Op-Ed

Big Pharma Profits and the Public Loses

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IN THE DECEMBER 2015 ISSUE OF *THE MILBANK QUARTERLY*, I discussed why it is important for the public's health that physicians disclose their financial relationships with pharmaceutical companies, including payments made to physicians by these companies to help market their drugs.¹ But that is only part of the story, a tale that has had a significant impact on the health of both the public and individual patients.

Equally troubling are the enormous profits that pharmaceutical companies make on the sales of their drugs and how pharmaceutical executives determine the costs of those drugs, which must be paid by the public, either through their insurance companies or directly out of pocket. I have no problem with pharmaceutical companies making a reasonable profit from the drugs they develop. After all, these often are medications that contribute substantially to the public's health, and these companies certainly deserve credit and financial remuneration for drugs that have saved much pain and suffering and many lives. The essential question is what a fair and legitimate profit for drugs should be.

Let's first look at a few numbers. In 2013 the profit margin for pharmaceutical companies ranged from 10% to 42%, with an average of 18%. Pfizer was at the top of the profit list, and 4 other companies (Hoffman-La Roche, AbbVie, GlaxoSmithKline, and Eli Lilly) had profit margins of more than 20%. As a point of reference, the profit margin of pharmaceutical companies was essentially the same as that of banks, but the banks' range of profit was lower, from 5% to 29%.² Although most of us might be able to survive without a bank, many of us who need life-saving, life-extending, and pain-relieving medicines do rely on pharmaceutical companies. If drug prices are too high, people stop filling prescriptions, leading to complications and sometimes even death.

What has accounted for the pharmaceutical companies' very large profit margins? For one thing, the United States, unlike other developed countries, allows pharmaceutical companies to charge whatever they

want as long as they do not collude with one another in setting the prices. In other words, these companies can charge whatever the market will bear. For example, Solvadi, Gilead's hepatitis C drug, costs \$1,000 for each pill, which amounted to sales of \$3.5 billion between April and June of 2015.²

Making matters worse, the US Congress, influenced by pharmaceutical lobbyists, has not allowed Medicare to negotiate drug prices, as do most health care systems, HMOs, and some insurance companies. In those countries that negotiate the prices of their national insurance plans with Big Pharma, most drugs sell for much less. Obviously, lobbyists for the pharmaceutical industry in the United States have been very successful.

Another trend contributing to the high prices that Americans pay for drugs are the mergers and acquisitions of drug companies. One recent example of this practice was the November 2015, \$150 billion merger of US-based Pfizer and Irish-based Allergan, a move, known as an "inversion transaction," that allows Pfizer to give up its corporate citizenship in the United States so that it may reduce its tax bill by billions of dollars. Another effect of mergers is the reduction in the number of competitors, which has led to the doubling or tripling of drug prices and, in some cases, to a 1000% increase in cost.³ Normally, new drug prices are set only slightly higher than those of rival drugs already on the market, which typically ends up raising the price of the older drug. But if a company has few competitors or merges with its competitor, the resulting lack of, or diminished, competition means that the price of a drug can be whatever the company wants.

An interesting example of the result of mergers involves the drug Daraprim, an antiparasitic drug frequently used by patients with suppressed immune systems, such as people with HIV or cancer. In 2010 GlaxoSmithKline sold the marketing rights of Daraprim to CorePharma, which in turn sold the rights to Turing Pharmaceuticals in 2015. Turing almost immediately announced that the price of a Daraprim pill would be raised to \$750 from the previous \$17.50, a 40-fold increase. That announcement resulted in a huge public outcry followed by the company backpedaling and announcing that it would lower the price. How low that price will be is not clear, however. Next into the fray was Imprimis Pharmaceuticals, which mixes approved drug ingredients for individual patients' prescriptions. Imprimis recently announced that it would supply capsules containing Daraprim's active ingredients and

charge only \$99 for 100 capsules. Might this be a new and potent type of competitor to the way Pharma does business? We can only hope.

Overall, although health costs have remained essentially steady over the past several years, drug costs have gone up, in some cases much higher.³ Some pharmaceutical executives have stated that costs are rising because the value of a drug is used as the basis for its price. That is, if a drug saves the health system money, such as preventing complications or death, they believe that this should be considered in the price.

Another cost comes from some companies paying those companies making generic drugs to delay releasing the less expensive alternatives, thus essentially prolonging the patents of the drugs involved. Such practices fly in the face of the fact that generic drugs have been a valuable cost-saving mechanism for the public, accounting for about 80% of all prescriptions.³

Many pharmaceutical executives also maintain that the reason medications are so expensive is that the research to develop them is very expensive. They cite a 2014 study by the Tufts Center for the Study of Drug Development claiming that it takes an average of \$2.6 billion and 10 or more years to develop a new drug.⁴ That stated cost is more than 3 times higher than the 2013 estimate of \$800 million. Amazingly, almost half of this current estimate includes the amount a company might have made if the money had been invested elsewhere rather than on drug development.⁴ Talk about creative accounting! Of course, the pharmaceutical industry funded the Tuft Center's study and the data used were supplied by the industry, with no disclosure of which drugs had been used in the estimate.⁵

Whatever the actual cost of developing a drug might be, drug companies spend far more on marketing than on developing drugs. Simply stated, no drug should be sold at an exorbitant price simply because the company can get away with it. Big Pharma has crossed the line from reasonable to unethical profits.

Fortunately, the skyrocketing cost of medications has attracted the attention of both federal and state legislators. Legislative bills regarding the pharmaceutical companies' cost transparency are currently being considered in at least 5 states, including California, Massachusetts, North Carolina, Oregon, and Pennsylvania. Whether any of these bills will actually pass is uncertain. We can only hope that legislative action, or even the threat of such action, will sting the consciences, or at least alter

the business practices, of pharmaceutical executives. Thus far, nothing else has.

References

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