

Rx Watchdog Report: Drug Prices Continue to Climb Despite Lack of Growth in General Inflation Rate

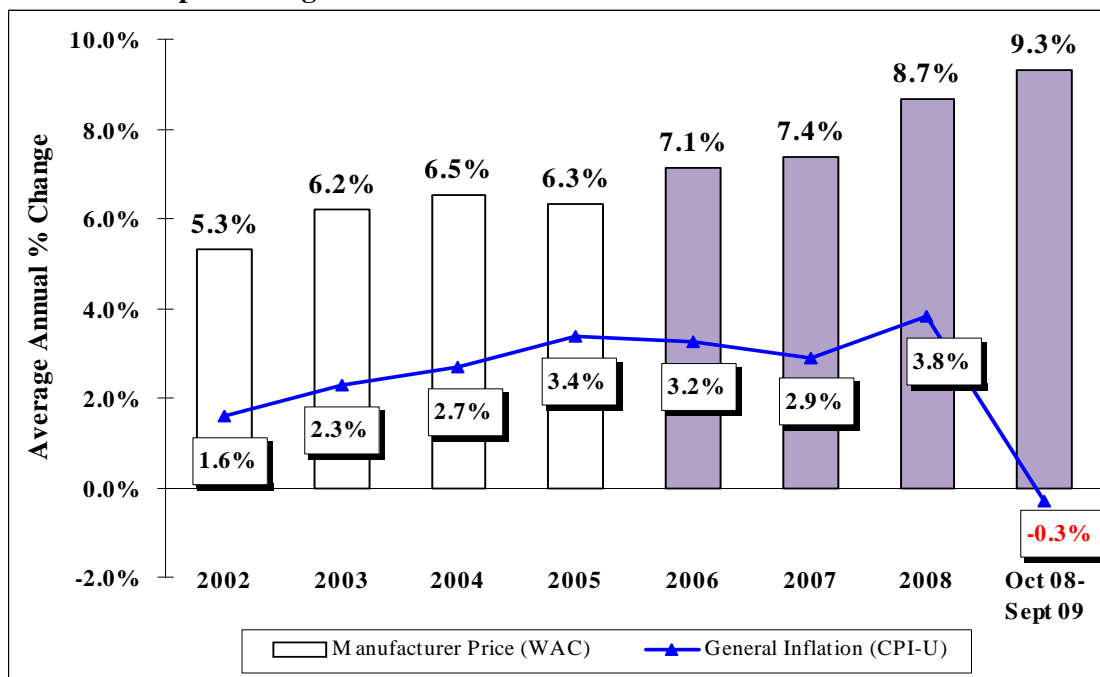
AARP's Public Policy Institute finds that average manufacturer price increases for brand name and specialty prescription drugs widely used by Medicare beneficiaries continued to far outstrip the price increases for other consumer goods and services in the 12 months ending with the third quarter of 2009. In contrast, average manufacturer prices for widely used generic drugs fell during the same time period. These trends resulted in an average annual rate of increase of 5.4 percent for manufacturer drug prices during the 12 months ending with the third quarter of 2009 despite a negative rate of general inflation for all consumer goods and services.

This report presents findings from the third quarter of 2009 on the pattern of manufacturer price¹ changes for brand name, specialty, and generic drugs widely used by Medicare Part D beneficiaries.²

Findings³

Brand name drugs

Figure 1: Average Annual Percent Change in Manufacturer Prices for Widely Used Brand Name Prescription Drugs Continues to Grow in 2009

