

**HEALTH CARE WORKGROUP GROUP POSITION-  
PHARMACEUTICALS**

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**ISSUE**

The cost of prescription drugs in the United States is too high. Prescription drugs account for more than 10% of the \$3.2 billion in overall health care spending outpacing all other health care services.[i] On average, the cost of drugs is increasing at 10% a year. Specialty drugs (drugs that require special handling and monitoring or for uncommon diseases) have seen an unprecedented cost increase the last three years. Costs of drugs to fight cancer, multiple sclerosis, critical heart conditions to name a few, have seen increases from 300% to 5,455%. [ii] Common and generic drugs prices are also on the increase. Those on the market for decades are rising as 4 of the top 10 drugs have increased in price by 100% to 300% in the last 10 years. For the individual, a year's supply of a prescription has more than doubled since 2006. Many older adults struggling to pay the enormous cost of their drugs are reducing daily doses, delaying or deciding not to fill a prescription.

A pharmaceutical industry- wide price hike business model to drive revenue growth and maximize profits[iii] with no substantial regulation is primarily responsible for this crisis. Manufacturers of both specialty and generic drugs have adopted this model in the last decade. The unsustainable cost of prescription drugs puts pressure on the entire healthcare system and increasingly on patients and insurance providers that are paying prices that are much too high. The decreasing affordability of drugs will lead to poorer health and continual higher health care costs for millions of Americans.

We advocate for pushback against these high prices by working to change the fundamentals that are responsible for creating this crisis.

**SPECIFIC POSITIONS**

- 1. Change the government's position of non -intervention in drug pricing and regulation and push for laws that bring down the cost of medicines. This includes the ability for Medicare to negotiate drug prices, as it does with Medicaid (to some extent) and Veterans Affairs.**

Although the public outrage and anxiety over escalating cost of drugs is growing, pharmaceutical manufacturers continually increase the price of drugs because there is nothing stopping them. In contrast to other countries, where universal health care systems allow government agencies to regulate the prices of medicines and set a limit on reimbursement the US has limited bargaining power.[iv] Only drug prices for Medicaid and Veterans Affairs are negotiated. Negotiated prices would lower costs for brand name drugs. Following the process of pricing for the VA generics would be the first choice in government - sponsored programs. Such a move could produce as much as \$16 billion in annual cost savings[v] and provide lower cost prescription drugs to the consumer.

Changes in policies would greatly reduce drug costs for 57 million older Americans and prevent the frequent price increases for protected drugs based solely on market forces.

**2. Create transparency in drug pricing. Provide consumers with information on the complex pricing of drugs to better understand if higher costs are justified.**

No longer can the pharmaceutical industry claim research and development as the primary reason for increasing drug list prices. Companies raise prices often not to fund research to discover new drugs, but to boost profits[vi]. Some companies are buying smaller research companies with promising products as opposed to doing development in house. Global Data research revealed that 9 out of the 10 big pharmaceutical companies spend more on marketing than research[vii].

The complex system of pricing drugs includes three major players:

- Pharmaceutical companies manufacture and establish list prices of drugs.
- Pharmacy benefit managers manage prescription drug services for insurers (ex. Express Scripts, OptumRX, CVS Caremark).
  - o These groups negotiate with the pharmaceutical companies for lower prices, discounts, and rebates on all prescriptions in exchange for the right to be included in their list of preferred drugs.
- Insurance company health plans provide coverage for the consumer.

Discounts negotiated by the PBMs are to be passed on to the health plans that administer prescription drugs to the consumer.

Unfortunately, none of this information is available to the public. Nothing about this practice is regulated, so the consumer is caught in the middle of a complicated world of drug price negotiation with no control. Increasing public understanding of the current process and providing a system for consumers to negotiate at their pharmacy for a different price would benefit all consumers.

**3. Develop policies that provide consumer access to easy drug comparisons. Eliminate the drug manufacturers' strategies at circumventing competition regarding generic and specialty drugs. The public needs to know if a new medicine is any better than one currently on the market.**

Patent laws related to drugs have created "government-protected monopolies" which most often stifle competition. Although this was designed to promote innovation, drug manufacturers have developed strategies to prolong the protection and prevent generics which will reduce cost, from coming to the market. According to one study, when two generics are on the market the cost of the brand name drug drops 55%. When five generics are on the market the cost can drop to 66% of the original. [viii]

The practice of "**evergreening**" or modifying a newly expired patented drug ever so slightly (ex. changing its color ) to extend the patent must be eliminated. An example of this is Nexium . Nearing its patent expiration additional color was added to the drug to extend its patent privileges and protect its market share. This allowed the drug to be promoted as the latest and greatest without any information on its comparative value to the generic.

