

# Rx Watchdog Report

Shining a light on the cost and quality of prescription drugs

## Average Manufacturer Price Increases for Widely Used Brand Name and Specialty Prescription Drugs Reach Record Levels

### Manufacturers' Generic Drug Prices Continue to Fall

“Cost savings, in addition to quality and choice for all Americans, are at the core of health care reform,” said AARP’s Executive Vice President for Policy and Strategy John Rother. “Given the broad level of utilization, controlling prices of prescription drugs is vital to managing health care costs,” he added.

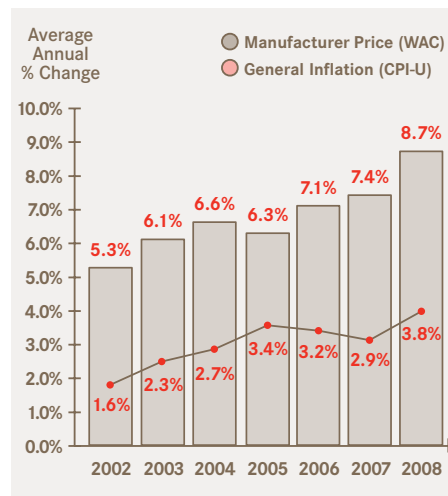
However, AARP’s Public Policy Institute has recently found that manufacturer price increases for brand name and specialty prescription drugs are higher than ever. According to the recently released AARP *Rx Watchdog* reports, manufacturer prices for brand name and specialty prescription drugs widely used by Medicare beneficiaries continued to far outstrip price increases for other consumer goods and services in 2008. At the same time, average manufacturer prices for generic prescription drugs have, once again, fallen substantially.

The highest rates of increase were for specialty drugs products, which are drugs used to treat complex, chronic, and sometimes life-threatening conditions (such as cancer, rheumatoid arthritis, and diabetes), and that may require special administration, handling, and care management. In 2008, the average annual increase in manufacturer prices charged to wholesalers and other direct purchasers for brand name prescription drugs widely used by Medicare Part D beneficiaries was 8.7 percent, or about 2.3 the general inflation rate of 3.8 percent. The 2008 average rate of increase in manufacturer prices of specialty drugs (brand and generic) was even greater—9.3 percent. By contrast, manufacturer prices of (non-specialty) generic drugs widely used by Medicare beneficiaries *decreased* by an average of 10.6 percent in 2008.

### Brand Name Drugs

In 2008, the average annual increase in manufacturer prices for widely used brand name prescription drugs (8.7 percent) was substantially higher than the rates of increase for manufacturer prices in

**Figure 1: Average Annual Percent Change in Manufacturer Prices for Widely Used Brand Name Prescription Drugs Continues to Grow in 2008**



*L. Purvis, S. Schondelmeyer, and D. Gross, Rx Watchdog Report: Trends in Manufacturer Prices of Prescription Drugs Used by Medicare Beneficiaries—2008 Year-End Update, AARP Public Policy Institute, April 2009.*

the prior six years. The average manufacturer’s price increase for this market basket ranged between 5.3 percent and 7.4 percent from 2002 to 2007.

The average increase in the cost of therapy for widely used brand name drugs was over \$185 per year per prescription drug in 2008, roughly 70 percent higher than the average annual increase

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## Introduction to Generic Prescription Drugs

Prescription drugs provide consumers with treatments that can increase life expectancy and enhance lives. They are also an increasingly popular treatment option: today, more than two-thirds of medical office visits result in the patient receiving either a prescription or a medication. Unfortunately, the combination of increased utilization and sustained price increases has resulted in substantial spending growth, making prescription drugs a target in the struggle to contain health care costs and pay for health system reform. One method of reducing spending is to encourage the use of generic drugs, which are typically as little as one-third the cost of their brand name counterparts. Generic drugs are identical to brand name drugs in dosage, safety, strength, method of administration, quality, performance, and intended use.