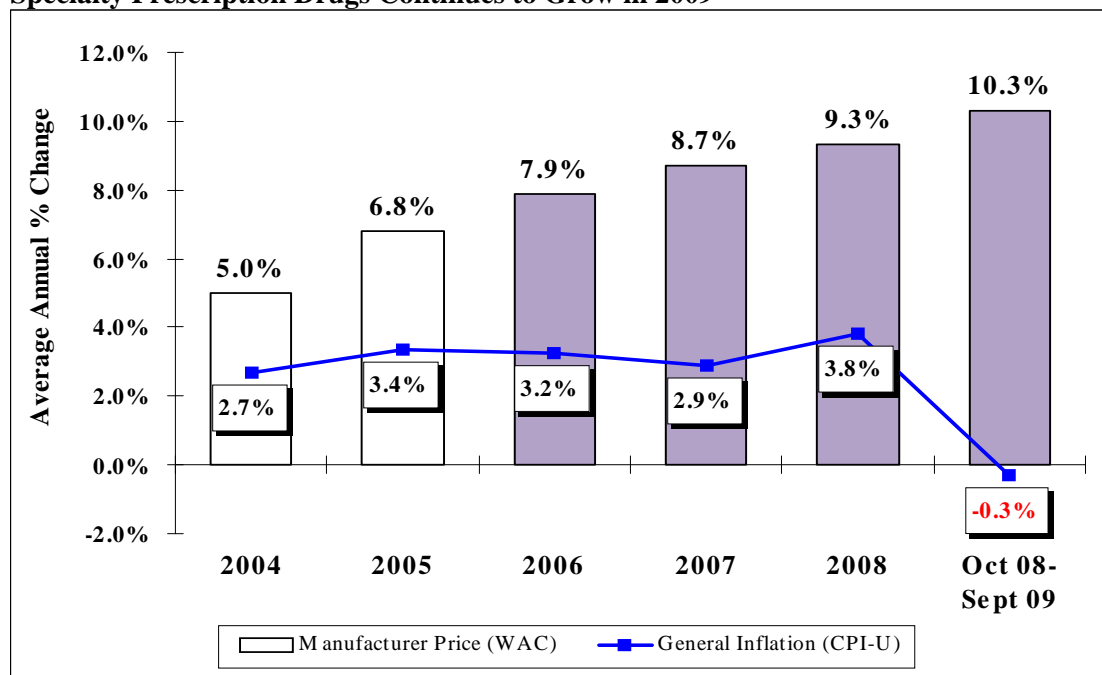


Note: Analyses for 2008 and 2009 exclude Zyrtec 10 mg tablets, which began to be sold over-the-counter (that is, without a prescription) in January 2008. Shaded bars indicate years when Medicare Part D was operational.

- The price of brand name prescriptions most widely used by Medicare beneficiaries increased by 9.3 percent in the 12 months ending with September 2009 and was much higher than the rate of increase observed during any of the prior seven years (i.e., 2002 to 2008), which ranged from 5.3 percent to 8.7 percent. In contrast, the rate of general inflation rate was -0.3 percent over the same period.⁴
- The average annual cost for one brand name medication was about \$2,045 in the 12 months ending with the third quarter of 2009. The average annual cost to a consumer taking three brand name medications during this 12-month period was \$6,134.
- For a consumer who takes three brand name prescriptions on a chronic basis, the average annual increase in cost of therapy for brand name medications rose by \$605 for the year ending in September 2009, compared to an increase of \$540 in 2008.
- 96 percent (210 of 219) of the brand name drug products experienced a price increase in the 12-month period (i.e., October 2008 through September 2009). Nine (4 percent) of the 219 brand name drug products had no change in price during the same period.

Specialty drugs

Figure 2: Average Annual Percent Change in Manufacturer Prices for Widely Used Specialty Prescription Drugs Continues to Grow in 2009



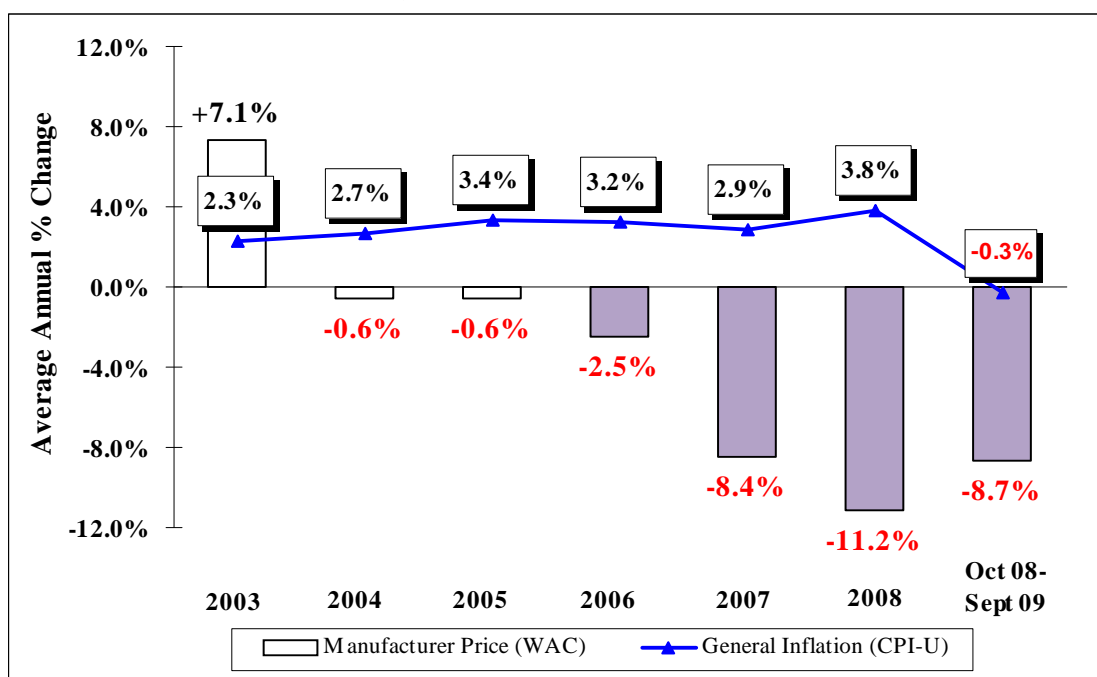
Note: Shaded bars indicate years when Medicare Part D was operational

- The price of specialty prescriptions most widely used by Medicare beneficiaries increased by 10.3 percent in the 12 months ending with September 2009 and was markedly higher than the rate of increase observed during any of the prior seven years (i.e., 2002 to 2008), which ranged between 1.7 percent and 9.3 percent.

