Prescription Drugs CAN Be Affordable for Everyone


By all reasonable international standards, current spending on prescription drugs in the US is enough to buy all the medications that Americans need. But today’s high spending does not suffice, owing to high prices and inadequate coverage.

Our nation and its people therefore face three choices:
• more people suffering and dying for lack of needed drugs – but that is unacceptable;
• spending more to give more people better drug coverage – but that is unaffordable;
• securing more drugs from manufacturers for dollars we already spend.

PROBLEM: Many Americans cannot afford needed medications

Lack of coverage
• Roughly 70 million Americans of all ages – about 1 in 4 – have no prescription drug coverage.

High spending
• Total prescription drug costs will be about $120 billion this year, 9.8% of health spending.

High prices
• For decades, the world’s prescription drug makers have charged Americans more for the same pills (often from the same factory) than they charge in any other country.

• In the early 1990s, drug makers charged Americans 32% more than Canadians for the same drugs. That gap suggests Americans would save roughly $16.2 billion yearly if we paid the wholesale prices paid by Canadians. The international cost shifted onto Americans is probably growing.

• Because discounts for some Americans now mean a domestic cost-shift to others, people who lack coverage — many poor, sick citizens — pay the highest prices of all.

CAUSES: Why are so many people unable to afford needed medications?

Government inaction
• U.S. prescription drug prices are high mainly because our government fails to protect us against drug companies as other governments protect their citizens.

Profits
• In 1998, pharmaceuticals were the most profitable industry in the U.S. with a return on equity of 39.4 percent in 1998.

• Drug making was the most durably profitable U.S. industry over the past 3 decades. Its median return on equity was 2.5 times the all-industry average in the 1990s.

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Medicare: Why Women Care
The Older Women’s League (OWL) released new data in a report in July 1999 documenting that strengthening Medicare is even more critical for American women planning to retire in the 21st Century than for today’s retirees. The data, an addendum to OWL’s 1999 Mother’s Day report, “The Face of Medicare is a Woman You Know.” OWL is the only national grassroots membership organization that works on issues unique to women as they age. 12 pp

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Reports on Medicare and Medicaid for Beneficiaries with Low Income
The Kaiser Commission on Medicaid and the Uninsured has issued three reports focused on the low-income Medicare population and Medicaid’s role for these beneficiaries: “Medicare and Medicaid for the Elderly and Disabled Poor” (21 pp - #2132), Medicaid Eligibility for the Elderly,” (28 pp - #2145), and “The Challenge of Meeting the Diverse Needs of Medicare’s Beneficiaries” (19 pp - #2140). The reports were prepared for the hearing on Medicare Reform in the Committee on Finance of the US Senate on 5/5/99. To request a free copy of any of these reports:

Publications Request Line
Kaiser Commission on Medicaid and the Uninsured
800/656-4533
Web Site: www.kff.org

Prescription Drugs...
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Lack of competition
- Patents grant monopolies to drug makers to spur innovation. But that gives drug makers much power over prices. Other nations offset this pricing power with government action to make drugs affordable.

Income inequality
- The domestic cost shift means drug makers and retailers extract higher prices from Americans who pay out-of-pocket. Yet these Americans disproportionately suffer low incomes. It is hard to imagine a less just arrangement.

Underlying reasons for the failure to make needed prescription drugs affordable
- These include government’s small role in paying for drugs; payers’ focus on cost-shifting, drug makers’ political power and campaign contributions; and focus on steps that cannot yield adequate savings (such as using generics and squeezing retailers).

With neither a functioning free market or effective government intervention, anarchy ensues.

What private, federal and state solutions are possible?
- U.S. policy on prescription drug financing should aim to:
  - assure that all Americans can afford needed prescription drugs,
  - do so without increasing public or private spending,
  - maintain adequate profits so that the industry can develop new drugs.

The full report analyzes 19 public and private methods of winning lower drug prices and seven public and private methods of winning better drug coverage.

- Because the marginal cost of making more pills are very low, providing 25% more medications in the U.S. would cost the world’s drug companies only about $1.25 billion. If the 12 largest U.S. drug makers had borne this entire burden in 1998, their combined profits would have fallen by $1.25 billion—the cost of making the added drugs—leaving them securely in 1st place among U.S. industries. Americans would have gained additional medications with a retail price of $25 billion—without higher taxes, premiums, or out-of-pocket costs.

- The cost of making more drugs need not erode industry profits at all. Drug makers can cut waste, especially in advertising, public relations, lobbying and executive pay. (In 1997, 10 drug company CEOs alone received $229 million.) And drug makers, with US government help, should act to end today’s international cost shift.

- Simple government action can cut drug prices making needed drugs available for all Americans without great public cost and at little cost to drug makers. Now is the time to begin changing course. Throwing more money into business as usual will make it harder to cure drug companies of their addiction to high prices.

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