Prescription Drug Pricing in the Tenth Congressional District of Massachusetts:

Drug Companies Profit at the Expense of Older Americans

Prepared at the request of
Congressman William D. Delahunt

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Introduction
by Congressman Bill Delahunt
May 1999

Day after day, I hear testimonials from senior citizens across Southeastern Massachusetts who are forced to choose between their prescription drugs and their rent or heat. Two months ago, I commissioned this study to provide quantitative evidence to substantiate these heartbreaking stories. Unfortunately, what we found is even more troubling than we had feared.

This report, prepared by Congressional investigators based on data compiled by my office, shows that older residents of the South Shore and the Cape & Islands are charged far more for common prescription drugs than are insurance companies, health maintenance organizations, the federal government and other customers favored by drug manufacturers.

The report documents these price disparities -- *averaging 134 percent* -- and presents disturbing evidence about their causes. It reveals that local seniors who pay for their own medications are charged, on average, twice as much as favored larger customers. For certain medications, the disparity was *nearly 1700 percent* -- despite the fact that the differential for other consumer items was a modest 22 percent.

In addition, the study demonstrates that pharmaceutical manufacturers, not drug stores, appear to be responsible for the discriminatory prices older local residents are forced to pay for medications.

First, I want to express my appreciation to the dozens of local seniors and pharmacists in 21 Tenth District towns (see page 16) who were kind enough to participate.

Now that we -- with their help -- are armed with empirical data, I will formally submit this study to key House and Senate committees and colleagues to help lend momentum to legislative efforts toward greater equity for consumers. I have already made this issue a top priority of the House Older Americans Caucus, which I co-chair.

Toward this end, I invite local support for legislation authored by Senator Kennedy, and which I have cosponsored, to ensure an annual Medicare benefit of $1700 to cover 80 percent of pharmaceutical costs. In addition, I have cosponsored legislation to allow senior citizens access to discounted government rates for prescription drugs.

The ultimate goal of this study was to contribute constructively to the debate over improving access to quality, affordable health care for all Americans. There can be no more pressing national priority.

EXECUTIVE SUMMARY

This staff report was prepared at the request of Rep. William D. Delahunt of Massachusetts. In Mr. Delahunt's district, as in many other Congressional districts around the country, older Americans are increasingly concerned about the high prices that they pay for prescription drugs. Mr. Delahunt requested that the minority staff of the Committee on Government Reform investigate this issue. This report is the first report to quantify the extent of prescription drug price discrimination in Mr. Delahunt's district and its impacts on seniors.

Numerous studies have concluded that many older Americans pay high prices for prescription drugs and have a difficult time paying for the drugs they need. This study presents disturbing evidence about the cause of these high prices. The findings indicate that older Americans and others who pay for their own drugs are charged far more for their prescription drugs than are the drug companies' most favored customers, such as large insurance companies, health maintenance organizations, and the federal government. The findings show that a senior citizen in Mr. Delahunt's district paying for his or her own prescription drugs must pay, on average, more than twice as much for the drugs as the drug companies' favored customers. The study found that this is an unusually large price differential -- over six times greater than the average price differential for other consumer goods.

It appears that drug companies are engaged in a form of "discriminatory" pricing that victimizes those who are least able to afford it. Large corporate, governmental, and institutional customers with market power are able to buy their drugs at discounted prices. Drug companies then raise prices for sales to seniors and others who pay for drugs themselves to compensate for these discounts to the favored customers.

Older Americans are having an increasingly difficult time affording prescription drugs. By one estimate, more than one in eight older Americans has been forced to choose between buying food and buying medicine. Preventing the pharmaceutical industry's discriminatory pricing -- and thereby reducing the cost of prescription drugs for seniors and other individuals -- will improve the health and financial well-being of millions of older Americans.

A. Methodology

This study investigates the pricing of the five brand name prescription drugs with the highest sales to the elderly. It estimates the differential between the price charged to the drug companies' most favored customers, such as large insurance companies, HMOs, and certain federal government purchasers, and the price charged to seniors. The results are based on a survey of retail prescription drug prices in chain and independently owned drug stores in Mr. Delahunt's Congressional district in Massachusetts. These prices are compared to the prices paid by the drug companies' most favored customers. For comparison purposes, the study also estimates the differential between prices for favored customers and retail prices for other consumer items.

B. Findings

The study finds that:

- **Older Americans pay inflated prices for commonly used drugs**. For the five drugs investigated in this study, the average price differential was 134% (Table 1). This means that senior citizens and other individuals who pay for their own drugs pay more than twice as much for these drugs than do the drug companies' most favored customers.

Table 1: Average Retail Prices for the Five Best-Selling Drugs for Older Americans in Massachusetts Are More Than Twice as High as the Prices That Drug Companies Charge Their Most Favored Customers.

