Kaiser Daily Health Policy Report

Wednesday, April 13, 2005

Prescription Drugs

PhRMA Criticizes AARP Study Showing Average 7.1% Increase in Drug Wholesale Prices

Consumer Price Index data show that prescription drug prices are increasing about 4% annually, the Pharmaceutical Research and Manufacturers of America said Tuesday in a report that contradicts a similar study by AARP, the St. Paul Pioneer Press reports (Olson, St. Paul Pioneer Press, 4/13). The PhRMA study, by Milliman, examined both brand-name and generic prescription drug prices published by the Consumer Price Index. According to PhRMA, the study shows that prescription drug price increases have been lower than overall medical cost increases since passage of the new Medicare law (PhRMA release, 4/12). The study found that prescription drug prices rose 4% between November 2003 and December 2004, which is "in line" with the overall medical inflation rate for that period, according to the San Francisco Chronicle (Colliver, San Francisco Chronicle, 4/13). The PhRMA study also says that prescription drug prices rose at an annual rate of 4.1% between January 2000 and February 2005, compared with a medical inflation rate of 4.4% for the same period. PhRMA in a statement said, "The U.S. government's publicly available consumer-price data for that period clearly show that prescription drug prices increased at a slower rate than overall medical care. We are working to help patients in need get medicines through the new Partnership for Prescription Assistance" initiative (Bloomberg/Los Angeles Times, 4/13).

AARP Study
The AARP study shows that wholesale prices for brand-name prescription drugs increased by an average of 7.1% -- 2.5 times the general inflation rate of 2.7% -- between 2003 and 2004. The study, by researchers from the AARP Public Policy Institute and the PRIME Institute, analyzed the wholesale prices for 195 brand-name and 75 generic medications commonly used by U.S. adults ages 50 and older (Kaiser Daily Health Policy Report, 4/12). Among the 25 most commonly prescribed medications in the study, Ambien, Fosamax, Plavix and Lipitor had the largest percentage price increases, the study says, the Boston Globe reports (Rowland, Boston Globe, 4/13). Medications with the largest price increases by percentage were Wyeth's menopausal drug Premarin, which increased 26%, and Novartis' osteoporosis drug Micalcin, which increased 22.3%, according to the study. Wyeth spokesperson Chris Garland attributed Premarin's price increase in part to increased demand and higher research and development costs (Bloomberg/Los Angeles Times, 4/13). Novartis spokesperson Robin Hogen added that AARP's methodology is "deceptive" because it examines "list price[s]" instead of prices charged to consumers (Boston Globe, 4/13). The study also found that wholesale prices for 153 prescription drugs have increased by an average of 35.1% since 1999, compared with the general inflation rate of 13.5%. In addition, researchers found that wholesale prices for generic medications increased by 0.5% between 2003 and 2004 (Kaiser Daily Health Policy Report, 4/12).

Medicare Drug Benefit
According to the AARP study, pharmaceutical companies increased prices 3.5% in the first quarter of 2004, "eclips[ing]" savings from the new Medicare prescription drug discount card program, which was launched in June 2004, according to the Globe (Boston Globe, 4/13). While price increases "slowed sharply ... shortly after" the launch of the discount card program -- rising just 1% in the last three
months of 2004 -- John Rother, policy director for AARP, said the slowdown likely does not indicate a trend. He said, "We had hoped price increases would moderate with passage of the [new Medicare law], but that clearly hasn't happened." Although many Medicare beneficiaries will receive some help when the new Medicare drug benefit begins in January 2006, "rising prices are making that less and less of a potential benefit," Rother said (Wolfe, Minneapolis Star Tribune, 4/13).

**Comments**

Based on the results of the study, drug companies "have failed to keep their price increases in line with inflation, despite consumer appeals for them to hold the line," AARP CEO Bill Novelli said, adding, "Much more needs to be done to slow down spiraling drug pricing" (Kaiser Daily Health Policy Report, 4/12). David Gross, an AARP senior policy adviser, said, "I don't see how it can incite trust in drug companies when they're seeing the same drugs going up in prices, so much higher than inflation, year after year. It's not like these are different or better drugs. These are the same drugs" (San Francisco Chronicle, 4/13). He added, "People's incomes aren't rising nearly as much as their drug costs" (St. Paul Pioneer Press, 4/13).

**PhRMA Response**

Ken Johnson, senior vice president of communications at PhRMA, called AARP's study "exaggerated and misleading" (Kaiser Daily Health Policy Report, 4/12). According to PhRMA, the AARP study does not reflect actual prices charged to consumers because wholesale prescription drug prices exclude discounts offered by pharmaceutical companies, as well as lower prices negotiated by insurers and other purchasers (San Francisco Chronicle, 4/13). "It's just not indicative of what people pay at the counter," Lori Reilly, PhRMA's deputy vice president for policy and research, said. PhRMA also said AARP's study compares prescription drug price increases with general inflation instead of medical inflation (Freking, AP/Contra Costa Times, 4/13). Richard Smith, PhRMA's senior vice president for policy and research, said, "It is essential that we assess the situation as accurately as possible as we address the issue of cost and affordability of medicine" (PhRMA release, 4/12).

**Reaction**

Alan Sager, director of the Health Reform Program at the Boston University School of Public Health, said that drug companies have accelerated price increases in the past two years out of concern that Medicare, private insurers or state Medicaid programs could impose price controls. "The drug makers are desperate to bring in a few more rich harvests before the storm of price controls rolls over them," he said (Boston Globe, 4/13). Sager added, "Drug makers don't have enough blockbuster drugs in their pipeline, so they're raising the prices of old drugs to keep their profits high" (Dorschner, Miami Herald, 4/13). Jack Calfee, a resident scholar at the American Enterprise Institute, said the average price for prescription drugs has not increased as much as the AARP study indicates. He noted that price reductions from the introduction of generics largely offset increases for brand-name drugs.

**Lawmaker Comments**

Sen. Edward Kennedy (D-Mass.) said, "It's high time for the Bush administration either to pressure the drug industry to lower its prices or to stop opposing legislation to import cheaper drugs from Canada and other industrialized nations." Rep. John Dingell (D-Mich.) added, "As guardians of taxpayer funds, we should at a minimum ensure that Medicare has the right to negotiate better prices on drugs for seniors" (AP/Contra Costa Times, 4/13). Reps. Gil Gutknecht (R-Minn.) and Rahm Emanuel (D-Ill.) said in a statement that the AARP report shows the need to legalize prescription drug reimportation. They said, "We can fight astronomical drug price increases by allowing competition in the market and passing meaningful market-access legislation this year" (Chicago Tribune, 4/13).

The PhRMA study is available online. Note: You will need Adobe Acrobat Reader to view the study.

The AARP study also is available online.
Broadcast Coverage

ABCNews' "World News Tonight" on Tuesday reported on the AARP study. The segment includes comments from Dr. Jerry Avorn, a professor of medicine at Harvard Medical School and author of the book, "Powerful Medicines"; Reilly; and U.S. seniors whose prescription drug costs have increased (Stark, "World News Tonight," ABCNews, 4/12).