American Hospital Association®

High & Rising Drug Prices: Myth vs. Fact

1

Myth: Prescription drugs represent only a small and stable part of total health care spending.

Fact: Drug spending is significant and growing each year. Drug manufacturers like to point to retail drug spending, which is around 10 percent of total health care spending,[1] while ignoring total drug spending, which was 16.7 percent (or $457 billion) in 2015.[2] For some payers, drug spending is even higher. The Medicare Payment Advisory Commission has found that 19 percent of all Medicare spending is for drugs,[3] and state Medicaid directors identify the high cost of pharmaceuticals, including specialty drugs, as putting growing pressure on their budgets.[4]

2

Myth: Everyone but drug manufacturers – insurers, hospitals, pharmacy benefit managers and others – are to blame for the high cost of drugs.

Fact: High prices for new drugs and dramatic price increases for existing drugs fuel patients' out-of-pocket spending on drugs. The Altarum Institute, which analyzes pricing data collected by the U.S. Bureau of Labor Statistics, noted in August 2017 that price growth for prescription drugs was "easily the fastest growing category."[5]

3

Myth: Hospitals charge patients five times more than they paid to acquire the drug and receive 2.5 times more in reimbursement.[6]

Fact: More than half of hospital patient revenue is from public payers, including Medicare and Medicaid, which reimburse hospitals below their costs. For the more costly drugs, Medicare pays hospitals 6 percent above the average sales price to account for the overhead associated with handling and storing the drug. Private payers also negotiate competitive rates with hospitals that often bundle in the cost of drugs.

The Pharmaceutical Research and Manufacturers of America (PhRMA) "study" introducing this myth was drawn from estimates of hospital acquisition costs for just 20 unidentified drugs.[7] The authors acknowledge that they had to estimate acquisition costs and provide no evidence that the 20 drugs are representative of the thousands of drugs hospitals use.

PhRMA's lack of transparency in this study and in their pricing raises the question: What are they hiding, and why are they blaming everyone else for the high costs of their drugs?

4

Myth: High prices are necessary to fund the development of new drugs.

Fact: Eight out of 10 major drug manufacturers spend more on advertising than on research and development – unnecessary spending that they instead could put toward research and development or lowering the cost of a drug.[8] Indeed, independent research shows that U.S. prices for drugs produce billions of dollars more in revenue than is necessary to fund research and development operations at pharmaceutical companies.[9]

Further, while PhRMA claims that it costs $2.6 billion to bring a new drug to market,[10] many experts have challenged the questionable assumptions behind this number[11] and have noted – where PhRMA

often fails to – the important roles that National Institutes of Health and academic medical centers play in funding and conducting supporting research.[12]

5 **Myth:** High drug prices reflect the value of a drug; if a drugs cures a condition, it will allow patients to avoid the costs of future treatments.

Fact: Many high-cost drugs help individuals manage chronic conditions and are not cures. For example, drug manufacturers increased the prices of Enbrel and Humira, specialty drugs used for inflammatory conditions such as rheumatoid arthritis, by 15 percent in 2013 and another 17 percent in 2014.[13]

6 **Myth:** Most drugs dispensed are generic, and only the prices of brand-name blockbuster drugs are increasing dramatically.

Fact: Drug manufacturers have increased the prices even for older, generic drugs that are widely used. For example, older drugs used to treat high blood pressure and osteoporosis experienced price increases of over 600 percent between 2013 and 2015.[14]

7 **Myth:** The list price of a drug may be increasing, but the drug company sent me a discount card, so I am not directly affected.

Fact: Drug manufacturers use discount cards to promote brand-name drugs even when lower cost generics are available. These are really a "bait and switch" scheme where discount cards reduce patients' out-of-pocket spending in the short term until the discount runs out. This means the patient has to pay higher out-of-pocket costs in order to continue the drug regime for the long term. In addition, use of discount coupons does nothing to address the increasing drug costs for patients overall.

8 **Myth:** Without special incentives, drug manufacturers would be unable to afford to develop drugs for rare diseases and conditions.

Fact: The reality is that it took an act of Congress, known as the Orphan Drug Act, nearly 35 years ago to get drug manufacturers to be willing to develop drugs for people suffering from rare diseases. Congress provided significant tax incentives, as well as a longer market exclusivity period, for drug manufactures to encourage development of drugs that would only be needed by a small number of individuals. However, a recent investigation showed that the drug industry has manipulated the orphan drug program to maximize profits and to protect niche markets for medicines used by millions.[15] In fact, drug manufactures of popular already marketed drugs went back to the federal government seeking orphan drug status to secure government incentives and exclusivity rights for popular drugs like Crestor for cholesterol, Abilify for psychiatric conditions, Herceptin for cancer, and Humira for rheumatoid arthritis. Initially, the Food and Drug Administration approved Humira, one of the world's best-selling drugs, for rheumatoid arthritis. The drug manufacturer has gone back to the FDA on five different occasions to get orphan drug designations for such diseases as juvenile rheumatoid arthritis, Crohn's disease, and the inflammatory eye disease uveitis. The drug industry clearly sees the advantage of gaining orphan drug status. Now nearly half of all new drugs are designated as orphan drugs, which comes with significant tax benefits and marketing exclusivity rights that protect drug manufactures from competition, allowing them to set prices as high as they want.

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