Prescription Drug	Manufacturer	Use	Prices For Favored Customers	Retail Prices for Mass Seniors	Price Differential For Massachusetts Senior Citizens
Zocor	Merck	Cholesterol	$34.80	$115.21	231%
Norvasc	Pfizer Inc.	High Blood Pressure	$59.71	$128.21	115%
Procardia XL	Pfizer Inc.	Heart Problems	$68.35	$144.94	112%
Prilosec	Astra/Merck	Ulcers	$59.10	$121.15	105%
Zoloft	Pfizer, Inc.	Depression	$115.70	$237.00	105%
Average Price Differential					**134%**

- **For other popular drugs, the price differential is even higher.** This study also analyzed a number of other popular drugs used by older Americans, and in some cases found even higher price differentials (Table 2). The drug with the highest price differential was Synthroid, a commonly used hormone treatment manufactured by Knoll Pharmaceuticals. For this drug, the price differential for senior citizens in Massachusetts was 1,698%. An equivalent dose of this drug would cost the manufacturer's favored customers only $1.75, but would cost the average senior citizen in Mr. Delahunt's district over $31.00. For Micronase, a diabetes treatment manufactured by Upjohn, an equivalent dose would cost the favored customers $10.05, while seniors in Massachusetts are charged an average of $55.06. The price differential was 448%.

- **Price differentials are far higher for drugs than they are for other goods.** This study compared drug prices at the retail level to the prices that the pharmaceutical industry gives its most favored customers, such as large insurance companies, government buyers with negotiating power, and HMOs. Because these customers typically buy in bulk, some difference between retail prices and "favored customer" prices would be expected.

Table 2: Price Differentials for Some Drugs Are Almost 1,700%.

Prescription Drug	Manufacturer	Use	Prices for Favored Customers	Retail Prices for Mass Seniors	Price Differential for Massachusetts Seniors
Synthroid	Knoll Pharmaceuticals	Hormone Treatment	$1.75	$31.46	1698%
Micronase	Upjohn	Diabetes	$10.05	$55.06	448%

The study found, however, that the differential was much higher for prescription drugs than it was for other consumer items. The study compared the price differential for prescription drugs to the price differentials on a selection of other consumer items. The average price differential for the five prescription drugs was 134%, while the price differential for other items was only 22%. Compared to manufacturers of other retail items, pharmaceutical manufacturers appear to be engaging in significant price discrimination against older Americans and other individual consumers.

- **Pharmaceutical manufacturers, not drug stores, appear to be responsible for the discriminatory prices that older Americans pay for prescription drugs.** In order to determine whether drug companies or retail pharmacies were responsible for the high prescription drug prices paid by seniors in Mr. Delahunt's Congressional district, the study compared average wholesale prices that pharmacies pay for drugs to the prices at which the drugs are sold to consumers. This comparison revealed that the pharmacies in Mr. Delahunt's district appear to have relatively small markups between the prices at which they buy prescription drugs and the prices at which they sell them. The retail prices in Mr. Delahunt's district are just 5% above the published national Average Wholesale Price, which represents the manufacturers' suggested price to pharmacies. The differential between retail prices and a second indicator of pharmacy costs, the Wholesale Acquisition Cost, which represents the average price pharmacies actually pay for drugs, is only 31%. This indicates that it is drug company pricing policies that appear to account for the inflated prices charged to older Americans and other customers.

I. THE VULNERABILITY OF OLDER AMERICANS TO HIGH DRUG PRICES

This report focuses on a continuing, critical issue facing older Americans -- the cost of their prescription drugs. Numerous surveys and studies have concluded that many older Americans pay high costs for prescription drugs and are having a difficult time paying for the drugs they need. The cost of prescription drugs is particularly important for older Americans because they have more medical problems, and take more prescription drugs, than the average American. This situation is exacerbated by the fact that the Medicare program, the main source of health care coverage for the elderly, fails to cover the cost of most prescription drugs.

According to the National Institute on Aging, "as a group, older people tend to have more long-term illnesses -- such as arthritis, diabetes, high blood pressure, and heart disease -- than do younger people."[1] Other chronic diseases which disproportionately affect older Americans include depression and neurodegenerative diseases such as Alzheimer's disease, Lou Gehrig's disease, and Parkinson's disease.

The latest survey data indicate that 86% of Medicare beneficiaries are taking prescription drugs.[2] Moreover, older Americans spend almost three times as much of their income (21%) on health care than those under the age of 65 (8%).[3]

The average older American uses 18.5 prescriptions annually,[4] significantly more than the average under-65 population.[5] It is estimated that the elderly in the United States, who make up 12% of the population, use one-third of all prescription drugs.[6]

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[1] National Institute on Aging (NIA), *NIA Age Page* (1997) (online at www.nih.gov/nia/health/pub/medicine.htm).

[2] Health Affairs, *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, 237 (Jan./Feb. 1999).

[3] AARP Public Policy Institute and the Lewin Group, *Out of Pocket Health Spending By Medicare Beneficiaries Age 65 and Older: 1997 Projections* (Feb. 1997).

