50 to 4,000% Markup

Government gets big drug discounts you can't get

By Kate Long

On one hand, the U.S. Food and Drug Administration tries to keep Grandma and Grandpa from buying discount prescription drugs from Canada. On the other, the U.S. government buys drugs at discounts that put Canada in the shade.

The average person can't get those prices. The United States does not control pharmaceutical prices for all its citizens. But when the U.S. government buys drugs, it controls costs with a vengeance. It demands much lower prices than the uninsured person must pay at the drugstore.

When the federal government buys a month's prescription of Lasix, those pills cost only $9.98.

If an uninsured West Virginian walks into Rite-Aid and asks for the same blood pressure prescription, he or she must pay $21. That's $12 higher, or 130 percent more.

The government-as-customer buys for the Department of Defense, Indian Affairs, the Public Health Service, prisoners, and the Coast Guard, among others. It tells pharmaceutical companies, in effect: Look, we're not paying your market prices. If you want our business, you will give us, to start with, a 24 percent discount, and if you're giving anybody else a deeper discount, we'll take that too, and go from there. Take it or leave it.

They all take it. "It's government price control, pure and simple," said Jeff Trewhitt, spokesperson for PhRMA, the pharmaceutical industry lobbying group. They don't like it, but there's nothing they can do, he said.

Pfizer Inc. charges the government $64.74 for a month's prescription of Lipitor, for instance, compared to the $114 the uninsured West Virginian must pay.

If that uninsured West Virginian were to try to tell Pfizer, Inc., "This is what I'll pay you. Take it or leave it," Pfizer will probably leave it.
The government also demands and gets discounts ranging from 15 to 30 percent for the drugs it buys for Medicaid.

"This is a numbers game. Bigger groups get bigger discounts," said Pat White, Administrator of West Virginia Healthright, which secures discount medication for low-income people. "There are huge differences in the price of the same pill. Our clinic pays less than retail pharmacies do. Hospitals pay less, too.

"And at the pharmacy, a person with no insurance pays more than a person with insurance. Ain't it fun? The customer who needs the break most pays top dollar."

Every insured person is, by definition, part of a buying group. The pharmacist checks to find out what price that insurance company negotiated for that drug. Many insurance companies negotiate deep discounts ranging from 20 percent to 40 percent for their members, Trewhitt said.

The uninsured person is a buying group of one, so he or she pays the highest prices. "What stronger evidence does anyone need that we have a totally irrational, dysfunctional system?" said Gail Shearer, Director of Health Policy Analysis for The Consumers Union, which publishes Consumer Reports. "We ask people who have modest incomes and people who are sick to pay the most."

The top prices the federal government will pay for drugs are listed on the Federal Supply Schedule (FSS). Federal agencies start there and sometimes negotiate extra discounts, as the Veterans Administration does.

Those prices — which benefit between 5 and 10 million people — are slightly higher than Canadian prices, which are negotiated for 30 million people.

"Before the Internet, the FSS list used to be very hard to get," said Dr. Alan Sagar, who directs Boston University’s Health Reform Program for the BU School of Public Health. "The drugmakers wanted it kept secret, because they said if people knew they gave anybody those kinds of prices, everybody would want them."

The FSS prices can be found at www.vapbm.org/PBM/naform.htm.

"Why doesn’t our government negotiate ... for everybody?"

The Gazette-Mail gathered FSS prices and retail price numbers for 13 drugs West Virginians commonly use. A comparison shows that the uninsured West Virginian pays — on the average — 99 percent more than the top price the government pays.

About 25 percent of that goes to the pharmacy and wholesaler. Almost all of the rest goes to the pharmaceutical company.

In July 2003, the U.S. Public Interest Research Group (U.S. PIRG) got similar results when they compared FSS prices in 18 states and the District of Columbia, using a different set of 10 common prescription drugs. People often use drugs to treat chronic conditions, so "the percent difference between the retail and discounted prices quickly adds up," the U.S. PIRG report emphasized.

The discounts on the 13 drugs on the Gazette-Mail list are typical of FSS prices. They do not include the most drastic markdowns. For some specialty drugs, FSS discounts amount to more than 1,000 percent.

