

## DRUG PRICES AND SPENDING ON PRESCRIPTION DRUGS

### Drug spending is way up

Spending in the United States for prescription drugs rose from \$40.3 billion in 1990 to \$200.7 billion in 2005. Although prescription drug spending does not yet approach spending on other health care services such as hospital and physician services (10% in 2005, compared to 31% and 21%, respectively), it has been one of the fastest growing components, increasing over the past decade at double-digit rates compared to single-digit rates for hospital and physician services.<sup>1</sup>

### This trend is not abating

According to an AARP survey, prices charged by drug makers for brand-name pharmaceuticals jumped 3.9%, four times the general inflation rate, during the first three months of 2006. This is the largest quarterly price increase in six years. Price increases for some of the most popular brand-name drugs were much steeper; the sleeping pill Ambien was up 13.3%, and the best-selling cholesterol drug, Lipitor, was up 4.7 to 6.5%, depending on dosage.<sup>2</sup> Over all, higher prices mean that the cost of providing brand-name drugs to the typical older American, who takes four prescription medicines daily, rose by nearly \$240 on average over the 12-month period that ended on March 31, according to AARP. 2006 marks the fourth consecutive year the average prices of dozens of brand-name drugs widely used by elderly Americans have risen more than twice the rate of inflation.<sup>3</sup>

### Specialty drugs are especially costly and utilization is increasing rapidly

The cost of cancer and specialty drugs is especially high. Celgene Corp. has announced that it will sell the drug Revlimid, a treatment for multiple myeloma, a cancer of the bone marrow, at \$6,195 a month or \$74,000 annually.<sup>4</sup> This drug is priced well beyond the cost of R&D, manufacturing, and marketing, according to Wall Street analysts. Morgan Stanley estimates the manufacturer will make a 97% gross margin – the profit excluding marketing and corporate costs – on Revlimid, an oral medication that is relatively inexpensive to produce.<sup>5</sup> Revlimid is by no means alone in being priced “aggressively”; the *Wall St. Journal* has reported on many drugs priced well beyond patients’ ability to pay. For example, the Elan Corp. and Biogen Idec Inc. have priced the multiple sclerosis drug Tysabri at \$2,184.62 a vial or about \$28,000 a year, a 20% premium over the price of the drug when it was first approved in 2004.<sup>6</sup> Overall, spending on high cost specialty drugs soared 17.5% in 2005 and is expected to more than double by 2009 to \$90 billion, according to a report released by the pharmacy benefit manager Express Scripts.<sup>7</sup> Spending on injectable drugs for inflammatory diseases such as rheumatoid arthritis and Crohn’s disease soared 35%, and spending on cancer drugs known as anti-neoplastics, which were administered outside a doctor’s office, rose 19.2%.<sup>8</sup>

### Prescription drug costs contribute to Medicaid costs and drive benefit cuts

In 2005, Medicaid expenditures represented 19% - or more than \$38 billion – of the nation’s overall prescription drug spending.<sup>9</sup> Double-digit annual increases in

prescription drug prices over the past decade and increased utilization have been major contributors to significant increases in state Medicaid costs, pressuring states to reduce benefits and cut costs through a variety of benefit changes.<sup>10</sup> For example, in June 2006 the State of Vermont removed the acid reflux-fighting drug Nexium from the state's preferred drug list for Medicaid patients in order to save money in a health program that had prescription drug costs of \$191.4 million in the 12 months ending June 30, 2005. Those drug costs were up 24% from 2004 and were three times more than the cost for Medicaid patients' inpatient hospitalizations.<sup>11</sup>

### **Prescription drug costs are a roadblock to health care access**

These costs are also a serious roadblock to health care access for the estimated 47 million Americans without any health insurance. Uninsured individuals are put in the position of choosing between paying for medications or paying for other necessities such as food and housing. Even many with insurance cannot afford medications because of high co-pays or limited coverage.<sup>12</sup> Studies have found that nearly one-quarter of Americans have had problems paying medical bills in the past year, and more than six in ten of these *have health insurance*. Among adults reporting problems paying medical bills, 56% report that the bills were for prescription drugs.<sup>13</sup> Forty-three percent of working-age adults with bill or debt problems did not fill a prescription because of cost.<sup>14</sup> These costs have also contributed to the increase in personal bankruptcies. Medical bills have become a major driver of personal bankruptcy, accounting for half of these filings, according to a Harvard University study published by the journal *Health Affairs*, which estimates medical-caused bankruptcies affect about 2 million Americans each year, counting debtors and their dependents, including 700,000 children.<sup>15</sup>

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<sup>1</sup> "Prescription Drug Trends," Kaiser Family Foundation (May 2007), accessed at: [www.kff.org/rxdrugs/3057.cfm/](http://www.kff.org/rxdrugs/3057.cfm/).

<sup>2</sup> "Drug Prices Up Sharply This Year," by Milt Freudenheim, N.Y. Times (June 21, 2006); *Trends in Manufacturer Prices of Prescription Drugs Used by Older Americans: First Quarter 2006 Update*, AARP, (June 2006), [www.aarp.org](http://www.aarp.org).

<sup>3</sup> Ibid.

<sup>4</sup> "Celgene to Price Cancer Medicine at \$6,195 a Month," by Geeta Anand, The Wall St. Journal (July 1, 2006)

<sup>5</sup> Ibid.

<sup>6</sup> "Elan's Sets Multiple Sclerosis Drug Tysabri Pricing Above Market Forecasts," by Sylvia Pagan Westphal, Wall St. Journal, June 9, 2006.

<sup>7</sup> "Spending on Specialty Drugs Soar," by Theresa Agovino, Associated Press, San Jose Mercury News (June 6, 2006).

<sup>8</sup> Ibid.

<sup>9</sup> "Prescription Drug Trends," Kaiser Family Foundation (May 2007), accessed at: [www.kff.org/rxdrugs/3057.cfm/](http://www.kff.org/rxdrugs/3057.cfm/).

<sup>10</sup> "Prescription Drug Trends," Kaiser Family Foundation (June 2006), accessed at: [www.kff.org/rxdrugs/3057.cfm/](http://www.kff.org/rxdrugs/3057.cfm/).

<sup>11</sup> "Nexium removed from Medicaid list," Times Argus, Associated Press, June 20, 2006

<sup>12</sup> "Co-payments Soar for Drugs with High Prices," by Gina Kolata, N.Y. Times (April 14, 2008).

<sup>13</sup> Health Care Costs Survey, a collaboration of USA Today, the Kaiser Family Foundation, and the Harvard School of Public Health, see charts 1 and 2, August 2005, [www.kff.org](http://www.kff.org).

<sup>14</sup> "Seeing Red: Americans Driven into Debt by Medical Bills," The Commonwealth Fund (August 2005), p.5, <http://www.cmwf.org/>.

<sup>15</sup> David U. Himmelstein, Elizabeth Warren, Deborah Thorne, and Steffie Woolhandler, "MarketWatch: Illness and Injury As Contributors To Bankruptcy," *Health Affairs* Web Exclusive, February 2, 2005.