[4] *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, *supra* note 2, at 237.

[5] Senate Special Committee on Aging, *Developments In Aging: 1996*, 105th Cong., 1st Sess. 121 (1997) (S. Rpt. 36).

[6] Senate Special Committee On Aging, *Developments in Aging: 1993*, 103d Cong., 2d Sess. 35 (1994) (S. Rpt. 403).

Although the elderly have the greatest need for prescription drugs, they often have the most inadequate insurance coverage for the cost of these drugs. With the exception of drugs administered during inpatient hospital stays, Medicare generally does not cover prescription drugs. A recent study by federal researchers found that 35% of Medicare recipients do not have any insurance coverage for prescription drugs.[7] As a result, many older Americans -- a large percentage of whom live on a limited, fixed income -- are forced to pay the full, out-of-pocket expense of prescription drugs.

Although Medicare beneficiaries can purchase supplemental "Medigap" insurance privately, these policies are often prohibitively expensive or inadequate. Only three of the ten available plans offer any prescription drug coverage, and even the best available Medigap policy provides only a $3,000 drug benefit, while still leaving beneficiaries vulnerable to a high deductible and to paying at least half of their total drug costs.[8] Less than 10% of the Medicare population obtains prescription drug coverage from Medigap providers.[9] Moreover, while some Medicare managed care plans may offer optional prescription drug coverage, these plans serve only a small portion of the Medicare population, and have recently withdrawn coverage for over 400,000 seniors.[10]

Medicare beneficiaries without public or private prescription drug coverage are the group most at risk from high out-of-pocket prescription drug costs. According to the Senate Special Committee on Aging, this group includes those "who are not poor enough to receive Medicaid, do not have employer-based retiree prescription drug coverage, and cannot afford any other private prescription drug insurance plans."[11]

The high costs of prescription drugs, and the lack of insurance coverage, directly affect the health and welfare of older Americans. In 1993, 13% of older Americans surveyed reported that they were forced to choose between buying food and buying medicine.[12] By another estimate, five million older Americans are forced to make this difficult choice.[13]

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[7] *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, *supra* note 2.

[8] *Id.* at 232.

[9] *Id.* at 235.

[10] *Clinton Plans to Intervene as HMOs Exit Medicare*, New York Times, A1 (Oct. 8, 1998).

[11] *Developments In Aging: 1996*, *supra* note 5, at 122.

[12] Families USA Foundation, *Worthless Promises: Drug Companies Keep Boosting Prices*, 6 (Mar. 1995).

[13] Senate Special Committee on Aging, *A Status Report -- Accessibility and Affordability of Prescription Drugs For Older Americans*, 102d Cong., 2d Sess. 2 (1992) (S. Rpt. 100).

II. ARE DRUG COMPANIES EXPLOITING THE VULNERABILITY OF OLDER AMERICANS?

Rep. William Delahunt of Massachusetts asked the minority staff of the Committee on Government Reform to investigate whether pharmaceutical manufacturers are taking advantage of older Americans through price discrimination, and, if so, whether this is part of the explanation for the high drug prices being paid by older Americans in his Congressional district. This report presents the results of this investigation.

Industry analysts have recognized that price discrimination occurs in the prescription drug market. According to a recent Standard & Poor's report on the pharmaceutical industry, "[d]rugmakers have historically raised prices to private customers to compensate for the discounts they grant to managed care customers. This practice is known as 'cost shifting.'"[14] Under this practice, "drugs sold to wholesale distributors and pharmacy chains for the individual physician/patient are marked at the higher end of the scale."[15]

Although industry analyses acknowledge that price discrimination occurs, they have not estimated its degree or impact. This report quantifies the extent of price discrimination and its impact on senior citizens in Mr. Delahunt's Congressional district in Massachusetts.

The study design and methodology used to test whether drug companies are discriminating against older Americans in their pricing are described in part III. The results of the study are described in part IV. These results show that drug manufacturers appear to be engaged in substantial price discrimination against older Americans and other individuals who must pay for their own prescription drugs. The consequences of the manufacturers' pricing policies are discussed in part V.

III. METHODOLOGY

A. Selection of Drugs for this Survey

This survey is based primarily on a selection of the five patented, nongeneric drugs with the highest annual sales to older Americans in 1997. The list was obtained from the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE). The PACE program is the largest outpatient prescription drug program for older Americans in the United States for which claims data

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[14] Herman Saftlas, Standard & Poor's, *Healthcare: Pharmaceuticals*, Industry Surveys, 19-20 (Dec. 18, 1997).

