

Prescription Drug Costs Driven By Manufacturer Price Hikes, Not Innovation

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The skyrocketing cost of many prescription drugs in the U.S. can be blamed primarily on price increases, not expensive new therapies or improvements in existing medications as drug companies frequently claim, a new study shows.

The report, published Monday in the journal *Health Affairs*, found that the cost of brand-name oral prescription drugs rose more than 9 percent a year from 2008 and 2016, while the annual cost of injectable drugs rose more than 15 percent.

"The main takeaway of our study should be that increases in prices of brand-name drugs were largely driven by year-over-year price increases of drugs that were already in the market," says Immaculata Hernandez, an assistant professor of pharmacy at the University of Pittsburgh, and the lead author of the study.

The price of insulin, for example, doubled between 2012 and 2016, according to the Health Care Cost Institute. And the price of Lantus, an insulin made by Sanofi, rose 49 percent in 2014 alone, according to the University of Pittsburgh.

The researchers used the wholesale acquisition cost data for more than 27,000 prescription drugs from First Databank, a company that collects prescription drug sales data. It then compared that data to claims data from the University of Pittsburgh Medical Center's health plan, which the researchers say is a sample that mirrors the population as a whole.

They then compared new and existing drugs and separated the data into brand-name, generic and specialty categories to come up with cost increase estimates.

Brand-name drugs like Lantus and others account for an average 44 percent of total prescription drug spending, Hernandez says. That share is declining as drugmakers focus more on developing high-priced specialty medications, she says.

Gerard Anderson, professor of health policy and management at Johns Hopkins University, says price increases on existing drugs not only benefit drug makers, but also insurers, who can make more money through rebates on higher priced drugs.

"Research and development is only about 17 percent of total spending in most large drug companies," he says. "Once a drug has been approved by the FDA, there are minimal additional research and development costs so drug companies cannot justify price increases by claiming research and development costs."

The study did find that innovation was behind price increases for certain types of drugs. Hernandez and her team found that from 2008 to 2016, the price of so-called specialty drugs rose 21 percent for oral medications and 13 percent for injectable drugs. These increases were driven by new, innovative drugs like Sovaldi and Harvoni, two medications made by Gilead Sciences, Inc. that can cure Hepatitis C. Both drugs were initially priced at over \$80,000 for a course of treatment.

Total spending by the government, consumers and insurers on prescription drugs was \$333 billion in 2017, according to National Health Expenditure data. That was an increase of just 0.4 percent from the previous year. But that spending rose more than 41 percent over the previous decade, from \$236 billion in 2007.

The researchers say their study is based on the list prices of medications and doesn't take into account the discounts most insurance companies get for prescription drugs because those discounts are kept secret.

The study also showed big cost increases in generic drugs, with oral generics rising 4 percent a year and injectables increasing 7 percent annually. But Hernandez says that spike can be attributed to what she calls a "patent cliff"

that hit the drug market during the study period in which several blockbuster drugs, including several anti-depressants and anti-psychotics, lost their patent protection and became generics.

"We're talking here about highly used drugs," Hernandez says. "And it takes some time to file generic applications and therefore in the first years after a patent expiration there's less competition in the market." So at first, prices are set very close to the brand name price.

So those high-volume, expensive generics drove up prices in the generic market overall. But, as more generic competitors hit the market, the prices begin to fall more, she says.

Since rising costs aren't paying for improved treatments, policy makers may want to take action, says Dr. William Shrank, chief medical officer of the UPMC Health Plan, who is also an author on the study.

"This observation supports policy efforts designed to control health care spending by capping price inflation to some reasonable level," he says.