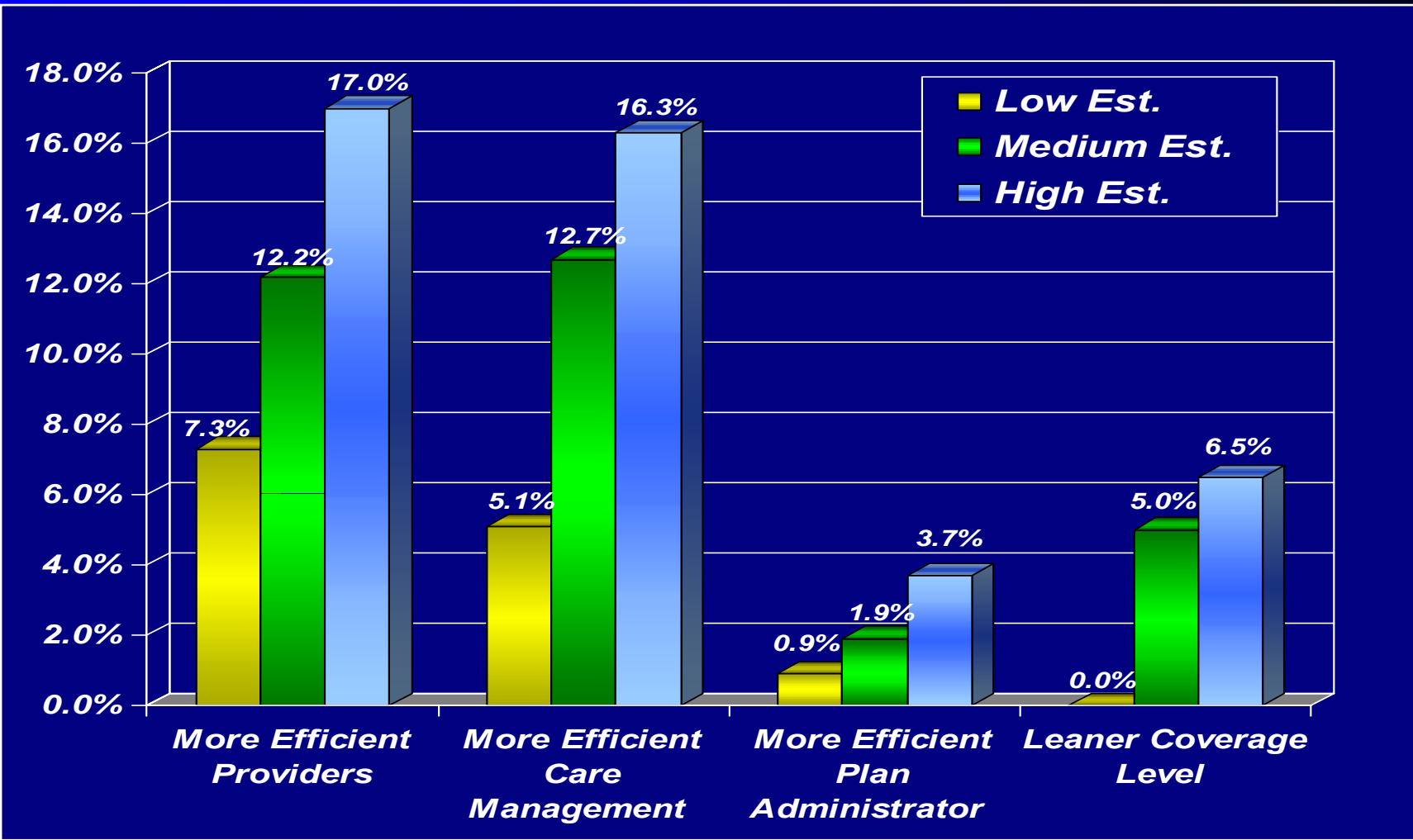
Quality and Efficiency Vary Widely By State

EXHIBIT 1
Relationship Between Quality And Medicare Spending, As Expressed By Overall Quality Ranking, 2000-2001



SOURCES: Medicare claims data; and S.F. Jencks et al., "Change in the Quality of Care Delivered to Medicare Beneficiaries, 1998-1999 to 2000-2001," *Journal of the American Medical Association* 289, no. 3 (2003): 305-312.
NOTE: For quality ranking, smaller values equal higher quality.