"The price of drugs floats all over the place in this country because we don’t have anybody negotiating for all of us," said White. "The obvious question is: Why doesn’t our government negotiate those kinds of low prices for everybody? Imagine the prices you’d get if you were negotiating for that many million people."
The pharmaceutical industry — which maintains more than 620 lobbyists in Washington, D.C. — flatly opposes that idea. "We have learned to live with the fact that public health clinics, Indian health service clinics and others will get this discount," said PhRMA's Trewhitt. "But if you try to extend this price control to all parts of the marketplace, it would stifle innovation and research into new drugs."

PhRMA devotes a large percentage of its budget to lobbying against drug price controls. A congressional bill that would have required the federal government to insist on FSS prices for all Medicare recipients has "languished in committee since February," said Alison Cassady, Research Director of U.S. PIRG. "It's not going anywhere." The Medicare bills that are under discussion do nothing to regulate drug prices, she said.

Thomas Scully, a Bush appointee, heads the Centers for Medicare and Medicaid Services. The government can't enforce lower prices for groups as large as Medicare, he told USA Today. "If we did it, we wouldn't be negotiating. We'd be price fixing ... if we did that, we'd destroy the market."

Would the market be destroyed?

Back to that West Virginia Lasix prescription: Who gets the extra $12, the difference between the West Virginia drug store price and the price the federal government pays?

In the case of Lasix, the pharmacy and wholesaler get around $3. The pharmaceutical company gets most of the other $9.

"The majority of the price differentials are the result of drug manufacturer pricing strategies, not wholesale or retail markups," said a report from the Committee on Government Reform of the U.S. House of Representatives.

There appears to be a lot of wiggle room for price negotiation. The pharmaceutical industry is the world's most profitable, with 17 percent profit. The actual ingredients for most pills cost 5 cents on the dollar, according to U.S. PIRG. About a third of the price of many patented pills is spent on advertising, according to statistics from a number of sources.

PhRMA's Trewhitt strongly protests the implication that drug prices could be slashed without courting a disastrous cutback in research into new lifesaving drugs. It takes approximately $800 million to develop a new drug, he said. "If there was a government mandate that prices would be cut, it would probably force a cutback in research and development," he said.

Organizations like the Alliance of Retired Americans say the federal taxpayers fund most drug research through organizations like the National Institutes of Health. Absolutely not so, says Trewhitt. "NIH does only core research," he said.

Boston University's Sagar sees FSS prices as a logical peg for widespread discounts. If the government gets the discount, the citizens should too, he said. "If prices were cut for all Americans, say at the FSS level, at today's prices, that might deprive the drugmakers of $40 to $50 billion in revenue," he said.

In the long run, he says, such a cut might actually end up being good for the drugmakers.

"If you cut prices, what happens? Quantity and demand revives. So the drugmakers recoup much of their profits because people can afford to fill their prescriptions."

If the government subsidized drugs for people who still couldn't afford them, more of the pharmaceutical company profits would be restored, he said.
Asked to comment on this idea, PhRMA's Trehwitt sighed. He said that Canada has only produced two new drugs through research since national price controls were imposed. "So what Sagar is advocating has not worked in reality," he said. "Government price-setting has badly stifled innovation in pharmaceuticals in other countries."

Trehwitt and Sagar clearly use different yardsticks when they measure the success of government price control. Trehwitt measures success by the number of new drugs developed. Sagar measures it by the number of people who can afford to buy necessary medication.

National price-cuts to FSS levels — or any other — would be "cutting off your nose to spite your face," Trehwitt said. "We need better medicines. We cannot stop now. We are not providing quality of care with the existing arsenal of medicines for Alzheimer's, cancer, any number of diseases. We cannot stop now."

He wants Congress to pass the Medicare bills that Sagar says give the pharmaceutical industry a blank check. Prices will soar if such a bill passes, Sagar predicts, "and high prices are the enemy of profit and research because high prices make Americans desperate."

"They try to go to the VA, and they try to go to Canada," he said. "And if those safety valves are blocked — by the U.S. FDA or anybody else — desperate Americans who can no longer get lower-priced drugs will rise in fury and elect the angriest Congress in the history of the nation."

"We cannot stop now," Trehwitt repeats.

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