

US drug prices doubled since 2011

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According to a new report by the pharmacy benefits manager Express Scripts, the average price of brand-name drugs increased by 16.2 percent last year. Between 2011 and 2015, branded prescription drug prices have nearly doubled, rising 98.2 percent. Since 2008, the prices have increased by a whopping 164 percent.

Drug spending rose by 5.2 percent in 2015. This was about half the increase seen in 2014, the year of the largest hike since 2003.

The report is based upon prescription use data for members with drug coverage provided by Express Scripts plan sponsors. In assessing changes in plan costs, the report distinguishes between the relative contributions from changes in patient utilization (e.g. more patients being prescribed the drug) and changes in the unit price of the drug (e.g., price hikes).

In the late 1980s and early 1990s, most drug spending was on traditional drugs (small-molecule, solid drugs) to treat conditions such as heartburn, depression and diabetes. The recent trend has been a shift to specialty drugs. Still, within traditional therapy categories there were significant increases in spending on medications to treat diabetes, heartburn and ulcers, and skin conditions.

Diabetes medications remain the most expensive of the traditional drug categories. Drug spending in this category increased by 14 percent, with the hike being equally influenced by increased utilization of the drugs and rise in unit cost. Three diabetes treatments—Lantus, Januvia and Humalog—were among the top five drugs in terms of spending across all traditional therapy classes.

Although not discussed in the report, an investigation by *Bloomberg News* last year found evidence of “shadow pricing” by drug manufacturers, where companies raise their prices immediately after their competitors do so. The investigation found that the prices of diabetes drugs Lantus and Lemivir had increased in tandem 13 times since 2009, and evidence of similar shadow pricing for the drugs Humalog and Novolog.

Heartburn and ulcer drugs saw a 35.6 percent increase in spending, almost solely due to the rise in unit cost.

Although 92.3 percent of the medications filled in this category were generic, the price unit trend was heavily influenced by the increase in prices of branded drugs such as Nexium, Dexilant and Prevacid.

Treatments for skin conditions also saw a significant increase of 27.8 percent in spending, again due almost completely to rises in the unit costs of the medications. The report notes that these increases occurred for both generic and branded therapies, largely due to industry consolidation through mergers and acquisitions leading to less competition in the market. While 86.3 percent of the drugs filled were generic, many of the generic versions saw sharp increases in unit cost, including the two most widely used corticosteroids, clobetasol (96.2 percent) and triamcinolone (28 percent).

While the overall spending increase for traditional therapy classes was nominal (0.6 percent), the primary factor for the increase in spending came from specialty medications. Specialty medications require special education and close patient monitoring, such as drugs to treat cancer, multiple sclerosis or cystic fibrosis. Spending on specialty drugs rose by 17.8 percent in 2015. The report found that 37.7 percent of drug spending was for specialty drugs in 2015, and the figure is expected to rise to 50 percent by 2018.

Spending in this category was topped by inflammatory conditions—such as rheumatoid arthritis, inflammatory bowel diseases and psoriasis—which rose by 25 percent, driven by a 10.3 percent increase in utilization and 14.7 percent rise in unit cost. The average cost per prescription in 2015 was \$3,035.95. The medications Humira Pen and Enbrel, which captured more than 66 percent of the market share for this class, saw unit cost increases of more than 17 percent.

Spending on oncology therapies increased by 23.7 percent, due to both increased use (9.3 percent) and increased unit cost (14.4 percent). New cancer therapies average \$8,000 per prescription and the average cancer regimen is around \$150,000 per patient. Between 2005 and 2015, the anti-cancer drug Gleevec, manufactured

exclusively by Novartis, has seen its price more than triple, with an annual cost of \$92,000. In 2015, the year prior to the drug's patent expiration, Novartis increased the unit cost of the drug by 19.3 percent. This is a common practice for companies facing patent expiration.

Drug spending on cystic fibrosis treatments rose by a significant 53.4 percent, largely based on increases in unit cost (40.9 percent vs. 13.3 percent from patient utilization). This rise was largely due to use of the new oral combination therapy, Orkambi, which became available in mid-2015. The drug costs more than \$20,000 per month.

The report forecasts that between 2016 and 2018 spending will increase annually by 7-8 percent for traditional drugs and around 17 percent for specialty drugs.

The prices of generic drugs have on average decreased, although there are notable exceptions. Pharmaceutical companies like Horizon Pharma, Turing Pharmaceuticals, and Valeant Pharmaceuticals have purchased generic drugs and then significantly hiked their prices.

The report notes the emergence of "captive pharmacies" in 2015 as another factor responsible for higher drug spending. Captive pharmacies are owned or operated by pharmaceutical manufacturers and tend to promote their manufacturer's drugs, rather than generic or other low-cost alternatives. The report gives as examples the arrangements between Valeant Pharmaceuticals and Philidor Rx Services, and between Horizon Pharma and Linden Care Pharmacy.

The Express Scripts data matches the findings released earlier this year by the Truveris OneRx National Drug Index, which found that branded drugs rose by 14.8 percent in 2015.

Despite the widespread media publicity of the notorious drug price hikes by companies like Turing and Valeant, pharmaceutical companies have continued to inflate prices in 2016, with Pfizer leading the way with an average price hike of 10.6 percent for 60 of its branded drugs.

Workers are rightly outraged at the skyrocketing price of drugs. A Kaiser Family Foundation poll conducted last year found that 74 percent of respondents felt that the drug companies put profits before people.

The political establishment, however, has sought both to exploit this anger for electoral support and to direct it into safe channels that do not disrupt the status quo.

A congressional hearing held in January placed a spotlight on the price-gouging practices of Valeant

Pharmaceuticals and Turing Pharmaceuticals, whose dubious activities were highlighted in a pair of congressional memos. The purpose of the hearing, however, was not to probe the underlying causes of the sharp rise in drug prices. Instead, legislators sought to safeguard the profits of the pharmaceutical industry as a whole through a verbal lambasting of the industry's most notorious culprits.

Drug prices have also been a theme in the presidential campaign. The Democratic frontrunner Hillary Clinton, for example, released a campaign advertisement earlier this month attacking the "predatory pricing" of Valeant Pharmaceuticals. Like the congressional hearing, this is all for show. Of all the presidential candidates, Clinton is the top recipient of donations from the pharmaceutical and health products industry, taking in \$410,460 according to data from the Center for Responsive Politics.

Clinton's rival, Bernie Sanders, who has stated that he will support Clinton if he loses the Democratic nomination, received \$82,094 in donations from the industry. Sanders has proposed a series of minor reforms to address drug prices, such as the re-importation of drugs from Canada, allowing Medicare to negotiate prices with drug manufacturers, and decreasing the patent life of branded drugs.

None of the candidates, including the "democratic socialist" Sanders, challenge the private ownership of the pharmaceutical industry in which everything from research and development and clinical testing to drug pricing and promotion are subordinated to the profit interests of corporations.



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