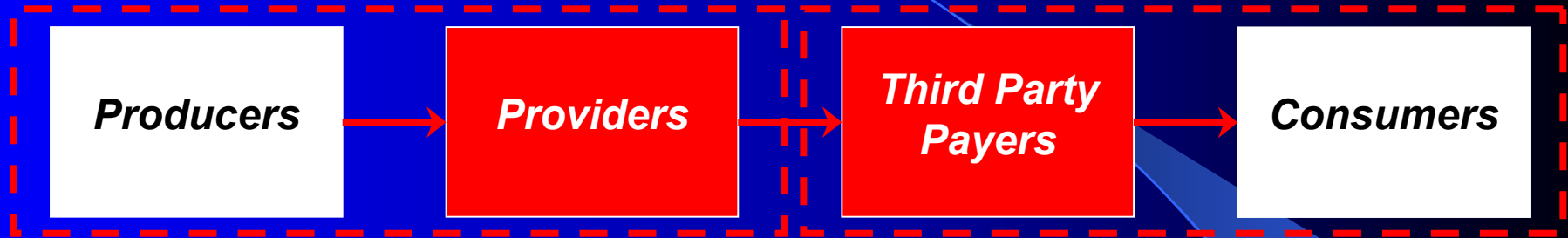
Savings From Quality and Efficiency Are Huge



Why Reframing the Innovation Debate Is Critical

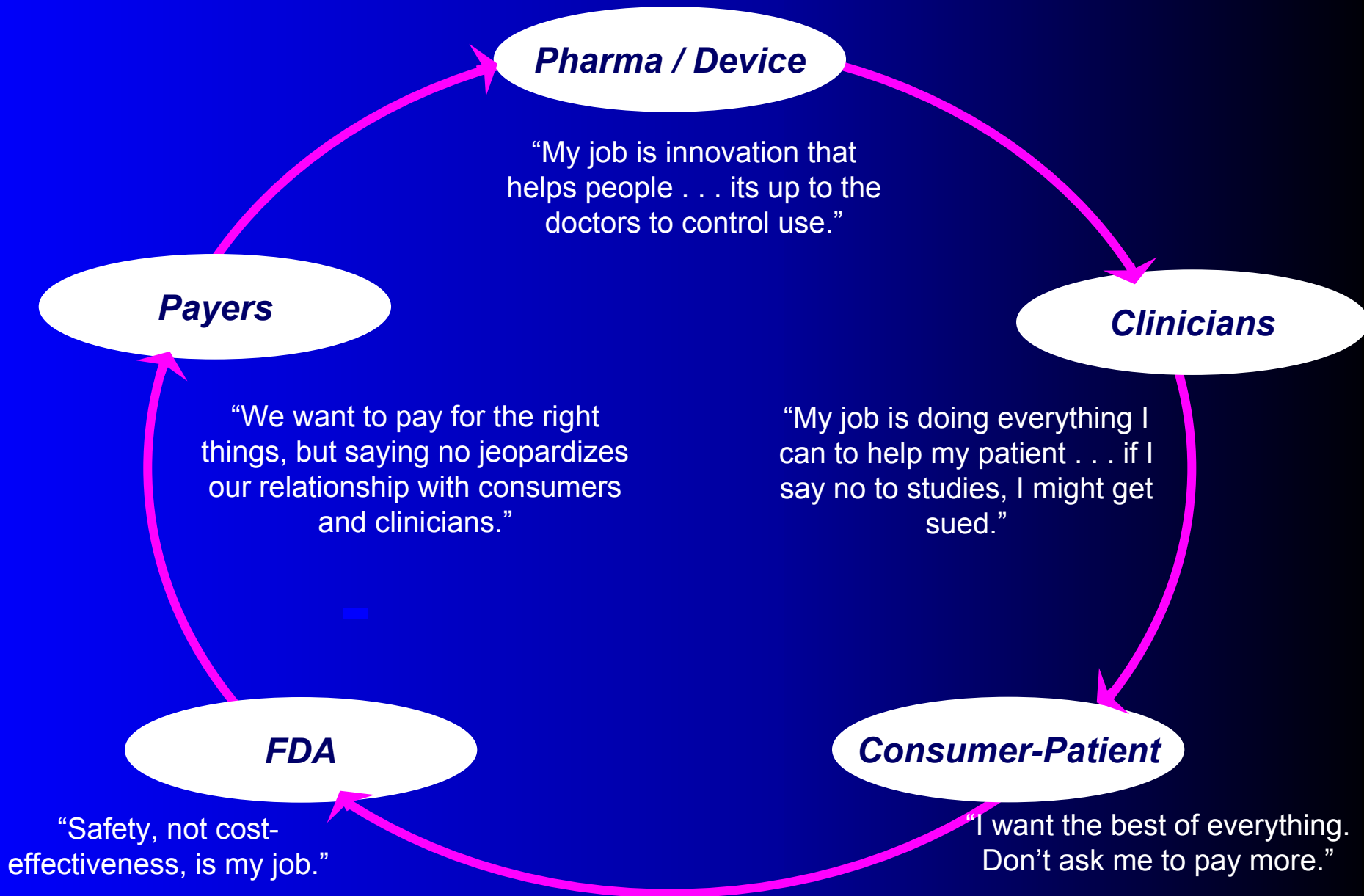
- Innovation is the Path to Better Health and System Reform
- Partisan Positioning Works in the Short Run – But Unsustainable Cost Increases Aren't Infinite
- ~60% of Pharma/Tech Profits are From the U.S. – Representing 7% of World Population
- Every Other Country Controls Supply and Sets Prices
- If We Can't Address Our Issues, This is What We'll Get

