



Written Statement of

Lynn Quincy, Associate Director for Health Policy

on

Secret Drug Prices and Their Impact On Consumers

Before the

Joint Committee on Health Care Financing  
Massachusetts Legislature

April 11, 2016

## Introduction

Consumers Union, the policy and advocacy arm of Consumer Reports,<sup>1</sup> appreciates this opportunity to provide our views on how secrecy in drug pricing is harming consumers. We are an expert, independent, nonprofit organization whose mission is to work for a fair, just, and safe marketplace for all consumers.

## High Drug Prices

Spikes in drug prices, as well as prices that are simply too high, have been widely reported in the news and confirmed by Consumer Reports' own nationally representative survey. Our recent poll found that thirty percent of people who regularly take at least one prescription drug experienced unexpected spikes in their out-of-pocket drug costs in the past 12 months—anywhere from just a few dollars to more than \$100 per prescription.<sup>2</sup>

There are many stories in the news about *very* high-priced medications – such as Sovaldi and Daraprim - but consumers also face challenges affording the everyday drugs that nearly half of adult Americans take regularly. For example, an estimated 29 million Americans have diabetes — about 10 times the number of those with hepatitis C — and many of them will take diabetes drugs for the rest of their lives. In 2015, for the fifth year in a row, spending on diabetes drugs was higher on a per-member basis than it was for any other class of traditional drug.<sup>3</sup>

---

<sup>1</sup> Founded in 1936, *Consumer Reports* is an expert, independent, nonprofit organization whose mission is to work for a fair, just, and safe marketplace for all consumers, and to empower consumers to protect themselves. Using its more than 50 labs, auto test center, and survey research center, the nonprofit rates thousands of products and services annually. Consumer Reports has over 8 million subscribers to its magazine, website, and other publications. Its policy and advocacy division, Consumers Union, works for health reform, food and product safety, financial reform, and other consumer issues in Washington, D.C., the states, and the marketplace. One important service we provide is to help consumers find the best value when purchasing prescription drugs. In 2004, we launched *Consumer Reports Best Buy Drugs*. This program uses evidence-based systematic reviews of prescription drugs to clearly demonstrate the efficacy and safety in over 30 categories of commonly used medicines. What's more, we combine this information with reliable cost information – enabling consumers to truly identify the “best buy” for many drugs. To our knowledge, we are the only source of this type of information for consumers that is not supported by commercial funding.

<sup>2</sup> Consumer Reports National Research Center poll of 1,037 adults. *Are you paying more for your Rx meds? A Consumer Reports' poll shows one-third of Americans hit by high drug prices*, August 13, 2015.

<sup>3</sup> [Express Scripts 2015 Drug Trend Report](#), March 2016. See also:

[https://www.washingtonpost.com/national/health-science/people-with-diabetes-are-facing-rising-prices-for-lifesaving-drugs/2015/08/24/dec2abd8-476f-11e5-8e7d-9c033e6745d8\\_story.html](https://www.washingtonpost.com/national/health-science/people-with-diabetes-are-facing-rising-prices-for-lifesaving-drugs/2015/08/24/dec2abd8-476f-11e5-8e7d-9c033e6745d8_story.html)

## Secrecy in Drug Pricing

In his seminal article for *Time* magazine, “Bitter Pill,” Steven Brill used investigative journalism to pull back the curtain on pricing for one drug. He uncovered that a cancer drug, Rituxan, cost just \$300 to manufacture and ship, but the manufacturer then charged \$3,500 to the hospital for the drug and the hospital, in turn, charged the patient \$13,702 for this life-saving drug.<sup>4</sup>

A Wall Street Journal reporter investigated how Pfizer set the price of Ibrance, a drug to treat breast cancer.<sup>5</sup> He learned that R&D expenses didn’t factor into Ibrance’s pricing, except in the sense that Pfizer says it wouldn’t have pursued Ibrance’s development if it didn’t think the drug would generate enough returns to cover anticipated development costs. Manufacturing costs also didn’t factor into its pricing. Instead, what mattered was the price that the market would bear.

The United States Senate Finance Committee held a hearing in an effort to get detailed cost data from Gilead Sciences, whose hepatitis C drugs cost \$1,000 a pill or more. Members of the committee concluded Gilead pursued a “scheme for pricing and marketing its Hepatitis C drug based on one primary goal – maximizing revenue – regardless of the human consequences.”<sup>6</sup>

These stories illuminate important information about selected drugs but, more importantly, they illustrate it’s near impossible for policymakers, regulators, consumers and payers to get information on how high these markups are, what is the cost to manufacture, spending on R&D, or a full picture of the rebates and discounts that lead to the “real” price we are paying for the drug. All these factors are shrouded in secrecy and, as a practical matter, we can’t rely on investigative journalism or congressional investigations to reveal the reasons behind high prices and price spikes for the drugs that consumers depend on.