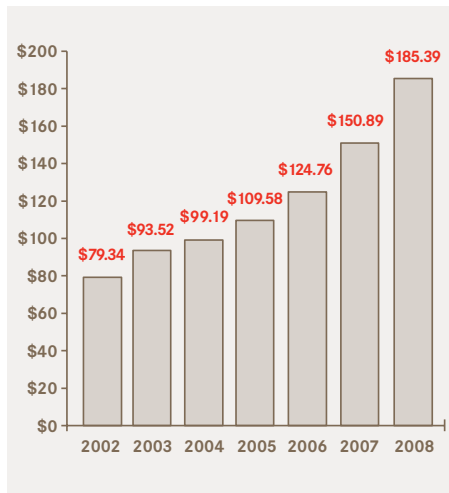
**“The combination of increased utilization and sustained price increases has resulted in substantial spending growth, making prescription drugs a target in the struggle to contain health care costs and pay for health system reform.”**

Over the past 25 years, generic prescription drugs have represented a growing share of the prescription drug market. Today, generic prescription drugs account for more than two-thirds of the prescriptions that are dispensed in the United States (see page 4).

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## Average Manufacturer Price Increases continued

**Figure 2: Average Change in Annual Cost of Therapy for Most Widely Used Brand Name Prescription Drugs is Over \$185 Per Year in 2008**



L. Purvis, S. Schondelmeyer, and D. Gross, Rx Watchdog Report: Trends in Manufacturer Prices of Prescription Drugs Used by Medicare Beneficiaries—2008 Year-End Update, AARP Public Policy Institute, April 2009.

the year before Medicare Part D was implemented. An older American who takes three prescription drugs is likely to have experienced an average increase in the annual cost of therapy of more than \$550 in 2008, assuming that the consumer uses brand name drugs for chronic conditions and that the price increases were passed on in the form of higher prices. While insurance would cover much of this cost for some beneficiaries, it would not cover the costs for Medicare Part D enrollees in the donut hole (the period when beneficiaries pay 100 percent of their prescription drug costs).

The cumulative effect of these manufacturer price increases can be substantial. On average, manufacturer prices of the 168 most widely used brand name prescription drug products that have been on the market since the end of 2001 have increased by nearly 64 percent during the subsequent 7-year period (2002 through 2008), compared with a general inflation rate of just over 19 percent. For a consumer who takes three brand name prescriptions on a chronic basis, the average increase in the cost of therapy for the drug products used to treat chronic

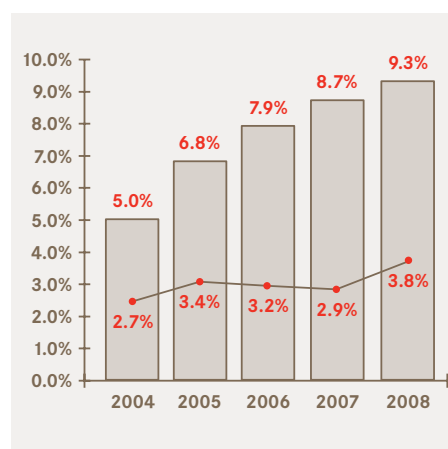
conditions rose by almost \$2,100 during this same 7-year period.

### Specialty Drugs

Specialty prescription drugs are among the most expensive drugs on the market, with prices that can reach hundreds of thousands of dollars per year, and are used to treat conditions that often affect older populations, such as cancer, rheumatoid arthritis, and multiple sclerosis. They are also expected to be the fastest growing group of drug products in the decade ahead; this growth can be contributed to factors including utilization, high introductory prices and high rates of price increases.

The average annual increases in manufacturer prices of widely used specialty prescription drugs have been substantially higher since the implementation of Medicare Part D (see Figure 3). The average annual increases since 2006, which have ranged from 7.9 percent to 9.3 percent, are substantially higher than the corresponding rates of increase in the prior 2 years. The average manufacturer price increase for the specialty market basket was 5.0 percent in 2004 and 6.8 percent in 2005.

**Figure 3: Average Annual Percent Change in Manufacturer Prices for Widely Used Specialty Prescription Drugs Continues to Grow in 2008**



L. Purvis, S. Schondelmeyer, and D. Gross, Rx Watchdog Report: Trends in Manufacturer Prices of Prescription Drugs Used by Medicare Beneficiaries—2008 Year-End Update, AARP Public Policy Institute, April 2009.

Additionally, the average annual price increase in 2008 for these specialty prescription drug products was almost two and a half times the rate of general inflation; in 2007, the rate of specialty price increase was three times the rate of general inflation.