- The average annual cost for just one specialty medication was \$32,735 over the 12 months ending with the third quarter of 2009.
- For a consumer who takes only one specialty medication on a chronic basis, the average increase in the cost of therapy rose by almost \$3,509 in the 12 months ending with the third quarter of 2009, compared with nearly \$3,254 in 2008.
- About two-thirds (94 of the 144) specialty drug products experienced a price increase in the 12-month period (i.e., October 2008 through September 2009). Two of the 144 specialty drug products had a decrease in price and both were generics. One-third (48 of 144) of the specialty drug products had no change in price in the same period and most of those drug products with no price change were generics while the remainder were off-patent brands or co-licensed brands.

Generic drugs

Figure 3: The Average Annual Percent Change in Manufacturer Prices for Most Widely Used Generic Prescription Drugs Decreased More Slowly in 2009



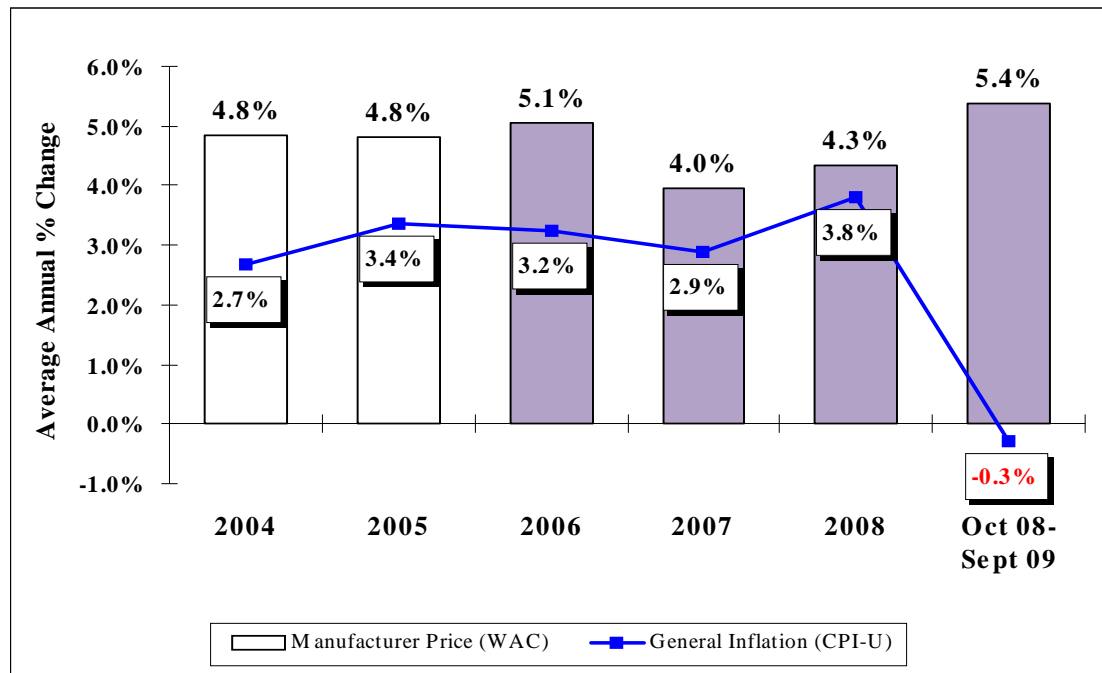
Note: Shaded bars indicate years when Medicare Part D was operational.

- The price of generic prescriptions most widely used by Medicare beneficiaries decreased by an average of 8.7 percent in the 12 months ending with September 2009.
- Prices for most of the generic drug products in the market basket did not change. However, when list price changes do occur, they are usually substantial.
- The average annual cost for one generic medication was \$312 in the 12 months ending with the third quarter of 2009. The average annual cost to a consumer taking three generic medications during this 12 month period was \$937.

- For a consumer who takes three generic prescriptions on a chronic basis, the average cost of therapy decreased by more than \$63 in the 12 months ending with the third quarter of 2009, compared with nearly \$52 in 2008.
- On average, prices for the 185 generic drug products most widely used by Medicare beneficiaries fell by 8.7 percent in the 12 months ending with the third quarter of 2009. This represented a slowdown from 2008, when manufacturer prices for widely used generic drugs fell by 11.2 percent.
- Most (84 percent, or 155 of 185) of the generic drug products had no change in price during the 12-month period (i.e., October 2008 through September 2009). About 15 percent (28 of the 185) of the generic drug products had a decrease in price during the same period while two of the generic drug products had an increase in price.

Combined market basket

Figure 4: The Average Annual Percent Change in Manufacturer Prices for Most Widely Used Prescription Drugs Continues to Increase in 2009



Note: Shaded bars indicate years when Medicare Part D was operational.