[15] *Id*. at 19.

is available, and is used in this study, as well as by several other analysts, as a proxy database for prescription drug usage by all older Americans. In 1997, over 250,000 persons were enrolled in the program, which provided over $100 million of assistance in filling over 2.8 million prescriptions.[16]

B. Determination of Average Retail Drug Prices for Seniors in Massachusetts

In order to determine the prices that senior citizens are paying for prescription drugs in Massachusetts, the minority staff and the staff of Mr. Delahunt's Congressional office conducted a survey of 26 drug stores -- including both independent and chain stores -- in Mr. Delahunt's Congressional district. Mr. Delahunt represents the Tenth Congressional District in Southeastern Massachusetts, including the South Shore, Cape Cod and the islands of Nantucket and Martha's Vineyard. The location of the stores is shown in Appendix D.

C. Determination of Prices for Drug Companies' Most Favored Customers

Drug pricing is complicated and drug companies closely guard their pricing strategies. For example, drug companies require HMOs to sign confidentiality agreements before offering them pricing discounts. The best publicly available indicator of the prices drug companies charge their most favored customers is the prices the companies charge the federal government.

The federal government pays for prescription drugs through several different programs. One important program is the Federal Supply Schedule (FSS), which is a price catalogue containing goods available for purchase by federal agencies. Drug prices on the FSS are negotiated by the Department of Veterans Affairs (VA) and often approximate the prices that the drug companies charge their most favored non-federal customers. According to the U.S. General Accounting Office, "[u]nder GSA procurement regulations, VA contract officers are required to seek an FSS price that represents the same discount off a drug's list price that the manufacturer offers its most-favored nonfederal customer under comparable terms and conditions."[17] To obtain additional price discounts available to the private sector, the VA has established at least two additional negotiated-price programs: (1) a VA formulary that operates similarly to the formularies established by well-managed HMOs,[18] and (2) a Blanket Price Agreement (BPA) program, under which the VA commits to purchasing minimum quantities of particular prescription drugs. Yet another program through which the federal government obtains

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[16] Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly January 1 - December 31, 1997* (Apr. 1998).

[17] U.S. General Accounting Office, *Drug Prices: Effects of Opening Federal Supply Schedule for Pharmaceuticals Are Uncertain* 6 (June 1997) (emphasis added).

[18] For a detailed description of the Department of Veterans Affairs Formulary program, see the National Formulary Content Page, online at www.dppm.med.va.gov/newsite/ national.htm.

prescription drugs is section 340(b) of the Public Health Service Act, which entitles four agencies (the VA, the Indian Health Service, the Department of Defense, and the Public Health Service) to purchase drugs at a maximum price of 24% below the manufacturer's average nonfederal price.

This analysis uses the lowest price paid by the federal government as a proxy for the prices paid by drug companies most favored customers.[19] All prices were updated in February 1999 to reflect current pricing.

D. Determination of Prices Paid by Pharmacies

The survey also looked at two other pricing indicators: (1) the Average Wholesale Price (AWP) and (2) the Wholesale Acquisition Cost (WAC). These two prices provide an indicator of the extent of markups that are attributable to the pharmacy (in contrast to those that are due to the drug manufacturer). The AWP represents the price that manufacturers suggest that wholesalers charge retail pharmacies; the WAC represents the actual average price that wholesalers charge pharmacies. Both AWP and WAC were obtained from the Medispan database and were updated on March 1, 1999, to reflect current pricing.

E. Determination of Drug Dosages

When comparing prices, the study used the same criteria (dosage, form, and package size) used by the GAO in its 1992 report, *Prescription Drugs: Companies Typically Charge More in the United States Than In Canada*. For drugs that were not included in the GAO report, the study used the dosage, form, and package size common in the years 1994 through 1997, as indicated in the *Drug Topics Red Book*.

F. Comparison of Price Differentials for Other Retail Items

In order to determine whether the differential between the most favored customer prices and retail prices for drugs commonly used by older Americans is unusually large, the study compared the prescription drug price differentials to price differentials on other consumer products. To make this comparison, a list of consumer items other than drugs available through the FSS was assembled. FSS prices were then compared with the retail prices at which the items could be bought at a large national chain.[20]

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[19] For Norvasc, Prilosec, Procardia XL, Micronase, and Synthroid, the Federal Supply Schedule price was used as the indicator of best price. For Zocor the VA's formulary price was used as the indicator of best price. For Zoloft, the VA's Blanket Pricing Agreement price was used as the indicator of best price.

[20] The items used were paper towels, envelopes, rubber bands, toilet paper, pencils, Rolodexes, tape dispensers, waste baskets, correction fluid, post-it notes, paper clips, and scissors.