An older American who takes a specialty prescription drug is likely to have experienced an average increase in the annual cost of therapy of \$2,860 in 2008, assuming that the consumer uses the specialty drug for a chronic condition and that the manufacturer price increases were

**“For a consumer who takes three brand name prescriptions on a chronic basis, the average increase in the cost of therapy for the drug products used to treat chronic conditions rose by almost \$2,100 between 2002 and 2008.”**

passed on in the form of higher end-payer prices. In 2006 and 2007, average increases in the annual cost of therapy were \$1,795 and \$2,297, respectively. Prior to the implementation of Medicare Part D, these amounts were substantially higher than the average annual increases, which had been about \$1,000 per year in 2004 and \$700 per year in 2005.

The cumulative effect of these manufacturers’ price increases can be substantial. On average, manufacturer prices of the 112 most widely used specialty prescription drug products that have been on the market since the end of 2003 have increased by more than 60 percent between 2004 and 2008, compared with the general inflation rate of 14 percent. For a consumer who takes a specialty prescription drug on a regular basis, the average increase in the cost of therapy for the drugs used to treat a chronic condition rose by more than \$9,200 during this 5-year period.

## Average Manufacturer Price Increases continued

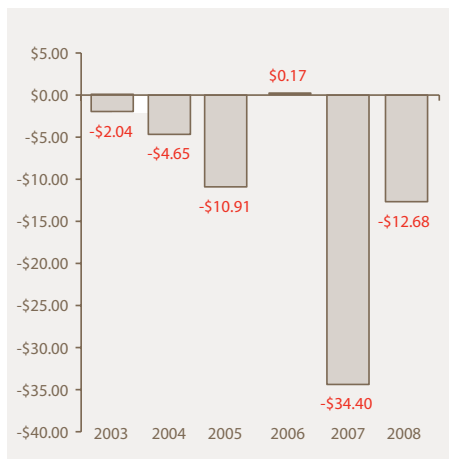
For more information on specialty drugs, see the November 2008 *Rx Watchdog* issue—*Manufacturer Prices for Specialty Drugs Soar*, at [www.aarp.org/watchdog](http://www.aarp.org/watchdog)

### Generic Drugs

Low-cost generic drugs have long been a means of helping consumers and third-party payers reduce their prescription drug costs. On average, manufacturer prices for the 185 generic drugs most widely used by Medicare beneficiaries fell by 10.6 percent in 2008. This was the largest average annual decrease for the generic prescription drugs in this market basket since at least 2003.

Average manufacturer prices of generic drugs decreased more substantially in 2007 and 2008 than they did in the prior 4 years. By contrast, the average manufacturer price for this market basket increased by 7.1 percent in 2003, and fell by only 0.4 percent in 2004, 0.6 percent in 2005, and 2.5 percent in 2006. It is notable that the average annual decreases in price seen between 2004 through 2008 occurred during a period of increases in the general price level. The annual rate of inflation ranged from 2.7 percent to 3.8 percent during the same 5-year period

**Figure 4: The Average Change in Annual Cost of Therapy for Most Widely Used Generic Prescription Drugs Decreased by Nearly \$13 in 2008**



L. Purvis, S. Schondelmeyer, and D. Gross, *Rx Watchdog* Report: Trends in Manufacturer Prices of Prescription Drugs Used by Medicare Beneficiaries—2008 Year-End Update, *AARP Public Policy Institute*, April 2009.

The average annual cost of therapy decreased by nearly \$13 for each generic prescription drug in 2008, assuming that the changes in price were passed on in the form of lower prices. This decrease was substantially less than the average annual decrease in 2007, which was more than \$34. Decreases in the average annual cost of therapy ranged from just over \$2 per year to nearly \$11 per year between 2003 and 2005, followed by a slight increase of \$0.17 in 2006.

An older American who takes three generic prescription drugs is likely to have experienced an average decrease in the annual cost of therapy of more than \$38.04 in 2008, assuming that the consumer uses these drugs for chronic conditions and that the decreases in price were passed on in the form of lower prices.

### Six-Year Cumulative Impact of Manufacturer Price Changes for Widely Used Generic Prescription Drugs, 2003–2008

More than two-thirds (125 of 185) of the most widely used generic prescription drugs in the report's market basket have been on the market for the entire 6-year period from the end of 2002 to the end of 2008. Cumulatively, the average change in manufacturer prices for these 125 generic drug products was -17.9 percent, compared with a 16.3 percent rate of inflation.

