AARP Public Policy Institute

In Brief

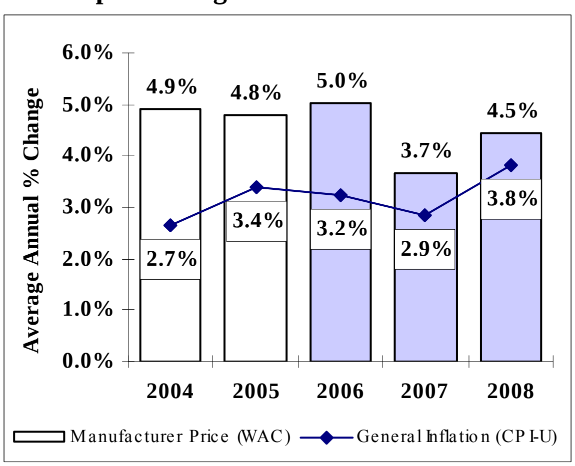
Rx Watchdog Report: Trends in Manufacturer Prices of Prescription Drugs Used by Medicare Beneficiaries—2008 Year-End Update

AARP's Public Policy Institute finds that average manufacturer price increases for brand name and specialty prescription drugs widely used by Medicare beneficiaries continued to far outstrip the price increases for other consumer goods and services in 2008. In contrast, average manufacturer prices for widely used generic drugs fell during the same time period. These trends resulted in an overall average annual rate of increase that exceeded the rate of inflation in 2008.

This report presents our most recent findings on the pattern of price increases for brand name, generic, and specialty drugs widely used by Medicare Part D beneficiaries.

When combined, the average annual rate of increase for all of the drugs analyzed was 4.5 percent in 2008, or 1.2 times the general inflation rate of 3.8 percent.

Average Annual Percent Change in Manufacturer Prices for Most Widely Used Prescription Drugs Increased in 2008



Note: Shaded bars indicate years when Medicare Part D was operational. Prepared by the AARP Public Policy Institute and the *PRIME* Institute, University of Minnesota, based on data from Medi-Span Price-Chek PC (Indianapolis, IN: Wolters Kluwer Health, Inc., April 2009).

This rate of growth is attributable to drug price growth among brand and specialty drugs that more than offset substantial price decreases among generic drugs.

Findings

Brand name drugs

- In 2008, the average annual increase in manufacturer prices charged to wholesalers (and other direct purchasers) for the most widely used brand name prescription drugs (8.7 percent) was much higher than the yearly increases during the prior six years, which ranged between 5.3 percent and 7.4 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 between 2002 and 2008.
- Prices increased for all but 7 of the 219 brand name prescription drug products in the study's market basket during 2008. Nearly all (93 percent)

of these increases exceeded the rate of general inflation during the year.

Generic drugs

- Prices for most of the generic drug products in the market basket did not change. However, when list price changes do occur, they are usually substantial.
- On average, prices for the 185 generic drug products most widely used by Medicare beneficiaries fell by 10.6 percent in 2008. This was the largest average decrease in generic drug prices for this market basket since at least 2003.

Specialty drugs

- In 2008, the overall price increase for the most widely used specialty prescription drugs (9.3 percent) was almost two-and-a-half times the rate of general inflation (3.8 percent).
- For a consumer who takes a specialty prescription on a chronic basis, the average increase in the cost of therapy rose by more than $9,258 between 2004 and 2008.
- Price increases outstripped inflation for about two-thirds of the specialty drug products during 2008. Only 8 of the 144 specialty drug products had a decrease in price, and all the drug products with price decreases were generics.

Concluding Observations

This report shows that price increases for common brand name and specialty prescription drugs continue to outstrip inflation. In contrast, prices for common generic drugs have declined.

Drug price increases can raise Medicare beneficiaries' costs. Manufacturer price increases to the provider or pharmacy translate into higher out-of-pocket costs for those beneficiaries who pay a percentage of drug costs (coinsurance) rather than a fixed dollar amount (copayment). Higher prices lead Part D enrollees to get to the "donut hole"—the gap in coverage when enrollees have to pay all of their drug costs—much quicker. And, once in the donut hole, enrollees have to pay the full amount of the higher manufacturer prices.

Higher prices to retail pharmacies are passed on to 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 higher premiums for enrollees.

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