- When combined, the average annual rate of increase for all of the drugs analyzed (brand name, specialty, and generic) was 5.4 percent in the 12 months ending with the third quarter of 2009 (i.e., October 2008 through September 2009).
- This combined rate of growth for drug prices is attributable to unusually high levels of price growth among brand name (9.3 percent) and specialty drugs (10.3 percent) that more than offset the substantial price decreases among generic drugs (-8.7 percent).

Concluding Observations

This report shows that price increases for common brand name and specialty prescription drugs continued to increase substantially despite a negative rate of general inflation for all consumer goods and services. In contrast, prices for common generic drugs have declined, albeit at a slower rate than in the previous year.

Drug price increases can raise Medicare beneficiaries' costs. Manufacturer price increases to the pharmacy (or other provider) translate into higher out-of-pocket costs for those beneficiaries who pay a percentage of drug costs (coinsurance) rather than a fixed dollar amount (copayment). Higher prices also move Part D enrollees to the "doughnut hole"—the gap in coverage when enrollees have to pay all of their drug costs—much quicker. In 2007, 26 percent of non-low income Part D enrollees who filled at least one prescription hit the doughnut hole.⁵ And, once in the doughnut hole, enrollees have to pay the full amount of the higher manufacturer prices.

Higher prices to retail pharmacies are generally passed on as higher costs to consumers and drug plans.⁶ Higher drug costs to plans may also result in reduced benefits and higher premiums for enrollees.

The absence of an increase in general inflation for the period ending with the third quarter of 2009 has resulted in no Cost of Living Adjustment for Social Security and Supplemental Security Income recipients in 2010.⁷ Yet, individuals who need medications are facing an overall (brand, specialty, and generic) increase in drug prices of 5.4 percent. The impact of drug prices will be substantial for those persons taking brand name medications which have grown in price by an average of 9.3 percent in the 12 months ending with the third quarter of 2009. Even more challenging will be affording the price of specialty drugs which have grown in price by an average of 10.3 percent over the same period. Although generic drug prices have decreased (-8.7 percent), the effect is not sufficient to offset the price increases of brand name and specialty medications.

¹ The manufacturer price tracked and analyzed for this report was the wholesale acquisition cost (WAC), which is a list price reported by the manufacturer and used by manufacturers on their invoices to wholesalers or other direct purchasers. The actual net transaction price from the manufacturer to the wholesaler or other direct purchaser may be less than the WAC as a result of discounts and rebates. There are no consistent, comprehensive, and publicly reported data sources for this discount and rebate information.

² Calculated as a 12-month rolling average and weighted by actual 2006 sales to Medicare Part D enrollees. Previous reports from this series can be found on the AARP Web site at http://www.aarp.org/research/ppi/health-care/medicare/articles/rx_watchdog.html. Differences between the data reported here and in the previous Rx Watchdog reports are due to drug products with NDCs that have gone inactive. See detailed methodology in Appendix A of the AARP Public Policy Institute's March 2008 report, "Rx Watchdog Report: Trends in Manufacturer Prices of Brand Name Prescription Drugs Used by Medicare Beneficiaries, 2002 to 2007" for details.

³ All data prepared by the AARP Public Policy Institute and the PRIME Institute, University of Minnesota, based on data from Medi-Span Price-Chek PC and Price Rx (Indianapolis, IN: Wolters Kluwer Health Inc.), November 2009.

⁴ The general inflation rate, for purposes of this report, is measured by the Consumer Price Index-All Urban Consumers for All Items (seasonally adjusted) and published by Bureau of Labor Statistics series CUSR0000SA0 (CPI-U).

⁵ J. Hoadley et al., "The Medicare Part D Coverage Gap: Costs and Consequences in 2007," Kaiser Family Foundation, August 2008.

⁶ United States House of Representatives, Committee on Oversight and Government Reform, Majority Staff, *Private Medicare Drug Plans: High Expenses and Low Rebates Increase the Costs of Medicare Drug Coverage*, October 2007, ii, 15. This congressional report found that "When the Part D insurers obtain rebates, however, they do not pass them through to beneficiaries by reducing drug prices in coverage gaps like the 'doughnut hole.'" This congressional report

also found that “In almost all cases, the private (Part D plan) insurers use pricing formulas that pay pharmacies the drug manufacturers’ full list prices minus a fixed percentage and a small dispensing fee. These formulas have resulted in drug prices that are generally no lower than those already available through discount pharmacies and on-line drugstores, while leaving beneficiaries and taxpayers vulnerable to repeated increases in list prices by the drug manufacturers...With only two exceptions, the Part D insurers established drug pricing formulas that pay pharmacies the manufacturers’ published ‘Average Wholesale Prices,’ which are the manufacturers’ list prices, minus a fixed percentage (on average 15%), plus a small dispensing fee (on average \$2.10 per prescription).” The report goes on to say, “One consequence of these pricing formulas is that increases in manufacturer list prices are passed through to beneficiaries.”

⁷ Cost-Of-Living Adjustments, Social Security Administration, SSA Publication No. 05-10526, October 2009, found at the website www.socialsecurity.gov.