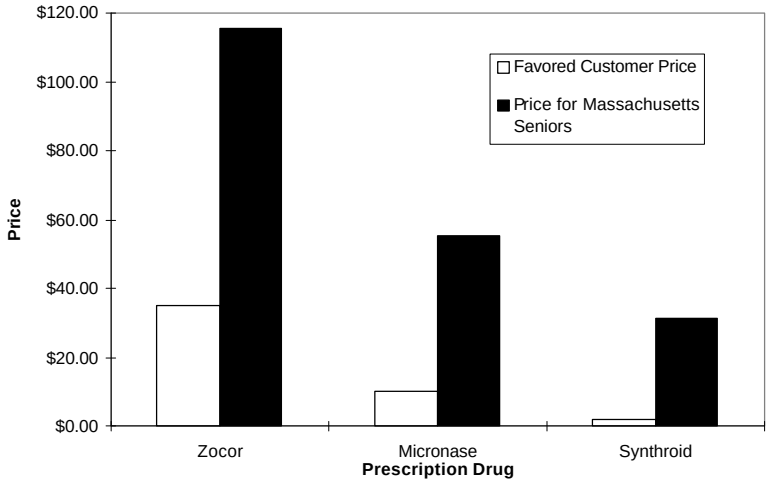
IV. DRUG COMPANIES CHARGE OLDER AMERICANS DISCRIMINATORY PRICES

A. Discrimination in Drug Pricing

In the case of the five drugs with the highest sales to seniors, the average price differential between the price that would be paid by a senior citizen in Mr. Delahunt's Congressional district and the price that would be paid by the drug companies' most favored customers was 134% (Table 1). The study thus showed that the average price that older Americans and other individual consumers in Mr. Delahunt's district pay for these drugs is more than double the price paid by the drug companies' favored customers, such as large insurance companies and HMOs.

For individual drugs, the price differential was even higher. Among the five best selling drugs, the highest price differential was 231% for Zocor, a cholesterol treatment manufactured by Merck. For other popular drugs, the study found even greater price differentials. The drug with the highest price differential was Synthroid, a commonly used hormone treatment manufactured by Knoll Pharmaceuticals. For this drug, the price differential for senior citizens in Massachusetts was almost 1,700%. An equivalent dose of this drug would cost the most favored customers only $1.75, but would cost the average senior citizen in Massachusetts $31.46. For Micronase, a diabetes treatment manufactured by Upjohn, the price differential was 448% (Figure 1). Every drug looked at in this study had a large price differential. Among the five highest selling drugs, three (Zocor, Norvasc, and Procardia XL) had price differentials that exceeded 110%. The lowest price differences were still high -- 105%, for Zoloft and Prisolec.

Figure 1: Older Americans in Massachusetts Pay Inflated Prices for Prescription Drugs.



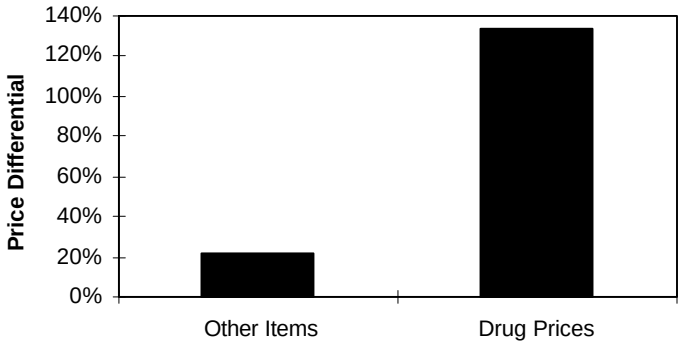
B. Comparison with Other Consumer Goods

The study also analyzed whether the large differentials in prescription drug pricing could be attributed to a volume effect. The drug companies' most favored customers, such as large insurance companies and HMOs, typically buy large volumes of drugs. Thus, it could be expected that there would be differences between the prices charged the most favored customers and retail prices. The study found, however, that the differentials in prescription drug prices were much greater than the differentials in prices for other consumer goods. The study found that, in the case of other consumer goods, the average difference between retail prices and the prices charged most favored customers, such as large corporations and institutions, was only 22%. The average price differential in the case of prescription drugs was more than six times larger than the average price differential for other consumer goods (Figure 2). This indicates that a volume effect is unlikely to explain the large differential in prescription drug pricing.

C. Drug Company Versus Pharmacy Responsibility

The study also sought to determine whether drug companies or retail pharmacies are responsible for the high prices being paid by older Americans. To do this, the study compared the average wholesale prices that pharmacies pay for drugs to the prices at which the drugs are sold to consumers. This comparison revealed that pharmacies appear to have relatively small markups between the prices at which they buy prescription drugs and the prices at which they

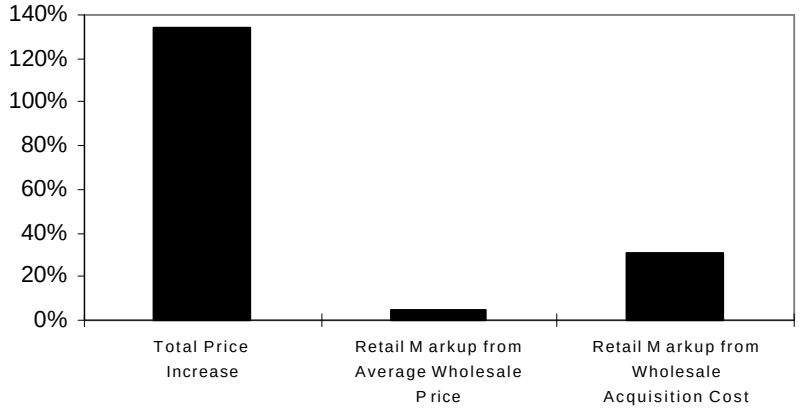
Figure 2: Price Differentials on Drugs Commonly Used by Older Americans Are Far Higher Than Differentials for Other Consumer Goods.