Health Care Differs From Other Sectors in Critical Ways



- Demand Drives Supply *AND* Supply Drives Demand
- Third-Party Payers Distort Price-Sensitivity – To Both Consumers and Providers
- Quality is Frequently Invisible
- Third-Party Payers – Through Coverage and Payment – Influence Sales

The Cycle of Unaccountability



Two Suggestions to Reform the Market

- ***Incentives and Rewards***
- ***Producer – Payer Cooperation***

A Market Approach to Costs

“Employers believe that consumer pressure is a powerful, underutilized lever for improving quality and efficiency. They believe that higher quality and lower cost will result if consumers spend more of their own money for services they believe are high quality, and if providers respond by improving their performance. For this strategy to succeed, consumers will have to be activated to seek more efficient, higher quality care and physicians will have to be rewarded for delivering it.”

Sounding Board
NEJM, September 19, 2002



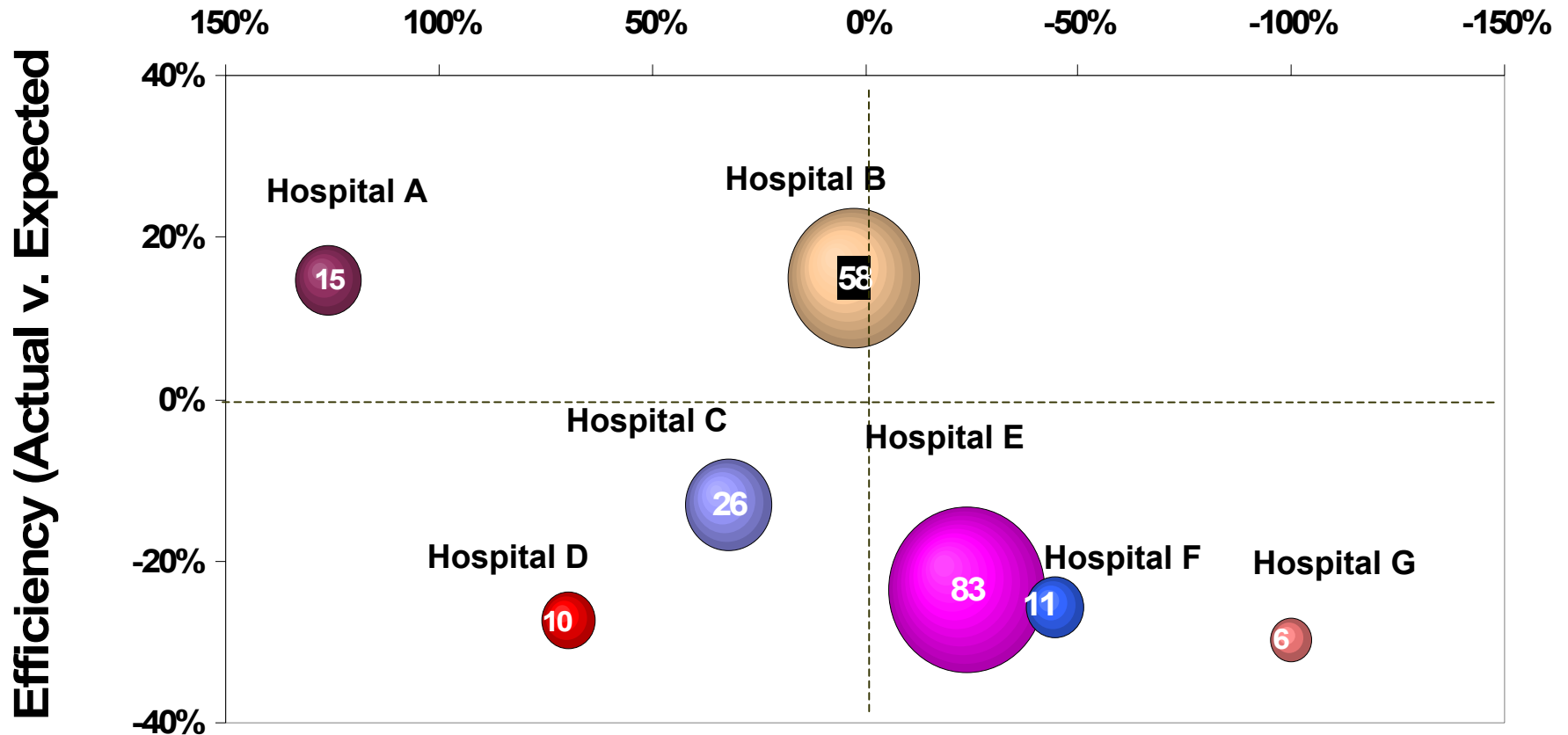
Transparency

Incentives and Rewards

❖ ***Focus on Quality and Efficiency***

Higher Quality + Lower Costs = Value

Effectiveness (Actual v. Expected Complications)



Quality Usually Costs Less – Quality and Efficiency Always Saves Money