Seventy-five percent (94 of 125) of the drug products that have been on the market since the end of 2002 are used to treat chronic conditions. By the end of 2008, the average annual cost of therapy for these drug products was \$70 lower than 6 years earlier, assuming that manufacturers' price decreases were passed along in the form of lower prices and that the consumer used these generic drugs for chronic conditions. For a consumer who takes three generic medications, this translates into an average decrease in therapy costs of \$210 between the end of 2002 and the end of 2008. This decrease in therapy cost does not capture the substantial savings a consumer receives initially by switching from a brand name product to

a generic product once the brand name drug loses its patent.

### Conclusions

Manufacturer price increases can have a direct impact on the costs borne by Medicare Part D enrollees. Manufacturer price increases to the provider or pharmacy result in higher out-of-pocket costs for those beneficiaries who pay a percentage of drug costs (co-insurance) rather than a fixed dollar amount (co-

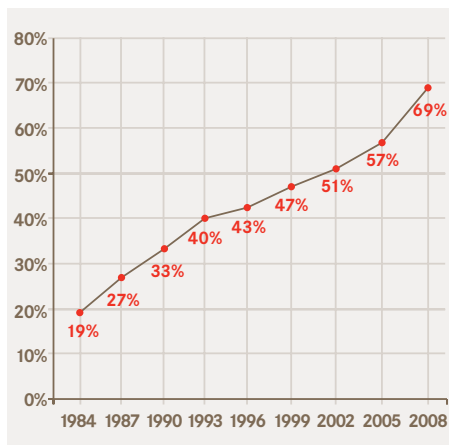
**“Nearly 20% of Medicare beneficiaries under Part D delayed or did not fill a prescription because of costs—higher than any other insured group.”**

payment). The effect of higher drug manufacturer prices on the total price to the end payer means that Part D enrollees will get to the “donut hole”—the gap in coverage when enrollees have to pay all of their drug costs—much faster. And, once enrollees are in the donut hole, they directly absorb the entire effect of the higher drug manufacturer prices on the prescription price to the end payer. Nearly 20 percent of Medicare beneficiaries under Part D delayed or did not fill a prescription because of costs—higher than any other insured group.

Higher drug manufacturer prices to retail pharmacies result in higher costs to drug plans, unless plans are able to negotiate higher rebates from drug manufacturers to account for these costs or lower prices from pharmacies (thereby forcing the pharmacies to absorb the cost of the manufacturer's price increase). Higher costs to plans likely result in reduced benefits and/or higher premiums to enrollees.

To read *Trends in Prices of Prescription Drugs Used by Medicare Beneficiaries* research reports, please visit [www.aarp.org/research/health/drugs/rx\\_watchdog.html](http://www.aarp.org/research/health/drugs/rx_watchdog.html) ■

Generics' Share of the U.S. Prescription Drug Market, 1984–2008



Sources: Pharmaceutical Research and Manufacturers of America, 2007 Annual Report, August 2007; and Generic Pharmaceutical Association, "Facts At A Glance," 2009.

Impact of generic prescription drugs

Generic prescription drugs have a variety of benefits. For example, several large surveys have shown that older adults, who are disproportionately affected by chronic disease and more likely to need a chronic medication, resort to skipping doses, reducing doses, and letting prescriptions go unfilled when faced with

**“Generic prescription drugs have the potential to further slow health care spending through a relatively new phenomenon: decreasing prices.”**

increased medication costs. This, in turn, can lead to expensive hospitalizations and adverse health consequences. However, researchers have found that patients who initiate therapy with lower-cost generic drugs have higher rates of adherence, lowering the risk of such outcomes.

Generic drugs can also provide substantial cost savings for individuals and payers. According to one study, switching prescrip-

**Table 1: Popular drugs losing patent protection between 2009 and 2012**

Year of expected patent expiration	Brand Name	Uses	2007 U.S. Retail Sales (millions)
2009	Ambien CR	Sleep aid	\$980
	Fosamax Plus D	Osteoporosis	\$252
	Prevacid	Heartburn/acid reflux	\$3,126
	Clarinet and Clarinet-D	Allergies	\$308 and \$37
2010	Cozaar	High blood pressure	\$693
	Hyzaar	High blood pressure	\$515
	Flomax	Overactive bladder	\$1,062
	Effexor XR	Depression	\$2,620
2011	Aricept	Alzheimer's disease	\$1,060
	Actos	Diabetes	\$2,390
	Zyprexa	Schizophrenia/bipolar disorder	\$1,762
	Lipitor	High cholesterol	\$6,708
2012	Avandia	Diabetes	\$1,202
	Plavix	Blood clots/heart disease	\$3,259
	Singulair	Asthma	\$3,209
	Diovan and Diovan HCT	High blood pressure	\$1,212 and \$1,140

Source: Medco, "Estimated Dates of Possible First Time Generic/Rx-to-OTC Market Entry," 2009.