Requiring public information on changes in specialty and common drugs will allow consumers to make more informed choices.

**4. Create laws that allow for more drugs to be imported.**

Prescription drugs in this country cost on average 6 times more than in other developed countries. Currently, there are strict limits on when and how consumers can buy drugs from other countries. Developing a system that allows for safe and legal importation of less expensive prescription drugs could put pressure on manufacturers to reduce prices. Allowing imported drugs to be fast-tracked for distribution would curb drug manufacturers egregiously raising the price on a comparative drug.

**5. Promote the development of generic drugs by reducing time needed for approval by the FDA. Limit the control of the number of generics to the market by patent holding drug manufacturers.**

Application backlogs at the FDA have led to delays of three to four years in bringing generic drugs to the market. Fully resourcing the FDA by Congress to appropriate the necessary funds would help speed the process.

**“Pay for delay” practices** which allow manufacturers facing expiration of a patent to pay generic drug makers to delay putting their drug on the market must be eliminated. This practice crushes competition and further manipulates the market by restricting the availability of lower cost drugs.

**6. Eliminate pharmaceutical industry practices that ultimately cost the consumer more for all prescription drugs. These include direct- to -consumer advertising and the offering of coupons and discount co-pay drug cards to offset high drug costs.**

As stated above, as pharmaceutical industry profits increase more dollars go to marketing and less dollars to research. Drug companies spent \$5.4 billion dollars on advertising and marketing in 2015. Since the FDA relaxed the rules regarding pharmaceutical advertising in 1999, Americans have been assaulted and coerced with television and print drug ads.

Most of the consumer advertising targets expensive drugs with high course of treatment costs. The American Medical Association and American Society of Health System Pharmacists have endorsed banning direct -to- consumer advertising because it leads to the over prescribing of expensive drugs when more cost effective treatments exist.[ix] The regulations on drug advertising because of the extreme cost impact advertising has created must be reinstated.

**Coupons and discount cards** are offered by drug manufacturers to offset the cost of many higher priced, well advertised drugs. Although the use of coupons or discount cards differ, these options increase the sales of brand-name drugs by 60% or more thus reducing generic sales. This information was reported in a [National Bureau of Economic Research](#) article published in October 2016. The impact of these options is an increase in drug spending by \$30 million to \$120 million per drug. This in turn increases insurers cost and therefore consumer premiums. [x]

**Discount cards and coupon** options are not available to recipients of Medicare, Medicaid (some exceptions) and most other government sponsored programs. Even though the system is set up to promote lower cost drugs, the ultimate cost of these options is borne by the entire health care system including government programs. They negate cost -sharing tools such as co-payments, deductibles and co -insurance.

Over a decade, eliminating these options would save as much as \$32 billion.[xi] These options provide only a short term benefit for the consumer as they are often both dollar and time limited. By eliminating these options, additional transparency in drug pricing and refocus on the primary use of generic drugs as a first alternative could become standard practice.

## **SUMMARY**

The pharmaceutical industry has tremendous power in influencing any changes in the complex system of drug pricing. Lobbyists for drug companies outnumber those for any other industry and many legislators look to them for continued support in election campaigns. They command control over a system where negotiations and discounts are stratified across a decentralized mix of private insurers, government health programs and drug benefit managers.[xii] The price hike business model of the industry continues to threaten the entire health care system. Unfortunately, without significant legislation to restrict this model, the gouging of the consumer will continue.

The specific positions listed in this paper demand advocacy by all of us to bring down artificially high drug prices by working with our legislators and policy makers. We need to demand policies that provide more effective transparency in the current pricing system, allow foreign drugs into our market and tighten rules and strengthen oversight in patent drug protections.

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[i] Money Watch, June 26, 2017

[ii] Time, September 7, 2016, "How to Stop Immoral Drug Price Increases".

[iii] L A Times, September 1, 2016, "Here's Why Drug Prices Rise ...When There's Plenty of Competition".

[iv] Empower, Volume 8, Issue 4, Fall 2016

[v] AARP Magazine, May 2017, "Why Drugs Cost So Much".

[vi] US Senate Investigative Committee Findings, December 2016

[vii] AARP Magazine, May 2017, "Why Drugs Costs so Much".

[viii] Kaiser Health News August 23, 2016

[ix] Time, September 7, 2016, "How to Stop Immoral Drug Price Increases."

[x] Market Watch, Jan 3, 2017, "The Real Reason Drug Makers Offer Discount Cards (You'll Pay Eventually)".

[xi] Forbes, March 30, 2017, "5 Ways to Stop Rising Drug Prices".

[xii] Fortune, July 14, 2016, "Drug Companies Really Don't Care About The Price Hike Backlash".