Prices Increase on Popular Drugs

Majority of Top-Selling Medicines Cost
More Since Election; a 5% Rise for Lipitor

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Many patients will have to dig deeper into their pockets for prescription drugs after a raft of drug-price increases in the past few months.

After a summer lull ahead of the politically sensitive election season, drug companies have resumed their price increases. Drug makers of course often raise prices, in part to cover rising costs, but analysts say a greater number of top-selling drugs have had price increases in the past few months, with many surpassing economists' estimate for consumer inflation this year of 2.5%.

Industry bellwether Pfizer Inc. kicked off 2005 by raising the price this month on most of its U.S. medicines by nearly 5%, including an increase of about 5% on its hugely popular cholesterol-fighter Lipitor.

According to data compiled by PriceAlert, the average wholesale price of Bristol-Myers Squibb cholesterol-lowering drug Pravachol went up 5.9%. And the cost of painkiller Mobic rose 7% and 11% on 7.5 milligram and 15 milligram doses, this month respectively, as demand soared in the wake of Vioxx's withdrawal. Mobic is co-marketed by Boehringer Ingelheim Corp. and Abbott Laboratories.

Of the 50 biggest-selling medicines in the drug industry, 31 had price increases since the November elections through Jan. 19, according to Delta Marketing Dynamics, a price-tracking firm in East Syracuse, N.Y. In the same period a year earlier, only 22 of the top 50 drugs had price increases.

In part, companies are raising prices to make up for huge sales losses, or impending ones, from generic competition. A number of big-selling drugs, including Pfizer's antibiotic Zithromax are expected to lose patent protection this year.

But prices have also risen in advance of the Medicare drug benefit, slated to begin next January, which is expected to put downward pressure on prices as the government seeks to rein in costs.
This is a crucial year for drug makers, and the current round of increases could set the tone for 2005. "They could come out aggressively to set the floor higher" for the coming price negotiations with the government, said Bill Little, president of Delta Marketing Dynamics.

Even insured patients will feel the impact. The steady rise in drug costs in recent years has propelled large employers to raise the co-payments for brand-name medicines, and many companies are moving to a co-insurance model that charges employees a percentage of the drug's retail cost. For instance, the new increase in Lipitor to about $120 for a monthly supply of a common dose at some stores would be $1.20 more out of pocket each a month to a patient with a 20% contribution required under co-insurance. In 2003, only 7% of large employers used such co-insurance, according to human-resource-services firm Hewitt Associates. This year, almost half, or 45%, of large employers are using the approach.

In addition, many elderly patients whose drug benefit is capped at a certain dollar amount will reach those limits quicker, forcing them to pay the rest out of pocket. But it is the uninsured patients who will feel the brunt of the drug-price inflation.

Penelope Pappas, 67, a retired baker in Prospect Heights, Ill., has no prescription-drug insurance and pays $700 to $800 a month for medicines to treat chronic conditions. After shelling out about $130 a month for cholesterol-pill Pravachol, she recently switched to Lipitor, which is cheaper but still likely to cost her well over $100 per month once the free samples from her doctor run out. Until the Medicare drug-benefit kicks in next year, Mrs. Pappas is resigned to paying out of her own pocket. "If it's going to keep me healthy, I have to do it," she says.

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Drug companies typically raise their prices every year but increases in recent years have consistently outpaced inflation. Under intense political pressure in the mid-1990s, many drug makers voluntarily restrained price increases to the rate of inflation. Those pledges faded by the end of the decade, as industry fears about government intervention and the rise of managed care proved unfounded.

Some price increases are coming amid rising demand for certain popular drugs. Many patients who were taking painkiller Vioxx switched to alternatives such as Mobic, which saw sales nearly tripled to $258 million in the fourth quarter. Boehringer Ingelheim said that Mobic's price increase was scheduled in line with the industry's traditional January uptick.

Pfizer's cholesterol-fighter Lipitor, the world's top-selling drug, got a 5% price hike, according to PriceAlert, a publication of Medi-Span, which is a division of Wolters Kluwer Health, a drug and health care information company based in Indianapolis, Ind. Sales of Lipitor rose 23% in the fourth quarter of the year, before the price increase. Pfizer said it was "not immune to the rising costs of doing business."

With Pravachol, the drug's two price increases since January 2004 brought a 13.3% increase on a compounded basis. Bristol-Myers's widely used blood thinner, Plavix, got a 2.9% price boost, bringing its average increases on a compounded basis to 11% since last January. The company confirmed the recent price increases, and declined to comment further.
Companies are raising prices on weakening products as well as hot sellers. In addition to raising prices on Lipitor and painkiller Celebrex, whose sales soared last quarter on rising prescriptions, the company also raised prices on Neurontin, an epilepsy and pain remedy that came under fierce generic attack in the fourth quarter, and impotence pill Viagra whose sales slipped amid faltering demand. Since Jan. 1, 2004, the average wholesale cost of Neurontin has increased 11.7% on a compounded basis. In the same period, Celebrex's cost has risen 10.3% on a compounded basis.

Pricing power is one way manufacturers brace for patent expiration and endure dry pipelines. "What the drug makers are desperate to do is harvest a few more fat years of profit before the storm hits," said Alan Sager, a professor at the Boston University School of Public Health, who specializes in drug economics.

The Medicare drug benefit, which is expected to increase the volume of medicines sold, may be less damaging to the pharmaceutical industry than some forecasts say.

Mason Tenaglia, a drug industry consultant with Charles River Associates in Boston, says the drug-price increases that are hitting the market now have more to do with the sorry state of most drug makers rather than their planning for a harsher world under Medicare. Drug companies are "raising their prices because they can and because they need to," he said. "Their costs are going up and their volumes are going down as products go generic."

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