While there are myriad reasons for high and rising drug prices<sup>7</sup> a big one is the opaque nature of drug pricing up and down our complex and highly convoluted drug supply chain.

---

<sup>4</sup> Steven Brill, “Bitter Pill: Why Medical Bills are Killing Us,” *Time* magazine, March 4, 2015

<sup>5</sup> How Pfizer Set the Cost of Its New Drug at \$9,850 a Month, *Wall Street Journal*, Dec. 9, 2015.

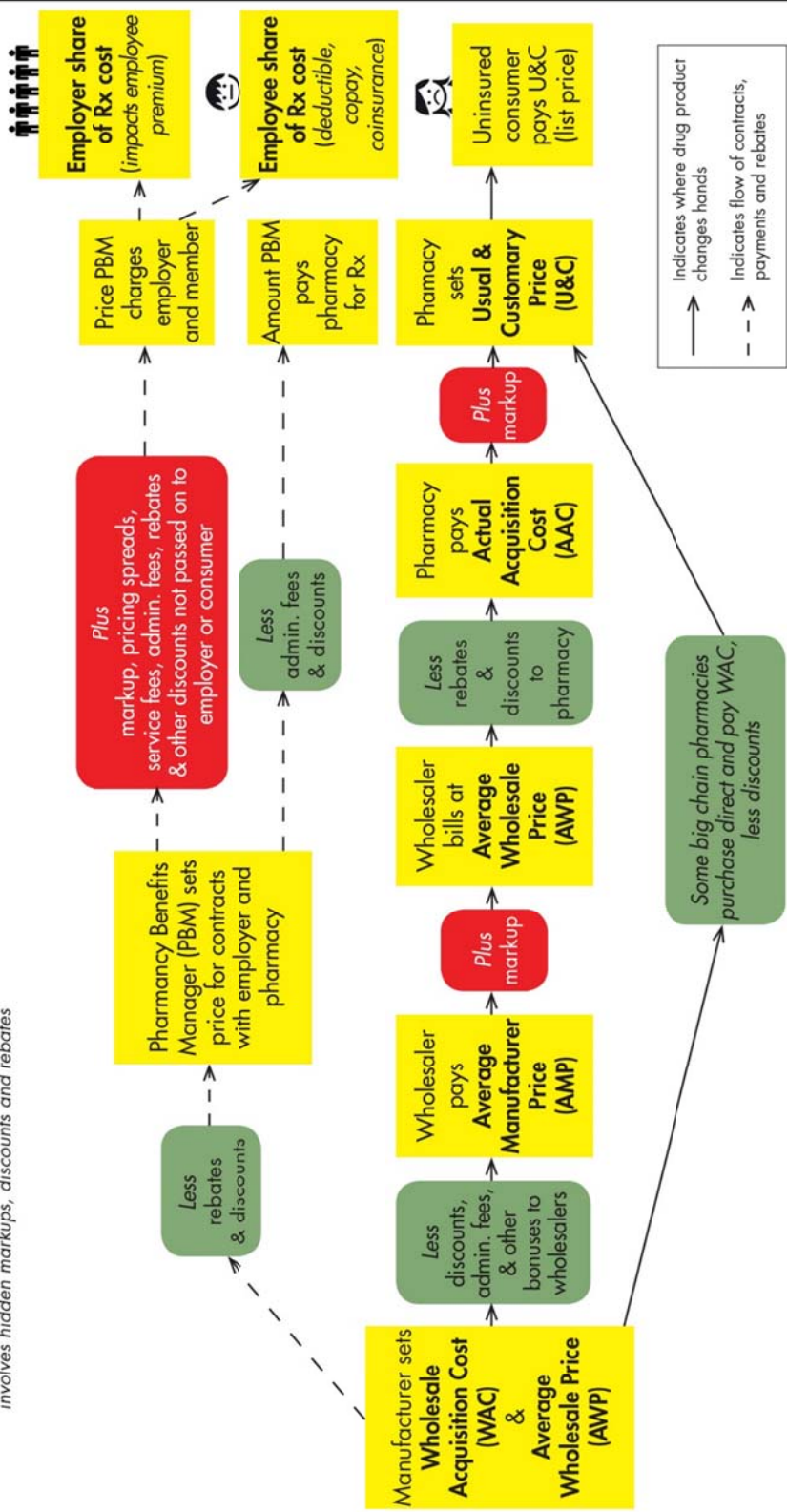
<sup>6</sup> Wyden Press Conference Remarks on Investigation into Gilead’s Pricing of Hepatitis Drug Sovaldi, Dec 1, 2015.

<http://www.finance.senate.gov/ranking-members-news/wyden-press-conference-remarks-on-investigation-into-gileads-pricing-of-hepatitis-drug-sovaldi>

<sup>7</sup> Other reasons for high prices include research costs, long periods of market “exclusivity,” insufficient competition, and drug shortages. See: Swirsky, [Rx Costs: A Primer for Healthcare Advocates](#), Consumers Union, April 2015.

