

Drug Prices Surge Despite Criticisms On Campaign Trail

By HEATHER WON TESORIERO *February 21, 2008*

The pharmaceutical industry has been a frequent target in the current presidential campaign, but that hasn't stopped it from continuing to aggressively raise the prices of prescription drugs.

Pharmaceutical companies increased wholesale prices for the 50 top-selling branded drugs by an average of 7.82% in 2007, after increases of 6.73% and 6.22% in the previous two years, according to Delta Marketing Dynamics Inc., a health-care marketing research company. The most recent increase is almost double the overall U.S. economy's 4.1% annual inflation rate last year.

Some individual drugs had double-digit price increases over three years. GlaxoSmithKline PLC raised the price of antidepressant Wellbutrin XL by 44.5% from 2005 to 2007. Sanofi-Aventis SA raised the price of sleep drug Ambien 70.1%. Shire PLC increased the price of its attention-deficit disorder medication, Adderall XR, by 33.5%, while the price of cholesterol-fighting Lipitor -- the world's top-selling drug, which brought in roughly \$13 billion last year for Pfizer Inc. -- rose 16%.

Drug makers are trying to keep revenues afloat by raising prices ahead of many drug-patent expirations and the possibility of changing government regulations, part of the presidential candidates' agendas. But aggressive price increases could backfire politically, pushing policies toward greater government power over price negotiations.

In some instances, drug makers are raising prices on medications that are due to lose patent protection so that customers will switch to -- and continue to buy -- similar, newer products that enjoy market exclusivity well into the future.

It's a tactic that pharmaceutical companies use "to shift patients to next-generation drugs by making old ones so expensive," says Michael Krensavage, a drug-industry analyst with Raymond James & Associates. For example, Sanofi raised Ambien's price ahead of its loss of patent protection last year so that it was more expensive than Ambien CR, a new formulation, to encourage patients to switch to Ambien CR, which will be patent-protected for several more years.

The Delta Marketing figures represent the wholesale acquisition cost, which is the manufacturers' list price for a drug; it doesn't reflect underlying rebates and discounts given to wholesalers and large purchasers, such as health insurers and pharmacy-benefit managers. While the wholesale list price isn't what most customers pay, raising it may help boost the starting point for negotiating a final price.

Through 2012, drugs that generate a total \$67 billion of annual revenue will lose patent protection and rapidly lose sales to cheaper generic versions, according to Bernstein Research. Pharmaceutical research-and-development operations haven't been able to produce enough new drugs to replace those going off patent.

"Companies are under great pressure to deliver revenue, and it's becoming increasingly difficult to do so as generics displace profitable brands," says William R. Little, president of Delta Marketing of East Syracuse, N.Y. Amid weak pipelines for new drugs, "I think drug companies, by and large, are in a survival mode."

The pharmaceutical industry is already a target of criticism in the presidential campaign, even among its traditional Republican allies. Arizona Sen. John McCain, the likely Republican nominee, and Sens. Barack Obama and Hillary Clinton, who are vying for the Democratic nomination, have highlighted the fact that Americans pay more for individual drugs than any other country's citizens. On his Web site, Mr. Obama says he "will prevent [drug] companies from abusing their monopoly power through unjustified price increases."

Mr. McCain's health-care plan includes a provision to "develop safety protocols that permit reimportation to keep competition vigorous." Reimportation refers to allowing drugs exported to other countries to be brought back into the U.S. market to circumvent pharmaceutical companies' high U.S. prices. The industry has been a staunch opponent of reimportation, citing safety risks that could arise from drugs that wouldn't undergo rigorous U.S. regulatory and border scrutiny.

Sens. Clinton and Obama, meanwhile, have endorsed giving the federal government, which currently is excluded by law from directly negotiating with drug makers, the power to negotiate prices for the Medicare Part D drug benefit.

Some industry analysts suggest the drug companies are raising prices to protect their margins in case the Medicare effort and others like it succeed. The theory is that negotiations between the industry and government would start at a higher price point.

Bush administration health officials and industry analysts disagree about whether direct negotiations with drug makers would lower prices.

"Allowing the government to negotiate drug prices would not generate additional savings under Medicare Part D," says Jeff Nelligan, spokesman for the federal Centers for Medicare and Medicaid Services. "The legislation creating Part D relies on health plans and their related pharmacy-benefit managers to negotiate deep discounts with manufacturers."

"Direct negotiations clearly could save the feds money, the concept being that the government makes almost 50% of purchases, and accordingly have almost fiat-like power to set their purchase price wherever they wish," says John Ransom, health-care equity analyst at Raymond James & Associates. "I'd argue that if the exclusionary clause were lifted, government would be in a position to effectively dictate price."

Trade group Pharmaceutical Research and Manufacturers of America says, "Pharmaceutical prices in America today are determined by market transactions and health plans are able to negotiate for discounts. ... Clearly, Medicare patients and the

Medicare drug-coverage program have benefited from our competitive market approach."

The companies whose drugs had some of the steepest increases in recent years defend their price tags. The average price increases of Glaxo drugs in percentage terms were "below the consumer-price index for the years 2005-07," says Glaxo. Sanofi says it "makes every effort to price our products competitively relative to the value that they provide to patients." Pfizer says, "Over the past decade, Pfizer has a well-established history of moderate pricing versus competitors in the U.S. market, particularly when you consider that the vast majority of our customers receive some type of legislated or negotiated discount off our announced list prices." Shire, the maker of Adderall, declined to comment.

According to Anthony A. Barrueta, vice president of government relations at Kaiser Foundation Health Plan Inc., branded drugs account for less than 20% of the large insurer's prescriptions but more than 85% of its drug costs.

As drug prices increase, patients feel the sting in their co-payments. "You've got this insidious effect on the consumer side, where you're paying a higher and higher proportion of the drug cost," says drug-industry consultant Richard Evans.

Jim McNulty of Burrillville, R.I., has seen his monthly co-payments for Wellbutrin rise to \$45 today from \$10 when he started taking the antidepressant for bipolar disorder about a decade ago. Mr. McNulty, a 57-year-old mental-health advocate and former president of the National Alliance on Mental Illness, takes 11 medications -- nine of them available in generic form -- and pays \$247 a month in co-payments.

He was on a generic form of Wellbutrin, which carried a \$10 co-pay, but had a bad reaction to it and went back to the brand. Still, he says, "Whenever drugs go generic, I always give them a try."