Once Again, Pharmaceutical Giants Hike Prices of Brand-Name Drugs Higher Than Inflation

As millions of older Americans seek relief from the high price of prescription drugs by enrolling in Medicare Part D, the manufacturers of America’s brand-name drug supply reminded the public why relief is necessary. They raised prices again. And the relentless trend of manufacturers’ prices for brand-name drugs increasing far faster than general inflation continued.

The latest data reported by wholesalers and other direct purchasers and analyzed by AARP through its Rx Watchdog project reflects pricing changes through the third quarter of 2005. On an annual basis the manufacturers’ prices of 193 brand-name drugs widely used by older Americans increased on average by 6 percent during the 12 months ending in September 2005. Inflation over this period was 3.3 percent. (See chart at left.)

Paying More at the Cash Register

Manufacturers’ price increases have pocketbook consequences for older consumers. Of the 193 drugs in the sample, 187 are used to treat chronic conditions and play a critical role in long-term therapy. Assuming the full manufacturers’ price increase was passed on to the consumer, the price of a single drug taken for a chronic condition would have risen, on average, by $36 over the 12 months ending Sept. 30, 2005. Typical older Americans, who take three prescription drugs, would be paying $108 more for medications to manage their health conditions at the end of September than they paid a year earlier. (See chart next page.)

2005 Price Increases Through the 3rd Quarter

Over the first nine months of 2005, manufacturers raised the price they charge for brand-name drugs most commonly used by older Americans on average by 5 percent.

Manufacturers increased their price of 160 of the 193 drugs in the sample. All these increases were at least 2.9 percent; 67 topped 5 percent, and six ranged

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between 12.6 and 25.3 percent. The highest year-to-date change in price, levied by Sanofi for its sleep therapy Ambien 5 mg, resulted from three price hikes during the first nine months of 2005.

Sharp Hikes for Best-Selling Drugs

In the first nine months of 2005, the highest percent increase among the 25 best-selling drugs was 9.2 percent applied to Abbott’s Flomax 0.4 mg, a treatment for enlarged prostate. The top-selling drug, Merck’s Fosamax 70 mg — for treatment or prevention of osteoporosis — had a 4.5 percent increase. Two other best-selling treatments for osteoporosis had sharp price increases during this time: Proctor & Gamble raised its price for Actonel 35 mg 7.5 percent and Lilly raised its price for Evista 60 mg 6.2 percent. According to the National Osteoporosis Foundation, osteoporosis is a health threat to more than 44 million Americans age 50 and older.

Three-Month Trends

Price increases for the third quarter of any given year tend to be less, on average, than increases applied during the first quarter. This year is no exception. In the third quarter of 2005, the average manufacturers’ price of brand-name drugs went up by 0.8 percent compared to a general inflation rate of 2.3 percent. The average drug price increase at the end of the first quarter 2005 was 3.3 percent and inflation was 1.0 percent.

Monitoring Drug Prices

AARP—through its Rx Watchdog project—monitors and publicizes changes in the manufacturer’s price of prescription drugs in an effort to keep our members, opinion leaders, government officials and the general public informed. On a quarterly basis, the AARP Public Policy Institute in conjunction with the PRIME Institute of the University of Minnesota analyzes price changes made by manufacturers of both brand-name and generic drugs. The manufacturer’s charge to wholesalers and other direct purchasers is the most substantial component of a prescription drug’s retail price. AARP is not able to factor in the effect of rebates offered by the industry because reliable data about these rebates is not made publicly available. Previous issues of Rx Watchdog and the full pricing report are available online at www.aarp.org.
Win! Maine Gains Accountability and Transparency from PBMs

AARP, through its AARP Foundation Litigation prescription drug initiative, is taking legal action at the national and state levels to remove barriers standing in the way of lower prescription drug costs.

The U.S. Court of Appeals recently upheld a Maine law seeking to increase the accountability and transparency of pharmacy drug benefit management companies (PBMs). PBMs negotiate price discounts through bulk purchasing and effectively determine availability and price of drugs for most Americans with prescription drug benefits, but questions have been raised about whether they pass enough of the discounts on to consumers. Despite their control over the drug market, PBMs escape much government regulation.

As argued in AARP’s friend of the court brief, the U.S. Court of Appeals ruling requires PBMs to tell those who contract with them about rebates, discounts, financial terms with suppliers and any possible conflicts of interest in its deals.

Maine was one of the first states to require PBM transparency, but other states have followed suit, and some states are already enjoying reduced drug costs.

