

Arnold Ventures Drug Pricing Fact Sheet

Prescription drug spending is rising rapidly and expected to grow faster than other major health care goods and services over the next decade.¹

- Prescription drug spending represents a significant share—about 15%—of all health care spending.²
- Drug spending grew by 29% over the 2011-2017 period, which was more than 3 times inflation during that same period.³
- The problem is getting worse. Drug spending growth is projected to accelerate to 67% between 2017 and 2027.⁴

Faster growth in spending is driven by higher drug prices and an anticipated increase in spending on costly new specialty drugs.⁵

- Brand-name specialty drugs accounted for just 1 percent of prescriptions and about 30 percent of net drug spending in both Medicare Part D and Medicaid in 2015.⁶
- The average net price per prescription of a brand-name specialty drug grew at an average annual rate of 22 percent in Medicare Part D and 12 percent in Medicaid.⁷
- In Medicare Part D:
 - > Between 2010 and 2015, spending per beneficiary who used a brand-name specialty drug tripled, reaching \$33,460 after rebates.⁷
 - > Overall spending on specialty drugs has risen from \$3.4 billion in 2007 to \$32.8 billion in 2017.⁸
 - > Overall growth in spending is increasingly driven by the relatively few enrollees who reach the catastrophic phase. In 2017, 3.6 million Part D enrollees (about 8 percent) had spending high enough to reach the catastrophic phase of the benefit (high-cost enrollees). High-cost enrollees accounted for nearly 60 percent of all Part D spending in 2017, up from about 40 percent before 2011.⁹
 - > The price for one of the most frequently used hepatitis C treatments (an antiviral) averaged about \$31,000 per claim, and many cancer therapies had prices that ranged from about \$10,000 to over \$14,000 per claim. Because of their high prices, even a single claim for antiviral drugs or drugs used to treat cancer would be sufficient to meet the OOP threshold. In 2017, more than 370,000 enrollees filled such a claim, up from just 33,000 in 2010.¹⁰
- In 2017, high cost specialty drugs accounted for nearly a third of the pharmacy industry's prescription dispensing revenues. This is projected to reach 47% in 2022.¹¹

Higher drug prices are a major driver of drug spending growth.

- Total drug spending before rebates grew by 27% between 2012 and 2016 for people with employer-sponsored insurance. Drug prices increased by nearly 25% over the period while utilization only increased by about 2%.¹²
- Brand drug list prices grew 110% between 2012 and 2016 for employer-sponsored insurance while brand utilization declined.¹³
- The average annual retail price of 61 widely used specialty drugs for treating chronic conditions reached \$78,871 in 2017, which is nearly triple the average annual retail price for specialty drugs in 2006, the year Medicare implemented Part D.¹⁴
- Although brand name drugs comprise only 10% of all dispensed prescriptions in the US, they account for 77% of drug spending.¹⁵
- Pharmaceutical prices abroad are significantly lower than prices in the US.

- > The U.S. pays 3 times more than the UK for the top 20 highest-revenue-grossing brand drugs.¹⁶
- > Single source drugs are, on average, 3.2 to 4.1 times higher in international markets (UK, Japan, and Canada) than in the US.¹⁷
- > Prices for a selection of Part D drugs were nearly 4 times higher in the US than in other countries. Drug prices are significantly higher even when accounting for rebates.¹⁸
- > Prices for Part B drugs were 1.8 times higher in the U.S. than a basket of those same drugs in European countries.¹⁹
- Pharmaceutical firms slow price increases strategically in the face of political pressures, only to resume larger price increases later on.²⁰
 - > Pharmaceutical real price increases moderated starting in 1993, around Clinton's proposed drug price regulations and in 2000 and 2004, just before the presidential elections. This suggests that these price moderations reflect firms' efforts to limit political support for campaign platforms that include pharmaceutical price regulations.²¹

Brand manufacturers often engage in anti-competitive practices that help them extend their monopoly power long after FDA exclusivities or original patent protections run out.

- Brand manufacturers often obtain additional patents on features of their drugs that do not change clinical effectiveness as a tactic to delay more affordable generic drugs from entering the market.^{22,23}
- Between 2005 and 2015, about 75% of new patents for drugs were for existing drugs on the market. Of the roughly 100 bestselling drugs, nearly 80% obtained an additional patent to extend their monopoly period at least once; nearly 50% extended it more than once.²⁴
- Humira, a biologic with nearly \$20 billion in annual sales, was originally approved by the FDA in 2002, but its manufacturer, AbbVie, has over 100 patents on Humira that are successfully blocking launch of its biosimilar until 2023.²⁵
- Unlike the U.S., biosimilars to Humira were able to successfully launch in Europe. Europe has over 50 approved biosimilars. These products have launched with discounts sometimes exceeding 70%. In the U.S., only 14 biosimilars have been approved with only 4 confirmed launches to-date. The remaining 10 face significant legal challenges in the U.S. that delay their entry.^{26,27,28}
- The net price of Humira rose from \$19,000 a year in 2012 to \$38,000 a year in 2018, 5 times the price of other developed countries.²⁹
- The FDA recently found that manufacturers for 52 brand products refused to give generic drug developers product samples necessary generic development.³⁰ These REMS abuses cost the US health care system \$13.4 billion annually by delaying generic entry.³¹
- Brand manufacturers can delay generic competition by paying a generic competitor to withhold the generic version of the product from the market for a period of time. These “pay-for-delay” deals cost America consumers \$3.5 billion a year in the form of higher drug prices.³²