Consumer Incentives Drive Market Change

Joe Jackson Needs Surgery . . . Has The Choice of Three Hospitals In His Market



<i>Value Rating</i>	<i>Top Quality & Efficiency</i>	<i>Average Quality & Efficiency</i>	<i>Low Quality & Efficiency</i>
<i>Total Cost</i>	\$10,000	\$15,000	\$20,000
<i>Company Pays</i>	\$10,000	\$13,500	\$18,000
<i>Employee Pays</i>	\$0	\$1,500	\$2,000

Producers and Payers: Common Vision, Different Missions

Pharma and Device

- Help Patients and Prevent / Cure Disease
- Innovations Save Money . . . And Are Good for the Economy
- Healthy Employees Are More Productive
- Payers “Don’t Get It” – They’re Just Trying to Keep Costs Down”

Payers

- Help Patients and Prevent / Cure Disease – Keep Health Care Affordable
- Some Innovations Are Great – but Many Add Cost Without Much Benefit, Increasing Uninsured
- Can’t Track Healthy Employees to Bottom Line
- Pharma / Device “Don’t Get It” – They’re Just Driven by Quarterly Earnings

Challenges

Producers / Payers: A New Paradigm

1. Agree That System Is Centered Around Patients
2. Talk About Innovation Pipeline at Early Phase
3. Cooperatively Design Clinical Trials to Answer Questions About Cost-Effectiveness
4. Agree That Not All Innovations Are Worthy – and That Breakthrough Products Should Be Fast-Tracked