Insight on the Issues 36, November, 2009

Written by Stephen W. Schondelmeyer, *PRIME* Institute, University of Minnesota, Leigh Purvis, AARP Public Policy Institute, and David J. Gross, AARP Office of Policy and Integration

601 E Street, NW, Washington, DC 20049

www.aarp.org/ppi

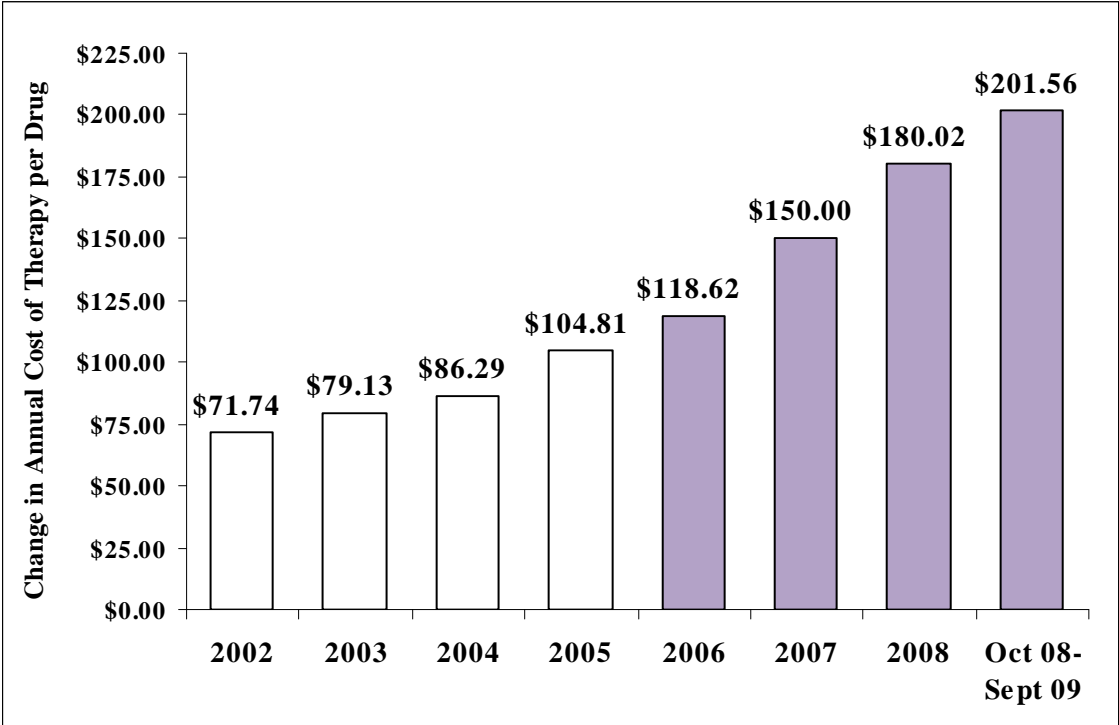
202-434-3890, ppi@aarp.org

© 2009, AARP.

Reprinting with permission only.

APPENDIX A: WIDELY USED BRAND NAME PRESCRIPTION DRUGS

Figure A1: Average Change in Annual Cost of Therapy for Most Widely Used Brand Name Prescription Drugs is Over \$200 in the 12 Months Ending in September 2009



Note: Analyses for 2008 and 2009 exclude Zyrtec 10 mg tablets, which began to be sold over-the-counter (that is, without a prescription) in January 2008. Shaded bars indicate years when Medicare Part D was operational. Does not include eight drug products typically used for acute conditions or for less than one year.

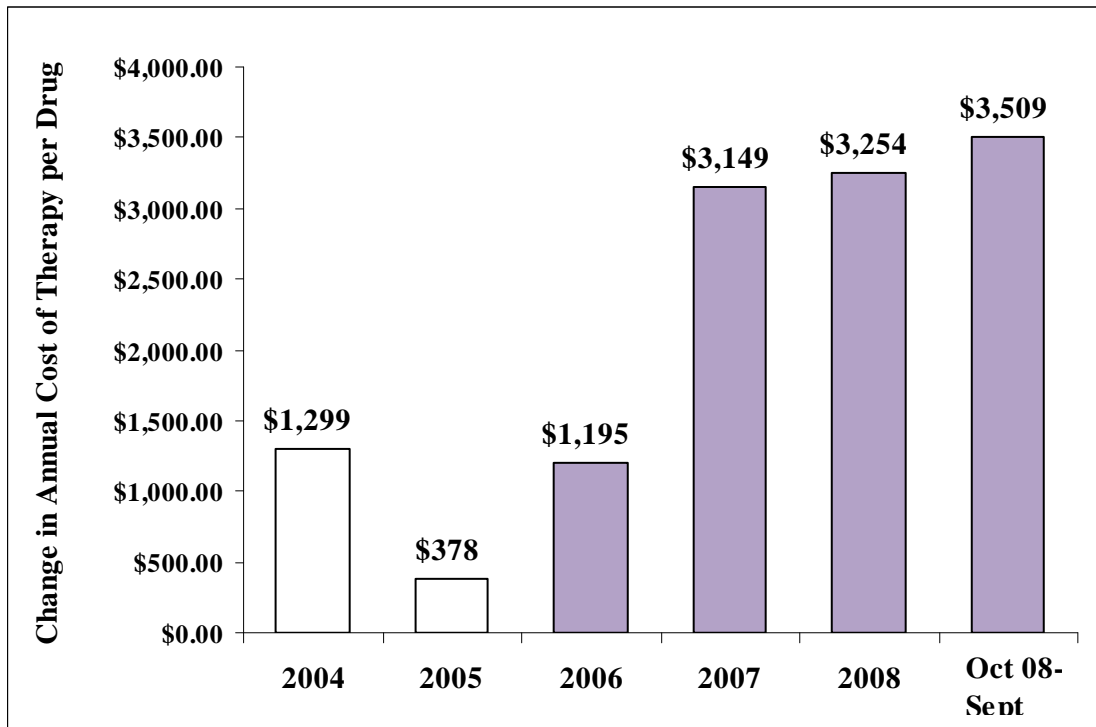
Table A1: All But One of the Top 25 Brand Name Prescription Drug Products Experienced A Manufacturer Price Change in The Past Year