# Rx Pricing Along the Supply Chain

This chart shows how prescription drugs move along the supply chain to consumers. For a typical employer-sponsored drug benefit, the price at each step involves hidden markups, discounts and rebates



Note: This graphic is a simplified overview of the drug pricing supply chain, showing how important pricing concepts fit together. As such, it does not reflect myriad other connections between parts of the system. Source: Adapted from The Prescription Drug Supply Chain Black Box: How it Works and Why You Should Care, Eickelberg, H.C., American Health Policy Institute (2015).

We won't be able to find solutions for unrelenting drug price increases unless we can see inside the black box of how those prices are determined. Without data on cost to manufacture, spending on R&D, markups, rebates and discounts, policymakers, regulators and payers have little to guide them in the fight to achieve fair and reasonable drug prices.

Other sectors of the healthcare system use transparency to assess justifications for price increase and ensure fairness --for example rate review for health plan premiums – why not drugs?

### **Impact on Consumers**

High and rising drug prices are a concern for the nearly 50% of Americans who regularly take a prescription drug.<sup>8</sup>

Our own survey, as well as the research of others, shows that when people are unable to afford their medications, they frequently cut corners in ways that could be harmful to their health. They might skip filling a prescription or they might take less of a medication than what has been prescribed. Sixteen percent of diabetes patients in Medicare fail to fill at least one prescription a year because of the cost, according one study.<sup>9</sup> This can lead to poorer health outcomes and higher health care costs in the long run.

A national poll by Kaiser Family Foundation indicates that drug prices are high on Americans' list of health care concerns – 77 percent of those surveyed said the issue was their number one health worry.<sup>10</sup> And they are right to be worried. In 2015, it was estimated that total U.S. prescription drug spending increased 5.2 percent, and experts predict even higher price hikes are in our near future.<sup>11</sup>

---

<sup>8</sup> Researchers find that more than half of Americans take two drugs.  
<http://newsnetwork.mayoclinic.org/discussion/nearly-7-in-10-americans-take-prescription-drugs-mayo-clinic-olmsted-medical-center-find/>

<sup>9</sup> Marc-Andre Gagnon and Sidney Wolfe. *Mirror, Mirror On The Wall: Medicare Part D Pays Needlessly High Brand-Name Drug Prices Compared With Other OECD Countries And With U.S. Government Programs*, Carleton University School of Public Policy and Administration and Public Citizen Policy Brief, July 23, 2015.

<sup>10</sup> [Kaiser Family Foundation Health Tracking Poll](#), October 2015.

<sup>11</sup> [Express Scripts 2015 Drug Trend Report](#), March 2016.

## Conclusion

A Kaiser Family Foundation poll finds that most people believe the costs of prescription drugs are “unreasonable.”<sup>12</sup> Polling data further show that Americans on both sides of the political aisle believe that only government can address high drug costs and take on the powerful pharmaceutical industry.<sup>13</sup>

It’s widely understood that we pay more for each pill than any other country.<sup>14</sup> The United States is the only country in the 34-member Organisation for Economic Co-operation and Development (OECD) that lacks some degree of government oversight or regulation of prescription drug pricing.<sup>15</sup> In Europe, Canada, and Australia, government’s view the market for cures as essentially uncompetitive and therefore negotiate prices at the federal level — similar to how electricity or water are priced in regulated US utility markets.

Consumers Union supports efforts to study and enact a range of solutions that would address consumers’ difficulties affording their critical medications. A requirement to increase the transparency of drug pricing is a critical step on the path towards addressing consumers’ needs.

Ensuring that consumers can afford the drugs they need and that they have access to reliable information on the comparative effectiveness of treatments will provide a better consumer experience, better treatment compliance, and better health outcomes.

We appreciate the Joint Committee’s attention to this issue of profound importance to our health care system and to consumers.

---

<sup>12</sup> Kaiser Family Foundation Health Tracking Poll: June 2015 (<http://bit.ly/1FZSWFW>)

<sup>13</sup> Consumers Union, *Engaging Consumers on Health Care Cost and Value*, October 2014 <http://consumersunion.org/wp-content/uploads/2014/10/Engaging-Consumers-on-Health-Care-Cost-and-Value-Oct-2014.pdf>; Some 83% said they support allowing the government to negotiate with drug companies, Kaiser Family Foundation Health Tracking Poll: August 2015. This includes 93% of Democrats and 74% of Republicans.

<sup>14</sup> See this excellent graphic: <http://www.nytimes.com/2013/10/13/us/the-soaring-cost-of-a-simple-breath.html>

<sup>15</sup> Hilary Daniel, “Stemming the Escalating Cost of Prescription Drugs: A Position Paper of the American College of Physicians,” *Annals of Internal Medicine*, 29 March 2016.