Profits generated from high launch prices well exceed the amount necessary for research and development.

- In 2016, the pharmaceutical industry spent \$5.2 billion on advertising—a 60% percent increase from 2012.³³
- Pharmaceutical companies based in the U.S. generated 176% of the revenues needed to fund their global R&D budgets by charging high prices to the US.³⁴

- Some industry reports assert that it costs \$2.9 billion to bring a new drug to market. However, a recent report found that the direct R&D costs to develop a new cancer drug were less than a quarter of that amount (\$648 million) suggesting industry estimates are exaggerated.^{35,36}
- NIH funding contributed to the development of all new molecular entities approved by FDA between 2010 and 2016. Collectively, this research involved more than 200,000 years of grant funding totaling more than \$100 billion.³⁷
- Publicly supported research had a major role in the late stage development of at least one in four new drugs approved over the last decade, either through direct funding of late stage research or through spin-off companies created from public sector research institutions.³⁸

High drug prices create access problems for many Americans.

- Nearly a third of adults reported not taking a medication as prescribed in 2018 because of cost.³⁹
- The average annual cost for a year of treatment using specialty medications was over \$52,000 in 2015, meaning patients would potentially be paying over \$10,000 a year out of pocket.⁴⁰
- 42% of cancer patients deplete their entire net worth within the first 2 years of treatment.⁴¹
- A study from 2013 found that about 1 in 4 cancer patients chose not to fill a prescription or took less than the prescribed dose due to cost.⁴²
- Over 40% of Americans cannot afford a \$400 emergency, making high drug co-payments difficult to manage.⁴³
- To help reduce prescription drug spending, the Utah public employee's health plan is offering to send some members to Mexico to purchase certain drugs that treat multiple sclerosis, cancer, or autoimmune diseases. The M.S. drug Avonex costs about \$6700 for a 28 day supply in the US, but costs only about \$2200 in Mexico. The savings more than outweigh the travel costs.⁴⁴
- One out of every three GoFundMe donations go towards medical costs.⁴⁵

Americans are demanding that lawmakers act.

- 53 percent of voters identify the cost of health care as a top issue Congress and the president should address, more than any other issue.⁴⁶
- Eighty-four percent of voters surveyed said prices charged for prescription drugs are unreasonable.⁴⁷
- Nearly 90 percent of voters support Medicare negotiation for single source, high cost drugs even when taking into account concerns over R&D investments and access concerns.⁴⁸
- An overwhelming majority of Americans, both Republicans and Democrats, support aggressive action to lower drug prices including making it easier for generic drugs to come to market and allowing the government to negotiate prices in Medicare.⁴⁹
- Voters across party lines and in a variety of Congressional districts have supported government intervention in drug patent monopolies and manufacturing to help speed affordable prescriptions to market.⁵⁰

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¹ National Health Expenditure Projections 2018 – 2027, released by Centers for Medicare & Medicaid Services, Office of the Actuary. Retrieved from <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ForecastSummary.pdf>.

² <https://www.healthaffairs.org/doi/10.1377/hblog20180726.670593/full/>

³ Analysis of Centers for Medicare & Medicaid Services, Office of the Actuary prescription drug spending data from the National Health Expenditure Accounts, Table 16 and BLS data on CPI-U 2011-2017.

⁴ Analysis of Centers for Medicare & Medicaid Services, Office of the Actuary prescription drug spending data, Table 11.

⁵ Cuckler et al, National Health Expenditure Projections, 2017-26: Despite Uncertainty, Fundamentals Primarily Drive Spending Growth. Health Affairs, February 14, 2018. <https://www.healthaffairs.org/doi/abs/10.1377/hlthaff.2017.1655>;

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- ⁷ Ibid.
- ⁸ https://energycommerce.house.gov/sites/democrats.energycommerce.house.gov/files/documents/MedPAC_Testimony_for_EandC_04_30_2019.pdf
- ⁹ Ibid.
- ¹⁰ Ibid.
- ¹¹ <http://drugchannelsinstitute.com/files/State-of-Specialty-Pharmacy-2018-Fein-Asembia.pdf>
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