Rank by Sales among Study Market basket*	Product Name, Strength, and Dosage Form	Package Size	Manufacturer	Therapeutic Class	% Change in WAC, September 30, 2008-September 30, 2009
1	Nexium 40 mg capsule	30	AstraZeneca	Ulcer Drugs (PPIs)	7.1%
2	Plavix 75 mg tablet	90	Bristol-Myers Squibb	Anticoagulants	8.2%
3	Prevacid 30 mg DR capsule	100	Takeda Pharmaceuticals	Ulcer Drugs (PPIs)	10.2%
4	Protonix 40 mg tablet	90	Wyeth	Ulcer Drugs (PPIs)	4.8%
5	Lipitor 20 mg tablet	90	Pfizer	Cholesterol Agents (HMG CoA)	5.0%
6	Lipitor 10 mg tablet	90	Pfizer	Cholesterol Agents (HMG CoA)	5.0%
7	Aricept 10 mg tablet	30	Eisai	Antidementia Agents	17.2%
8	Fosamax 70 mg tablet	4	Merck	Osteoporosis Agents	6.9%
9	Norvasc 10 mg tablet	90	Pfizer	Antihypertensives (CCBs)	5.0%
10	Advair Diskus 250-50 mist	60	GlaxoSmithKline	Respiratory Agents	5.0%
11	Lipitor 40 mg tablet	90	Pfizer	Cholesterol Agents (HMG CoA)	5.0%
12	Actonel 35 mg tablet	4	Procter & Gamble	Osteoporosis Agents	9.5%
13	Norvasc 5 mg tablet	90	Pfizer	Antihypertensives (CCBs)	5.0%
14	Celebrex 200 mg capsule	100	Pfizer	Anti-Inflammatory Agents	5.0%
15	Namenda 10 mg tablet	60	Forest	Antidementia Agents	6.0%
16	Singulair 10 mg tablet	30	Merck	Respiratory Agents	12.5%
17	Flomax 0.4 mg capsule	100	Boehringer Ingelheim	Prostatic Hypertrophy Agents	19.7%
18	Zetia 10 mg tablet	30	Merck/Schering-Plough	Cholesterol Agents (HMG CoA)	14.3%
19	Lexapro 10 mg tablet	100	Forest	Antidepressants (SSRIs)	6.0%
20	Lantus 100/ml inj	10	Sanofi-Aventis	Antidiabetics (Insulins)	6.0%
21	Zocor 20 mg tablet	30	Merck	Cholesterol Agents (HMG CoA)	6.9%
22	Ambien 10 mg tablet	100	Sanofi-Aventis	Sedatives	18.8%
23	Seroquel 200 mg tablet	100	AstraZeneca	Antipsychotics	16.1%
24	Zocor 40 mg tablet	30	Merck	Cholesterol Agents (HMG CoA)	6.9%
25	Avandia 4 mg tablet	30	GlaxoSmithKline	Antidiabetics (Oral)	7.0%
General rate of inflation (as measured by growth in CPI-U)					-0.3%

*Ranking based on prescriptions processed by the Medicare Part D plan provider during 2006.

APPENDIX B: WIDELY USED SPECIALTY PRESCRIPTION DRUGS

Figure B1: Average Change in Annual Cost of Therapy for Most Widely Used Specialty Prescription Drugs is Over \$3,500 in the 12 Months Ending in September 2009



Note: Shaded bars indicate years when Medicare Part D was operational. Does not include 49 drug products typically used for acute conditions or for less than one year.

