Branded drug prices soar as generic pressure rises

By Deena Beasley
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LOS ANGELES (Reuters) - U.S. prices for brand-name drugs are rising faster than ever as patents expire on top-selling medicines and the pharmaceutical industry nervously eyes the future of healthcare reform.

Prices for the 15 best-selling drugs rose by much higher rates in 2010 than they did in each of the last five years, according to exclusive data from Thomson Reuters MarketScan, which measured the average cost of a daily dose as shown in medical claims data.

Two thirds of the drugs saw double-digit price hikes, well above inflation of 1.6 percent in 2010 measured by the consumer price index. The analysis indicates drug makers are scrambling to make as much money as possible from blockbuster drugs before their patents expire, while taking advantage of the fact that last year's healthcare reform bill did not cap drug prices.

According to MarketScan, payments for Pfizer Inc's Lipitor rose 11.4 percent last year, compared with 5 percent annually from 2005 to 2010. That meant the cost of a daily dose of the cholesterol drug rose from $3.17 at the end of 2009 to $3.53 at the end of 2010. Lipitor, which will soon lose patent protection, had 2010 global sales of $10.7 billion.

Drugs with price rises in the mid teens included: cholesterol drug Crestor made by AstraZeneca Inc; blood-clot preventer Plavix sold by Bristol Myers Squibb Co and Sanofi-Aventis; and asthma treatment Singulair, from Merck & Co.

AstraZeneca's antipsychotic drug Seroquel topped the list with a 16.5 percent price jump, according to MarketScan data, which is particularly telling since it comes from actual payments by insurers, rather than manufacturer list prices.

Insurers often get a discount on the list price -- but the fact that they are paying more for drugs is likely to push up the premiums they charge at a time when healthcare costs are already rising much faster than inflation.

"The price escalation is truly incredible," said Judy Cahill executive director the Academy of Managed Care Pharmacy, a pharmacy trade group. She said that since drugs generally make up about 10 percent of medical spending, they are often not a top priority for cost-cutting.

IMS Health estimates that $25.4 billion in U.S. drug sales are at risk of generic competition this year as patents expire on iconic brands like Lipitor and Plavix. Another $26.1 billion in sales -- about 9 percent of the $300 billion market -- will lose patent protection next year.

"Because of the increased number of drugs going generic, they profit more from the brand drugs on the market by increasing prices," said Nancy Stalker, vice president

for pharmacy services at health plan Blue Shield of California.

Everett Neville, vice president of pharma strategy at Express Scripts Inc, which manages drug benefit programs for health insurers and employers, said drugmakers typically raise prices for drugs as they approach patent expiration, but "what we have seen over the last few years are bigger increases for products that are early or mid-way in their patent cycle."

Drug manufacturers have an exclusive right to sell new products for up to 20 years from the date of a U.S. patent filing. Once the patent expires, a number of generic copycats typically enter the market, driving down prices.

IMS estimates that the U.S. healthcare system will reap at least $70 billion in savings over the next four years as brand-name medicines are replaced by lower-cost generics.

But until there is a generic competitor, there is very little pushback on the U.S. price of a brand-name drug.

"There are hundreds of (health insurance) plans, so each of them individually does not have a whole lot of price leverage," said Joshua Cohen, professor at the Tufts Center for the Study of Drug Development in Boston.

NO PRICE CAPS

The accelerating price hikes come as a surprise to some given that the pharmaceutical industry dodged a bullet with healthcare reform. The Affordable Care Act, dubbed "Obamacare" by some, set no limits on drug prices, although the industry is on the hook for around $80 billion in discounts and taxes over 10 years.

"Medicare and Obamacare are two reasons you are seeing higher rates of branded price inflation these days," said Joel Hay, professor of pharmaceutical economics and policy at the University of Southern California.

Other industry sources said it would make more sense to limit drug price inflation when healthcare costs are under scrutiny -- but the looming patent cliff is forcing drugmakers to implement steep increases to stem revenue losses.

The way drugmakers are paid -- and how consumers are reimbursed -- may also be pushing prices up, experts say.

Since the 1990s, reimbursement rates have been structured to shift usage to the most cost-effective medicines.

"There was a time where payers said that a drug is too expensive -- we won't cover it," but consumers rebelled at such restrictions, said Edgar Arriola, coordinator of the drug information center at the University of California, Los Angeles. "Now we have tiered systems. We make the co-pay higher for those drugs that are less desirable from the payer's point of view."

But those efforts are becoming less effective now that many drugmakers are reimbursing consumers for co-payments. Pfizer, for example, is advertising co-pay cards limiting out-of-pocket Lipitor costs to "less than the average cost of a generic statin."

Those offers drive up costs, said Blue Shield's Stalker.

Makers of expensive biotechnology drugs have traditionally covered costs for uninsured or indigent patients, but some are now reimbursing all patients for any out-of-pocket costs.

Amgen Inc, the world's largest biotech company, is covering co-pays for users of Xgeva, its new bone drug for cancer patients, and for Neupogen and Neulasta, much older drugs used to boost the immune systems of cancer patients.

Neulasta's price rose nearly 9 percent last year, according to the MarketScan data.

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Drug makers argue they need the revenue to pay for developing new medicines.

"Other products aren't regulated in the same way that we are," said Kirsten Axelsen, vice president of worldwide policy at Pfizer. "Lipitor will immediately be copied by a bunch of different companies ... we are still responsible for monitoring anything that happens with a generic into infinity."

Winning regulatory approval for a drug takes, on average, 15 years and $1 billion, according to the Pharmaceutical Research and Manufacturers of America.

"It is the innovators' investments that lead to pioneering advances that improve patient care," said Karl Uhlendorf, the pharmaceutical trade group's deputy vice president.

Drugmakers, of course, try to keep patent protection as long as possible. The U.S. Supreme Court earlier this month upheld a ruling that pharmaceutical companies can pay rivals to delay production of generic copies.

"Drug companies have a responsibility to their shareholders to maximize profits and that means charging us as much as they can for their drugs," said Ben Weintraub, director of research at Wolters Kluwer inThought.

"The cost of developing drugs is also skyrocketing, and really the only place to make up for those costs is in the United States, because drug pricing is so tightly regulated everywhere else in the world."

Prices of the 75 top-selling drugs in the United States rose another 4 percent in the month of January, according to brokerage firm Raymond James, which listed increases like a 29 percent hike in the price of Johnson & Johnson's attention deficit disorder drug Concerta and a 13.5 percent increase for Pfizer's erectile dysfunction drug Viagra.

"Right now they are trying to maximize and some would say squeeze as much as they can," said Cohen at Tufts. "It makes sense from their perspective."

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