Medical Xpress

Multiple factors cause high prescription drug prices in US

September 25 2015, byLinda A. Johnson

Various pills. Credit: Wikipedia

Sticker-shocked patients increasingly wonder why prices for prescription drugs continue to rise in the U.S.

The issue heated up this week on news that Turing Pharmaceuticals raised the price of Daraprim, the only approved treatment for a rare, life-threatening parasitic infection, by more than 5,000 percent to $750 a pill.

Medical groups blasted the increase, and Democratic presidential candidate Hillary Clinton called it "price gouging." Turing's CEO, former hedge fund manager Martin Shkreli, later said he'd make "a serious price adjustment."

But the issue goes beyond a single company or drug.

From 2008 through 2014, average prices for the most widely used brand-name drugs jumped 128 percent, according to prescription benefit manager Express Scripts Holding Co. In 2014, it estimated that total U.S. prescription drug spending increased 13 percent. Reasons include increasing research costs, insufficient competition and drug shortages.

Pharmaceutical and biotech industry groups say prescription medicines save money by preventing costly complications and hospitalizations and have long accounted for just 10 percent of annual U.S. health care spending. That could change, because many new drugs for cancer, Hepatitis C and rare disorders carry list prices of $100,000 or more for a year or course of treatment.

For patients with insurance requiring them to pay a significant percentage of medication costs, the priciest drugs can be unaffordable. Higher prices can trickle down even to those who now have flat copayments, such as $30 per prescription, because as insurance plans incur higher costs, they usually increase the share beneficiaries pay in subsequent years.

While it's clear drug prices are rising, many patients don't understand why. Here are six of the top reasons:

1. NO PRICE CONTROLS

The U.S. government doesn't regulate prices, unlike many countries where government agencies negotiate prices for every drug. In the U.S., drugmakers set wholesale prices based mostly on what competing brand-name drugs cost and whether their new drug is better, said Les Funtleyder, healthcare portfolio manager at E Squared Asset Management.

2. LENGTHY PATENTS

Patents last longer than in other countries, usually giving a drug's maker exclusivity that prevents competition for 20 years from when the patent is issued. Because patents are filed while drugs are still in testing, that clock starts ticking long before the drug goes on sale. Typically, new drugs end up with a monopoly for roughly a dozen years.

Their makers generally increase their prices every year, by about 5 percent or more. Those increases add up, and become bigger as the expiration of the patent approaches.

3. LIMITED COMPETITION

For many drugs, there isn't enough competition to hold down prices. Many older generic drugs were priced too low to be very profitable, so some drugmakers stopped making them. Once only one or two companies make a drug, the price usually shoots up.

For older, brand-name drugs that treat conditions too rare to attract multiple manufacturers, the sole maker has a de facto monopoly.

Funtleyder noted the large backlog of generic drugs awaiting U.S. regulatory approval means that for some off-patent drugs, only one or two generic versions have been approved. That limits reductions from the brand-name drug's price.

Scores of drugs, mostly older, once-cheap generics, have been in short supply over the last decade. Reasons include raw material shortages and manufacturing deficiencies involving dirty factories, pills containing the wrong amount of active ingredient and other serious problems, particularly at factories in India. Those trigger production shutdowns or temporary bans on their sale in the U.S.

Also, several drugmakers recently have been buying rights to older drugs, then hiking the price, as Turing did with Daraprim.

4. SMALL MARKETS

Many new drugs are for rare conditions or cancer subtypes involving a particular genetic mutation, so they might help just thousands or hundreds of patients. To recoup research and development costs, drugmakers set very high prices, though they offer many patients financial assistance.

5. DEVELOPMENT AND PRODUCTION COSTS

Research is becoming increasingly expensive. Industry groups say it can take about a decade and well over $1 billion to get a new drug approved, though that includes development costs for the many drugs that don't work out.

The most-exorbitant new drugs are biologics, produced by living cells under very precise conditions, which costs far more than mixing chemicals to make pills.

6. FEWER NEW GENERICS

After a huge wave of patent expirations from 2011 through 2013 that brought generic versions of drugs taken daily by millions of patients, the number of popular drugs going off patent has declined. That's contributed to total U.S. spending on medicine rising.