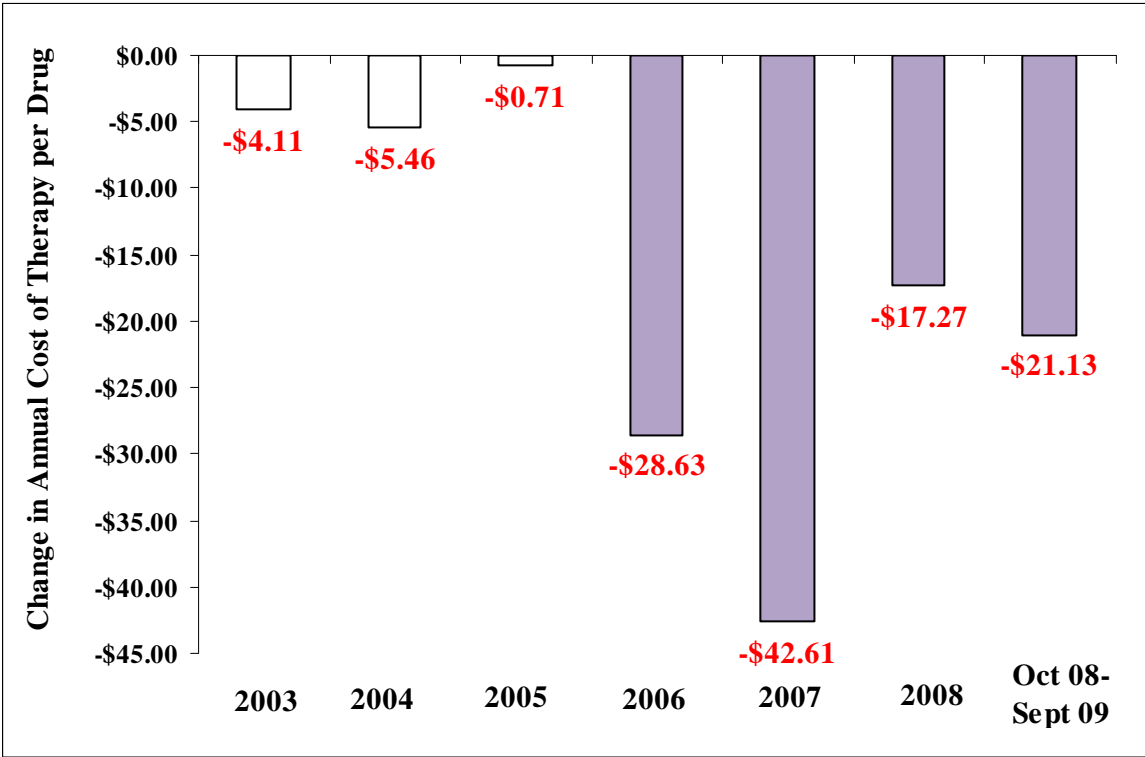
Table B1: All But Two of the Top 25 Specialty Prescription Drug Products Had A Manufacturer Price Change in the Past Year

Rank by Sales among Study Market Basket*	Product Name, Strength, and Dosage Form	Package Quantity and Size	Manufacturer	Therapeutic Class	% Change in WAC, September 30, 2008-September 30, 2009
1	Renagel 800 mg tablet	1 x 180	Genzyme	Phosphate Regulation	0.0%
2	Lovenox 100 mg/ml inj	10 x 0.4	Aventis	Anticoagulants	5.0%
3	Enbrel 50 mg/ml inj	4 x 1	Amgen	Arthritis, Severe	12.1%
4	Humira 50 mg/ml kit	2 x 1	Abbott	Arthritis, Severe	10.0%
5	Procrit 40,000 U/ml inj	4 x 1	Centocor Ortho Biotech	Erythropoietins	4.9%
6	Forteo 250 mcg/ml soln	1 x 28	Lilly	Calcium Regulators	8.0%
7	Copaxone 20 mg/ml kit	1 x 30	Teva Neuroscience	Multiple Sclerosis Agents	20.8%
8	Avonex 60 mcg/ml kit	4 x 1	Biogen Idec	Multiple Sclerosis Agents	19.3%
9	Tracleer 125 mg tablet	1 x 60	Actelion Pharmaceuticals	Pulmonary Hypertension	14.9%
10	Reyataz 150 mg capsule	1 x 60	Bristol-Myers Squibb	Antiretrovirals	4.0%
11	Procrit 20,000 U/ml inj	6 x 2	Centocor Ortho Biotech	Erythropoietins	4.9%
12	Tarceva 150 mg tablet	1 x 30	Genentech	Cancer Agents	13.4%
13	Gleevec 400 mg tablet	1 x 30	Novartis	Cancer Agents	15.3%
14	Procrit 10,000 U/ml inj	6 x 1	Centocor Ortho Biotech	Erythropoietins	4.9%
15	Betaseron 0.3 mg inj	15 x 1	Bayer Healthcare Pharm	Multiple Sclerosis Agents	28.2%
16	Risperdal 50 mg inj	1 x 1	Janssen	Tranquilizers	1.5%
17	Sensipar 30 mg tablet	1 x 30	Amgen	Calcium Reduction	4.9%
18	Zyvox 600 mg tablet	1 x 20	Pfizer U.S.	Antibiotics, Misc.	5.0%
19	Enbrel 25 mg inj	4 x 1	Amgen	Arthritis, Severe	12.1%
20	Trizivir 300 mg-150 mg-300 mg tablet	1 x 60	Glaxo Smith Kline	Antiretrovirals	6.0%
21	Sensipar 60 mg tablet	1 x 30	Amgen	Calcium Reduction	4.9%
22	Byetta 250 mcg/ml inj	1 x 60	Amylin Pharmaceuticals	Diabetes Care	15.0%
23	Thalomid 50 mg capsule	10 x 28	Celgene Corp	Leprosy Agents	10.1%
24	ipratropium 0.02% soln	25 x 2.5	Dey Labs	Bronchial Dilators	0.0%
25	Rebif 88 ml inj	12 x 1	Serono	Multiple Sclerosis Agents	17.5%
General rate of inflation (as measured by growth in CPI-U)					-0.3%