sell them. The study found that the average retail price for the five best-selling prescription drugs was just 5% higher than the published Average Wholesale Price, and only 31% above the pharmacies' Wholesale Acquisition Cost (Figure 3). This finding indicates that it is drug company pricing policies, not retail markups, that account for the inflated prices charged to older Americans and other individual customers. These findings are consistent with other experts who have concluded that because of the competitive nature of the pharmacy business at the retail level, there is a relatively small profit margin for retail pharmacists.[21]

[21] National Association of Chain Drug Stores, *Did You Know . . .* (pamphlet) (citing financial data assembled by Keller Bruner & Company, P.C., Certified Public Accountants 1995).

Figure 3: Drug Companies, Not Retail Pharmacies, Are Responsible for High Prescription Drug Costs



V. DRUG MANUFACTURER PROFITABILITY

There are two conflicting consequences of the current drug industry pricing practices. Although these pricing practices have allowed the drug industry to grow and amass large profits, they have also imposed severe financial hardship on older Americans and others who buy their own drugs.

A. Drug Company Profiles

Drug industry pricing strategies have boosted the industry's profitability to extraordinary levels. The annual profits of the top ten drug companies is nearly $20 billion.[22] Moreover, the drug companies make unusually high profits compared to other companies. The average manufacturer of branded consumer goods, such as Proctor & Gamble or Colgate-Palmolive, has an operating profit margin of 10.5%. Drug manufacturers, however, have an operating profit margin of 28.7% -- nearly three times greater (Figure 4).[23]

These high profits appear to be directly linked to the pricing strategies observed in this study. For instance, Merck, the country's largest pharmaceutical manufacturer, had an increase in profits of

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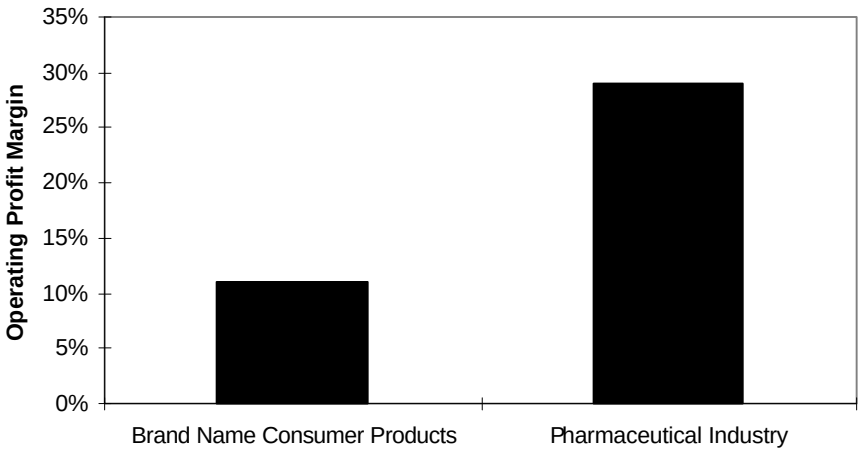
[22] Fortune, *1998 Fortune 500 Industry List* (1998) (Online at www.pathfinder.com/ fortune500/indlist.html).

[23] Paul J. Much, Houlihan Lokey Howard & Zukin, *Expert Analysis of Profitability* (Feb. 1998).

15% to 18% in the second quarter of 1998. According to industry analysts, Merck's increased profits were due in large part to sales of Zocor,[24] which is sold in Mr. Delahunt's district at a price differential of 231%. Zocor itself accounts for 6% of Merck's revenues.[25]

Overall, profits for the major drug manufacturers are expected to grow by about 20% in 1998, compared to 5% to 10% for other companies on the Standard & Poors Index. The drug manufacturers' profits are expected to grow by up to an additional 25% in 1999.[26] According to one analyst, "the prospects for the pharmaceutical industry are as bright as they've even been."[27]

Figure 4: The Pharmaceutical Industry's Profit Margins Are Larger Than Those for Other Industries.



[24] USA Today, *Drugmakers Have Healthy Outlook* (July 20, 1998).

[25] IMS America, *Top 200 Drugs of 1997* (1998) (Online at www.pharmacytimes.com/top200.html).

[26] *Drugmakers Have Healthy Outlook, supra* note 24.

