sation and committee decisions. These data were analysed to determine the impact of the policy measures. Policy changes included increased patient co-payments, mandatory 12.5% price cut with generic entry, a weighted average monthly treatment cost price adjustment mechanism. The Pharmaceutical Benefits Advisory Committee controls recommendations to government concerning the funding of new drugs. RESULTS: The level of acceptance of new drugs that are submitted on a cost-effectiveness basis has fallen to approximately 20%. The impact of patient co-payment on reducing the volume of units sold nationally was estimated to be 5–10%. The effect of price reduction initiatives in 2005 on Pharmaceutical Benefits Scheme expenditure was estimated at 3–4% of total spending. CONCLUSIONS: These initiatives have been very effective in restricting national drug expenditures growth. For most of the 1990s and into this decade, total expenditure has grown more than 10% per annum. By the end of 2005 this had fallen to well below 5%.

**THE IMPACT OF BARIATRIC SURGERY ON HEALTH OUTCOMES AND PHARMACOLOGICAL TREATMENT AMONG OBESE PATIENTS IN AN EMPLOYED POPULATION**

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OBJECTIVE: To identify the impact and persistence of bariatric surgery on health outcomes and pharmacological treatments among obese patients. METHODS: A comprehensive analysis of 4322 patients with a diagnosis of obesity (ICD-9-CM = 278) and a CPT code of bariatric surgery (43,842, 43,843, 43,846, 43,847, S2085) was conducted using US administrative claims data covering 5.0 million lives. The 30 most frequent 3 digit ICD-9-CM codes prior to surgery were analyzed along with corresponding pharmacological treatments. Diagnostics and pharmacological treatment were then compared in the 90 days preceding the surgery and eight 90 day post-surgery periods (days 30–120 to days 660–750). Frequency counts pre- and post surgery were performed using 3 digit ICD-9-CM codes for diagnostics and AHFS (American Hospital Formulary Service) therapeutic classes and compared using chi-squared tests. RESULTS: Cardiovascular disease, diabetes, respiratory disease (and asthma in particular), joint and muscle disease, and psychiatric disorders prevalence fell monotonically over the two year period observed (mean age = 43.2, 16.4% male). Two years following surgery, cardiovascular disease prevalence decreased from 40.4% to 5.7%), diabetes mellitus from 18.6% to 3.1%, respiratory disease from 45.0% to 3.2% with asthma dropping from 6.7% to under 1%, diseases of the joints and muscles from 24.7% to 7.4%, and psychiatric disorders from 12.1% to 3.7%. Anemia diagnoses increased from 4.1% to 8.9% after 210 days, but decreased back to 3.6% after 750 days. Treatment frequency with insulin and oral antidiabetics decreased from 4.4% to 0.5% and from 16.0% to 1.8%, respectively. Treatment frequency for cardiovascular diseases (Ace inhibitors, calcium channel blockers, diuretics, betablockers, and other hypotensives) fell from 42.1% to 10.1%. Hypolipidemic use also dropped from 12.6% to 1.9%. All differences between pre- and post surgery proportions are statistically significant (P = 0.05). CONCLUSION: Bariatric surgery is associated with significant improvements in health outcomes and reduced pharmacological utilization for major disease categories.

**DETERMINANTS OF GENERIC ENTRY IN LAST DECADE**

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OBJECTIVES: This study examines the factors that influence generic entry upon patent expiration of branded drugs, specifically focusing on the drug’s profitability as a generic firm’s incentive to enter as well as additional patents filing as a strategic entry barrier tool by patent holders. METHODS: For 138 drugs (approved through NDA process between 1970 and 1990) whose initial patent expired over the period 1994–2003, the expiration dates of all related patents listed and their generic version’s approval dates (if generic entry happened) were obtained from the FDA. At different follow-up time point—6, 12, 18, and 24 months after the initial patent expiration, probit analyses of the likelihood of generic entry were done to identify the determinants of the entry. Additionally, we examined the relationship between total number of patents listed and the drug’s profitability using negative binomial regression analysis to investigate whether patent holders filed more patents for future top-selling products. RESULTS: Top-selling drugs as well as the drugs for geriatric care were more likely to attract generic entry at every time point (Relative Risk (RR) for top-selling drugs = 33.84, 6.76, 6.04, and 3.90; RR for geriatric drug = 3.97, 2.35, 1.82, and 1.43 respectively). The likelihood of generic entry increased as the initial patent expiration year increased (p < 0.05). Generic competition was less likely to occur under the presence of any unexpired additional patent(s) at each time point (RR = 0.13, 0.33, 0.30 and 0.32). Top-selling drugs had more patents compared to non-top-selling drugs (p < 0.000). CONCLUSIONS: Delay in generic competition was associated with patent holder’s intention to extend patented period by filing more patents. The generic industry has targeted top-selling products and future-growing market as the population ages. Generic competition increased under “favoring generics policy” and “cost containment efforts” in last decade.

**PRESCRIPTION DRUG INSURANCE AND ITS EFFECT ON UTILIZATION AND HEALTH OF THE ELDERLY**

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OBJECTIVE: Approximately 30% of elderly do not have prescription drug coverage. To remedy this problem, the Medicare Modernization Act was recently passed. Surprisingly, little is known about how drug coverage will affect health. The goal of this paper is to obtain estimates of “causal effects” of prescription drug coverage on drug use, inpatient visits and health of the elderly. METHODS: The primary data source used in the analysis is the Medicare Current Beneficiary Survey (MCBS), Cost and Use file from Centers for Medicare and Medicaid Services (CMS) for years 1992–2000. Two empirical approaches were used to account for non random sorting into drug coverage: fixed-effects and instrumental variables (IV). The Fixed-effect approach uses longitudinal data and controls for unmeasured person-specific effects that may confound the relationships of interest. IV uses arguably exogenous variation in prescription drug coverage to obtain estimates of the relationships of interest. RESULTS: Between 1992–2000 approximately 25% of the elderly in the sample gained some level of prescription drug coverage. Estimates showed that after accounting for the non-random nature of prescription drug coverage, drug coverage, particularly public coverage, significantly increased the utilization of prescription drugs (~13% higher utilization), but has no significant discernable effect on the use inpatient visits or health, as measured by