An Effort to Ensure a Competitive Pharmaceutical Drug Market

AARP joined with other consumer groups in a friend-of-the-court brief in a case seeking to ensure an open and competitive market for prescription drugs. The case involves the pharmaceutical giant Wyeth-Ayerst. With its drug Premarin, Wyeth-Ayerst controls 99 percent of the market for estrogen replacement therapy (ERT). In 1999, a competitor named Duramed obtained approval from the Food and Drug Administration to market its own brand of ERT, called Cenestris.

Duramed alleges that, in response, Wyeth adopted a program of negotiating exclusive contracts with many large pharmacy drug benefit management companies (PBMs) in order to maintain a de facto monopoly. Duramed also alleges that shortly after negotiating these agreements, Wyeth dramatically raised the price of Premarin.

The impact of the case is vast. When exclusionary conduct blocks market access for innovative companies, competition is reduced and consumers pay higher prices.

AARP Guide to Pills Now Available

Spotlighting more than 1,200 prescription drugs, The AARP Guide to Pills is now available at most bookstores and online at www.aarp.org.

Scrutinized for accuracy by top pharmacologists and doctors, the guide lists drugs alphabetically by generic name, then cites their equivalent brand names. Color photos of each pill correspond with detailed information about common uses of the drug, what foods or beverages to avoid when taking it, possible side effects, what to do if you experience side effects or miss a dose, and how to maximize the drug’s effectiveness.
America spent $188.5 billion on prescription drugs in 2004. That represents an 8.2 percent increase over the total prescription drug bill in 2003, the lowest growth in spending in more than a decade according to data recently released by the Centers for Medicare and Medicaid Services (CMS). Spending on prescription drugs as a percent of the total health care spending dropped to 11 percent and acted as a moderating force on overall growth in health care spending, which rose 7.9 percent in 2004, nearly the same as 2003.

What’s driving America to put the brakes on its increasing prescription drug bill? As AARP studies continue to document, it’s not the manufacturers of brand-name drugs, who continue to raise the prices they charge wholesalers and other distributors. (See cover story.) AARP Director of Policy and Strategy John Rother explained that “the AARP study looks solely at prices, and specifically manufacturer prices, for a sample of drugs for a time in 2005. The CMS data represents total spending on all drugs in 2004. CMS found that total drug spending went up over 8 percent. This increase is a function of changes in price, usage and the types of drugs consumed. One factor contributing to the spending slowdown according to CMS is rapid expansion in the use of lower-price generic drugs. That is consistent with AARP research, which shows that, on average, manufacturers of generic drugs in our study have recently held prices steady.”

Cynthia Smith, an economist at CMS, said that in addition to greater use of low-cost generics to replace costly brand-name drugs, the slowdown can be attributed to more over-the-counter antihistamines and treatments for peptic ulcers, greater reliance on mail-order prescription services, and “reduced consumption of certain drugs” because of concerns about safety.

Use of generics grew at double-digit rates for the third year in row. This growth is spurred by programs like AARP Watchdog and Wise Use campaigns that focus the public’s attention on the comparative cost and benefits of generics versus brand-name drugs. Many co-payment plans sponsored by private insurers encourage consumers to choose lower-cost alternatives through tiered co-payment structures. Insurers are also containing costs by reducing benefits for brand-name drugs.

Out-of-pocket spending on drugs grew faster than spending by private health insurers in both 2003 and 2004. However, overall health care spending continued to rise faster than wages and the overall economy. In addition, workers are paying much more in health care premiums than in previous years.


Wise Use Shows Results

**U.S. Spending on Prescription Drugs Shows Slowest Growth in a Decade**

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**Wishing You a Healthy, Happy New Year**

Rx Watchdog heard from many readers in 2005 saying how much they value reliable information about drug pricing at the manufacturers level. The editors thank you, encourage you to stay in touch and send best wishes for 2006.

**FDA Announces New Format for Prescription Drug Information**

*Goal to Improve Patient Safety*

The U.S. Food and Drug Administration (FDA) has announced that the format used for the package insert in prescription drugs is being revised to improve patient safety. Designed to make important information easily accessible to health care professionals and patients, the new layout calls attention to the most important facts about the drug.

The new format requires that the prescription information for new and recently approved products meet specific graphic requirements. Critical information will be reordered so physicians can find what they need quickly.

There are several samples of the new format using a fictitious drug on the Web. One is found at www.fda.gov/cder/regulatory/physLabel/tdicon.pdf.