[27] *Id.*

B. What High Drug Prices Mean for Older Americans in Massachusetts

While drug companies are thriving under their current pricing strategies, older Americans are not. Surveys and testimonials indicate that high prescription drug prices impose financial hardships on millions of seniors. To assess the extent of these hardships, the staff of the Congressman's office interviewed scores of senior citizens throughout the South Shore and Cape & Islands. The handful of case studies that follow provide a cross-section of the circumstances faced by seniors in Massachusetts due to the high prices of prescription drugs.

1) Ms. G is an 83-year-old widow who lives with her daughter in Mashpee. Ms. G's only income is $893 a month from Social Security. She does not have prescription drug coverage despite the fact that she pays an additional $112 a month for Medigap insurance. Ms. G takes Norvasc and five other prescription drugs at a cost of $741 a month. After paying for these drugs and her Medigap premium, she is left with $40 a month for other expenses -- including food, rent and utilities.

"If I did not live in my daughter's home I would be in dire trouble. I would be unable to buy the medicine necessary to keep me in good health," stated Ms. G. "I feel that a significant part of the problem is that drug companies spend too much on advertising on TV and in every magazine and newspaper one picks up. Since drug companies have no intention of reducing their very large profits, the consumer is left to bear the cost of such advertising."

2) Between Social Security, a rental property and a part-time job, Mr. K manages in Brewster on an income of $25,000 per year, which makes him ineligible for state pharmacy assistance. Nonetheless, after exhausting his prescription drug cap each quarter, he spends nearly one-third of his yearly income on six prescriptions and has been forced to cut down on his dosages in order to meet his costs.

3) Five years ago, at age 61, Ms. M of Marshfield suffered a stroke. She and her husband now live on a combined fixed income of $2500 a month, between Social Security and a retirement pension. A total of 19 percent of the couple's income is spent on prescription drugs. When Ms. M was interviewed in April, she had already exhausted her HMO's $150 quarterly cap for prescription drug coverage. The $956 cost of her medications for May and June will come completely out of pocket.

Ms. M has become depressed as she faces the reality that she cannot afford the medicine she needs. She has been rationing her medication -- not taking them as prescribed in an attempt to spread them out over time to save money. She has cut back considerably on her most expensive prescriptions, is having a difficult time with the left side of her body, and cannot move her left arm.

"My muscles are really tight, and it is a result of not taking my Methocarbamol because I am trying to stretch my prescription dollars," said Ms. M. "We have also cut back on common expenses that now seem frivolous given the situation we are in. We don't go out, we can't afford gas, and we have had to cut down on groceries."

4) Mr. and Mrs. T of Quincy live on a combined fixed income of $20,000 a year. Many of their medical costs are covered by supplemental insurance. Together, the couple takes 17 prescription medications, to treat conditions from high cholesterol and glaucoma to an aortal hernia. Mr. and Mrs. T report that their copayments have recently increased -- some have even doubled -- and they have had to sacrifice other essentials to ensure they have the drugs they need.

5) An 80-year-old resident of Duxbury, Ms. L receives Social Security income of $761 a month. She was forced to move to subsidized senior housing years ago. Ms. L takes five prescription drugs for asthma, allergies and chronic obstructive pulmonary disease, which makes breathing very difficult. Earlier this year, she was informed by her insurance company that she has exhausted her prescription coverage. Ms. L is worried that she will not be able to absorb any further increase in her drug costs without altering the quality of her life.

6) Ms. B lives in West Dennis and wrote in January to Congressman Delahunt seeking assistance. She is a 74-year-old widow living on a monthly Social Security stipend of $908 a month. She receives no state assistance for her prescriptions. Ms. B suffers from high blood pressure, high cholesterol, and arthritis for which she takes three different medications. In January, Ms. B sought to refill three prescriptions and was shocked when her pharmacist informed her that the cost for her three month supply of medications had increased from $38 to $715. Ms. B now spends one-third of her Social Security income on prescription drugs, rationing her arthritis medicine, which, in turn, leads to great physical discomfort. Ms. B doesn't dare limit her blood pressure and cholesterol dosages for fear of a medical catastrophe.

"This is an outrageous situation for anyone in my circumstance to face," Ms. B said. "This medication is not optional for me. Without it I could be a very sick woman in a matter of days and be hospitalized at a far greater cost to my HMO."

Appendix A

The Five Top Selling Patented, Nongeneric Drugs for Seniors Ranked by 1997 Total Dollar Sales

Rank	Drug	Manufacturer	Indication
1.	Prilosec	Astra/Merck	Ulcer
2.	Norvasc	Pfizer, Inc.	High Blood Pressure
3.	Zocor	Merck	Cholesterol reduction
4.	Zoloft	Pfizer, Inc.	Depression
5.	Procardia XL	Pfizer, Inc.	Heart Problems

Source: Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly: January 1 - December 31, 1997* (Apr. 1998).