*Ranking based on prescriptions processed by the Medicare Part D plan provider during 2006.

APPENDIX C: WIDELY USED GENERIC PRESCRIPTION DRUGS

Figure C1: The Average Change in Annual Cost of Therapy for Most Widely Used Generic Prescription Drugs Decreased by More Than \$20 in the 12 Months Ending in September 2009



Note: Shaded bars indicate years when Medicare Part D was operational. Does not include 31 drug products typically used for acute conditions or for less than one year.

Table C1: Only Four of the Top 25 Generic Prescription Drug Products Had A Manufacturer Price Change in the Past Year

Rank by Sales among Study Market basket*	Product Name, Strength, and Dosage Form	Package Size	Manufacturer	Therapeutic Class	% Change in WAC, September 30, 2008-September 30, 2009
1	simvastatin 20 mg tablet	30	Teva	Cholesterol Agents (HMG Co-A)	-77.7%
2	simvastatin 40 mg tablet	90	Teva	Cholesterol Agents (HMG Co-A)	-79.8%
3	omeprazole 20 mg capsule	1000	Sandoz	Ulcer Drugs	0.0%
4	metformin 500 mg tablet	100	Teva	Antidiabetics, Oral	-85.2%
5	fentanyl 100 mcg/hr patch	5	Sandoz	Analgesics, Opioid	0.0%
6	gabapentin 300 mg capsule	100	Greenstone	Anticonvulsants	0.0%
7	lisinopril 20 mg tablet	100	Sandoz (Lek Pharm)	Antihypertensives (ACEs)	0.0%
8	fexofenadine 180 mg tablet	100	Teva	Antihistamines, Non-Sedating	0.0%
9	Klor-Con M 20 meq tablet ER	100	Upsher-Smith	Minerals & Electrolytes	0.0%
10	pravastatin 40 mg tablet	90	Teva	Cholesterol Agents (HMG Co-A)	-68.9%
11	azithromycin 250 mg tablet	6	Greenstone	Antibiotics	0.0%
12	fentanyl 50 mcg/hr patch	5	Sandoz	Analgesics, Opioid	0.0%
13	lisinopril 40 mg tablet	100	Sandoz (Lek Pharm)	Antihypertensives (ACEs)	0.0%
14	lisinopril 10 mg tablet	100	Sandoz (Lek Pharm)	Antihypertensives (ACEs)	0.0%
15	megestrol acetate 40 mg/ml susp	240	Par	Antineoplastics	0.0%
16	sertraline 100 mg tablet	30	Teva	Antidepressants (SSRIs)	0.0%
17	sertraline 50 mg tablet	30	Teva	Antidepressants (SSRIs)	0.0%
18	gabapentin 600 mg tablet	100	Greenstone	Anticonvulsants	0.0%
19	fentanyl 75 mcg/hr patch	5	Sandoz	Analgesics, Opioid	0.0%
20	metformin 1000 mg tablet	100	Sandoz	Antidiabetics, Oral	0.0%
21	amiodarone 200 mg tablet	60	Sandoz (Eon Labs)	Other, Antiarrhythmics	0.0%
22	propoxyphene-N/APAP 100-650 tablet	500	Teva	Analgesics, Opioid Combinations	0.0%
23	lovastatin 20 mg tablet	60	Actavis Elizabeth	Cholesterol Agents (HMG Co-A)	0.0%
24	hydrocodone/APAP 5-500 mg tablet	500	Mallinckrodt Pharm	Analgesics, Opioid Combinations	0.0%
25	tramadol HCl 50 mg tablet	1000	Teva	Analgesics, Opioid	0.0%
General rate of inflation (as measured by growth in CPI-U)					-0.3%

*Ranking based on prescriptions processed by the top Medicare Part D plan provider during 2006.

APPENDIX D: COMBINED MARKET BASKET OF WIDELY USED
PRESCRIPTION DRUGS

Figure D1: Annual Percent Change in Manufacturer Prices for Most Widely Used
Prescription Drugs Continues to Increase in 2009

