

Prescription Drug Pricing in America: How Can It Be Different?

The Facts:

US prices for the world's 20 top-selling medicines are, on average, three times higher than in Britain, according to an analysis carried out for Reuters. The 20 medicines, which together accounted for 15% of global pharmaceuticals spending in 2014, are a major source of profits for companies including AbbVie, AstraZeneca, Merck, Pfizer and Roche.

Researchers from Britain's University of Liverpool also found US prices were consistently higher than in other European markets. Elsewhere, US prices were six times higher than in Brazil and 16 times higher than the average in the lowest-price country—usually India.

The United States, which leaves pricing to market competition, has higher drug prices than other countries where governments directly or indirectly affect prices. That makes us by far the most profitable market for pharmaceutical companies, effectively meaning that Americans are subsidizing health systems elsewhere.

Manufacturers say high returns are needed to reward high-risk research and that prices reflect the economic value provided by medicines. They also point to higher US survival rates for diseases such as cancer and the availability of industry-backed access for poorer citizens.

In recent years, the international price differential has been exacerbated by annual increases in US drug prices above inflation. In fact, US prices for top brand-name drugs jumped 127% between 2008 and 2014, compared with an 11% rise in a basket of common household goods, according to Express Scripts, the largest US manager of drug plans.

In the past, pharmaceutical companies have attributed high prices to innovation, arguing that new and improved drugs are naturally more expensive. But a new study published in the journal *Health Affairs* questions that idea. It suggests that, largely, prices have gone up because companies are raising the price of drugs that are already available.

“We found that, in the case of brand-name drugs, rising prices were driven by manufacturers increasing prices of medications that are already in the market rather than [by] the entry of new products,” lead author Immaculada Hernandez, an assistant professor at the University of Pittsburgh School of Pharmacy, tells *CNBC Make It*.

Looking at wholesale data for around 27,000 prescription drugs, Hernandez and her colleagues found that, between 2008 and 2016, brand-name oral prescription drugs rose 9 percent annually, while injectable drugs increased 15 percent per year. Inflation, meanwhile, averaged only about 2 percent per year. These percentage changes reflect list prices, which are set by manufacturers and may not match what consumers pay, because they don't account for rebates or insurance discounts.

The researchers found that some increased prices, such as those for specialty and generic drugs, seem to be driven by the entry of new medications into the market. Otherwise, price increases don't necessarily reflect improvement or even change. For example, in 2014, the list

price for a Sanofi brand of insulin called Lantus increased nearly 50 percent, even though it had been on the market for more than a decade.

Pharmaceutical companies kicked off the new year with significant price hikes. Dozens of drugmakers raised the list prices of hundreds of medications an average of 6.3 percent on January 1, according to a recent analysis from the health software company Rx Savings Solution. “Those increases are examples of what we mean by year-over-year inflation in existing products,” Hernandez says.

Gerard Anderson, professor of health policy and management at Johns Hopkins University, told NPR that raising the price of existing drugs benefits drugmakers and insurers. “Research and development is only about 17 percent of total spending in most large drug companies,” he says. “Once a drug has been approved by the FDA, there are minimal additional research and development costs, so drug companies cannot justify price increases by claiming research and development costs.”

The chart below shows what the major pharmaceutical companies spend annually on sales versus research. Only one company spends more on research than on marketing and sales.

What’s to Be Done?

Dollars Spent on Research and Marketing (\$B)		
	Sales and Marketing	Research and Development
Johnson and Johnson	\$17.5	\$8.2
Novartis	\$14.6	\$9.9
Pfizer	\$11.4	\$6.6
GalxoSmithKline	\$9.9	\$5.3
Merck	\$9.5	\$7.5
Sanofi	\$9.1	\$6.3
Roche	\$9.0	\$9.3
AstraZeneca	\$7.3	\$4.3
Lilly	\$5.7	\$5.5
AbbVie	\$4.3	\$2.9

There are a multitude of proposals—from allowing consumers to buy drugs overseas to government regulation of prices. Here’s a list of some things we might do.

Stop the rebate and co-pay card games

It’s hard to fix drug prices if you can’t figure out how much a drug actually costs. Today, the “list price” of a drug is manipulated by many parties and factors that obscure the true price and distort the market. Moving to a cost-based pricing system would be more logical and easier for everyone in the pharmacy business to understand.

Greater transparency

How drug companies establish prices remains a mystery. Greater transparency around drug research, development, and pricing would enable payers and providers to better understand the true value of medical innovations and help improve patient access to new medicines. More insight into clinical research and drug approval data would help physicians and patients choose the highest-value treatment.

Provide for easier drug comparisons

The public has no means of knowing whether a newly approved medicine is better than those already on the market. Increasing the availability of research that compares the safety and effectiveness of drugs treating the same conditions would help create price competition and reduce spending on unnecessary or ineffective treatments.

Allow more drugs to be imported

The prices of brand-name prescription drugs are typically much higher in the United States than in other developed countries, but right now there are strict limits on when and how consumers can buy drugs from other countries. Setting up a system that would ensure the safe and legal importation of prescription drugs could help put pressure on drug prices in the US and allow consumers to save on medications. The system would have to ensure that US quality standards were met.

Allow the government to negotiate drug prices

The US government, in the form of Medicare, Medicaid, Tricare, and other government programs, is the largest buyer of prescription drugs in the world. But the Department of Health and Human Services is prohibited by law from negotiating the prices it pays to manufacturers. This despite the fact that nearly 90% of Americans think that HHS should have the ability to negotiate—but it would require Congress to act.

Reduce and/or eliminate patent exclusivity loopholes

Patents create an essential incentive to drug companies to invest in new therapies; without patents, the economics of pharmaceuticals just wouldn't work. But it's essential that patents have an expiration date, as this allows generics to enter the market and lowers prices. Unfortunately pharmaceutical companies are getting crafty about working loopholes for not-really-different drugs that extend or modify patents, or blocking the evolution of a generics market. Let's close those loopholes and ensure that patents work as intended.

Government control for crucial rare drugs

For a small number of life-saving but rarely used drugs (so-called orphaned drugs), a single company shouldn't be allowed to exploit a small market of desperate patients in a life-or-death situation. But more than once—with Daraprim, Cheondal, Cuprimine, and several other drugs—we've seen just this happen. The government should either take the lead on manufacturing these drugs, or treat them like vaccines with prohibitions against aggressive price-gouging.

Sources:

[How the US Pays Three Times more for Drugs](#)

[Why Prescription Drugs in the US Cost So Much](#)

[Five Ways to Fix High Drug Prices](#)

[Five Ways to Lower Drug Costs](#)