Appendix B

Information on Prescription Drugs Analyzed in This Study

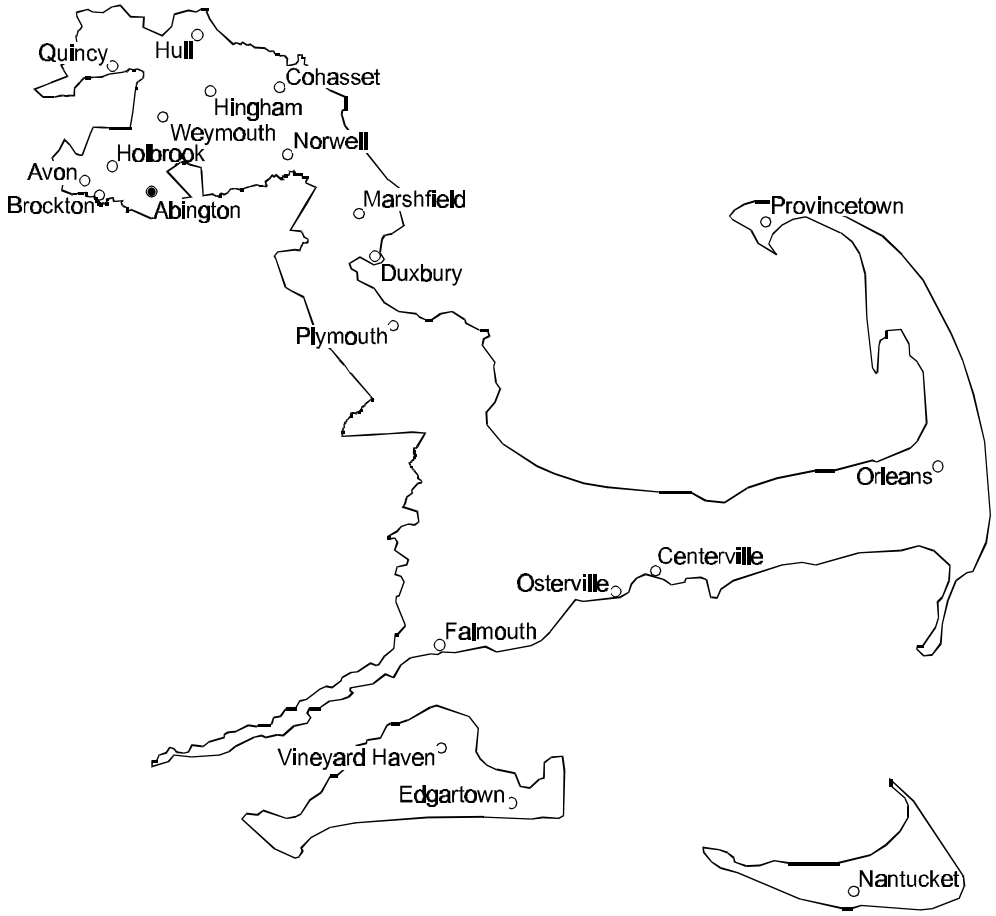
			Prices (Dollars)				
Brand Name Drug	**Dosage and Form**	**Indication**	**Favored Customer Price**	**Wholesale Acquisition Cost**	**Average Wholesale Price**	**Average Retail Price**	**Price Differential (Average Retail Price vs. Favored Customer Price)**
Zocor	5 mg, 60 tablets	Cholesterol reducer	$34.80	$85.47	$106.84	$115.21	231%
Norvasc	5 mg, 90 tablets	High Blood Pressure	$59.71	$95.33	$119.16	$128.21	115%
Procardia XL	30 mg, 100 tab.	Heart Problems	$68.35	$110.69	$110.69	$144.94	112%
Prisolec	20 mg, 30 cap.	Ulcer	$59.10	$96.74	$120.93	$121.15	105%
Zoloft	50 mg, 100 tab.	Depression	$115.70	$181.71	$227.14	$237.00	105%
Average Price Differential							**134%**

Appendix C

Price Comparisons For Non-Prescription Drug Items

Item	FSS Price	Retail Price	Differential
Binder Clip, small, 1 box	$0.49	$0.49	0%
Rubber Bands, 1 lb.	$2.57	$2.67	4%
Toilet Paper, 96 Rolls	$44.74	$47.98	7%
Rolodex, 500 Card	$13.24	$14.29	8%
Tape Dispenser	$1.44	$1.69	17%
Wastebasket, Plastic, 13 qt.	$2.95	$3.49	18%
Scissors	$10.88	$12.99	19%
Pencils, #2, 20-pack	$1.03	$1.26	22%
Paper Towels, 30 Rolls	$22.94	$29.98	31%
Post-It Notes	$2.08	$2.89	39%
Envelopes, 500, White, 20 lb. weight	$6.45	$9.49	47%
Correction Fluid, 18 ml., dozen.	$6.66	$9.99	50%
Average Price Differential			**22%**

Appendix D:
Prescription Drug Pricing Survey Locations in Massachusetts' 10th Congressional District



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