Note: Information current as of December 2008. Estimated dates are subject to change due to patent litigation, additional patents, exclusivities, etc.

tions from brand name drugs to generic drugs could lead to an 11 percent reduction in annual overall drug costs, a considerable amount given that prescription drug spending is expected to reach \$454 billion in the next 10 years.

The savings associated with generic drugs can also impact overall health care spending. In 2007, U.S. health care spending growth slowed to its lowest rate since 1998. A majority of this change was due to retail prescription drug spending, which grew 4.9 percent in 2007, the slowest

rate of growth since 1963. The deceleration in prescription drug spending, in turn, was largely attributed to generic drugs, including a further increase in the generic dispensing rate and slower growth in prescription drug prices due to the introduction of generic equivalents for several blockbuster drugs.

This trend will likely continue as more generic equivalents of popular drugs enter the market. Between now and 2012, brand name drugs with \$139 billion in international annual sales will face generic competition.

## Introduction to Generic Prescription Drugs continued

### Changes in the generic market

Generic prescription drugs have the potential to further slow health care spending through a relatively new phenomenon: decreasing prices. The generic industry saw unprecedented price competition in 2008, which developed as a result of the generic discount programs that became increasingly popular after Wal-Mart introduced \$4 prescriptions for one-month supplies of hundreds of generics in 2006. Other retailers with in-store pharmacies quickly developed their own programs, and now even big pharmacy chains like CVS Caremark, Walgreens, and Rite Aid are promoting discount drug programs. Generic manufacturers were forced to begin competing for business by lowering their prices to try to attract retailers that buy in bulk. This competitive pressure is making generics available at increasingly lower prices and has intensified competition among generic drug manufacturers that will likely result in further price cuts.

The trend toward decreasing generic prescription drug prices is also evident in the AARP Public Policy Institute's, *Rx Watchdog Report: Trends in Manufacturer Prices of Prescription Drugs Used by Medicare Beneficiaries—2008 Year-End Update*. The report found that the average annual rate of change in manufacturer prices charged to wholesalers and other direct purchasers for 185 generic prescription drugs widely used by Medicare

beneficiaries fell by 10.6 percent in 2008. While previous *Rx Watchdog* reports have noted decreases in the manufacturer prices of widely used generic prescription drugs, the average decrease in 2008 was the largest since at least 2003.

**“Fortunately, the greater use and falling prices of generic prescription drugs have coincided with increasingly positive consumer attitudes toward their usage.”**

### Consumer attitudes toward generic prescription drugs

Fortunately, the greater use and falling prices of generic prescription drugs have coincided with increasingly positive consumer attitudes toward their usage. According to a recent Harris Poll, 40 percent of consumers would “always choose to buy generic drugs over brand name,” a 17 percent increase since 2006. Conversely, only 4 percent of respondents said they “would always choose to buy brand name prescription drugs over gener-

ics,” less than half of the response noted in 2006. Overall, 81 percent of Americans now say that they would choose a generic over a brand name drug.

Additional research has found that relatively few patients have concerns about the safety or side effects of generics, and that most believe that generics are a better “value” than brand name drugs. However, when the same consumers were asked whether they “prefer” generics, only about a third agreed. Thus, while most patients seem to appreciate the value of generics, far fewer seem prepared to use generics themselves.

### Conclusion

The savings associated with low-cost generic prescription drugs make them an obvious choice in the struggle to contain health care costs, a fact that is only strengthened by the growing number of generic equivalents for blockbuster drugs and recent decreases in generic drugs' already low prices. Consumer attitudes towards generic prescription drugs are generally favorable, but it is clear that challenges remain before the broad acceptance that is needed to maximize their value can be achieved.

*Note: Generic Biologics will be discussed in detail in the next issue of Rx Watchdog. ■*

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