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## SADLY, *the Joke's On Us!*

*Stop me if you've heard this one before.* A guy walks into a tattoo and piercing parlor in Anytown, USA. Two hours later, he walks out with an incredible dragon tattoo, a tongue piercing, and a hepatitis C infection. His doctor prescribes Sovaldi, a cutting-edge prescription drug that purports to actually cure hepatitis C in most people. Sovaldi costs \$1,000 per pill, requires 84 pills for a full treatment regimen, and costs a total of \$84,000. The punch line ... the guy didn't have insurance, so he traveled to India and paid a total of \$900 for the exact same brand drug!<sup>1</sup>

Not a very funny joke, I know; but then again, it wasn't supposed to be. Instead, it's a sad but true commentary of the injustice and frustration we Americans (and our health insurance companies) suffer every time we fill a prescription at far more expensive prices than what citizens of other countries pay.

The main reason Americans pay far more than people in other parts of the world is that other governments have implemented price controls on prescription drugs, and ours has not. This pitiful inaction by Congress has caused us to shoulder a disproportionate share of drug company profits and (putative)<sup>2</sup> research and development (R&D) costs, and has put many life-saving medications out of reach of hardworking Americans.

Although skyrocketing drug costs may be out of control, there's no indication things will change any time soon. This insane reality threatens to derail President Obama's signature health insurance law, the Affordable Care Act (aka the ACA or Obamacare); and according to some, could bankrupt Medicare (since Medicare is prohibited by law from negotiating cheaper drug prices with drug manufacturers).<sup>3</sup> It also is part of the reason why the ACA has been unable to deliver on its promise that health care in the U.S. was finally going to be more "affordable" under Obamacare.

In March 2015, the ACA celebrated its fifth birthday. Despite the law's explicit promise that health care would become more affordable, the ACA hasn't done a thing to lower the cost of health care or prescription drugs. To the contrary, the law has actually driven up the cost of care and drugs, because in many cases, it requires insurance companies to pay unregulated prices with little or no financial contribution from the utilizer (which would otherwise help keep costs and demand in check). Moreover, the ACA has made it appear that health care and prescription drugs are more affordable, because the law doles out tens of billions of dollars in government subsidies to 9 million or so Americans, making the care and drugs more affordable to them. In other words, government subsidies make health insurance more affordable to those who receive

the subsidies, but those same subsidies have the perverse effect of making health care more expensive overall, because it eliminates important and effective cost control mechanisms (i.e., economic determinants of demand). This is of particular concern when it comes to prescription drugs.

While other countries protect their citizens by enacting prescription drug price controls, the U.S. does not. Part of the reason prescription drugs aren't regulated in the U.S. is our fundamental belief in the free market economic system. Unfortunately, and more disturbingly, a large part of the reason is the very powerful prescription drug lobby called Pharmaceutical Research and Manufacturers of America (PhRMA) that has successfully defeated virtually every effort to control drug costs in the U.S. Moreover, in the United States, prescription drugs enjoy special government-sanctioned patent and exclusivity protection. Drug companies use these protections to their advantage, and price their drugs to garner maximum profits during the period of exclusivity.

Specialty drugs are also a growing problem. These drugs, which don't have generic equivalents, can cost more than \$400,000 per year. In 2013, specialty drugs comprised less than 1% of all U.S. prescriptions, but they accounted for 27% of the country's total pharmacy spend. This percentage is projected to grow to 50% in 2017.<sup>4</sup> Despite these obscene costs and projections, specialty meds aren't the real problem in the U.S. because they are sparingly prescribed. The more troubling problem is drugs that fall in the \$20,000-\$100,000 per year range. Those drugs are often used to treat more prevalent conditions like cancer, multiple sclerosis, and rheumatoid arthritis, and from a cost perspective, are more burdensome on the budgets of far more consumers and insurance companies.

Regardless of the specific medical condition or treatment regimen, high costs pervade all sectors of the U.S. prescription drug market. The burden these costs place on the health care system can't be overstated, but here are a few illustrative examples of actual drug costs in the U.S., and comparative prices in Canada and India.<sup>5</sup> It should be noted that U.S. law prohibits the importation of prescription drugs from other countries. As far as I know, no one has ever been prosecuted for purchasing and importing prescription drugs from other countries, so I'll leave it to the individual reader to decide whether to pursue that option.

So what does this all mean, and what's the solution? While I'm generally a free market laissez-faire sorta guy who doesn't advocate traditional socialized medicine, I recognize that health care is not a typical supply and demand commodity. If we accept that premise, it's obvious that government must intervene to assist the free market invisible hand so it can establish the supply and demand equilibrium price point in this "quasi-" free market. As someone who generally advocates less government

Prescription Drug	Treatment	Price in U.S.	Price in Canada	Price in India <sup>5</sup>
<b>Advair Diskus</b> (250 mcg/50mcg – one inhaler)	Asthma and COPD	\$358	\$80	\$176
<b>Harvoni</b> (90mg – 84 tablets)	Hepatitis C	\$113,411	\$84,500	\$900
<b>Aczone</b> (60g of 5% gel)	Acne	\$594	\$146	\$138
<b>Tecfidera</b> (240mg – 60 capsules)	Multiple Sclerosis	\$5,337	\$1,683	\$2,157
<b>Nexium</b> (40mg – 30 capsules)	Gastroesophageal Reflux Disease (“GERD”)	\$252	\$86	\$35
<b>Tracleer</b> (125mg – 60 tablets)	Primary Pulmonary Hypertension	\$8,472	\$3,276	\$110
<b>Januvia</b> (100mg – 30 tablets)	Type 2 Diabetes	\$384	\$113	\$139
<b>Synthroid</b> (200 mcg – 90 tablets)	Thyroid Deficiency	\$161	\$58	\$63
<b>Atripla</b> (600mg / 200mg / 300mg – 90 tablets)	HIV	\$8,332	\$4,909	\$1,055
<b>Benicar</b> (40mg – 30 tablets)	High Blood Pressure	\$235	\$65	\$90
<b>Crestor</b> (10mg – 30 tablets)	Cholesterol	\$259	\$62	\$82

rather than more, I wish the preceding statement wasn't true, but unfortunately, when it comes to medical care and prescription drug pricing (where demand exists regardless of price), it's axiomatic.

Eventually, I believe price controls will (indeed must) be injected into the health care system if we are going to provide adequate and affordable health care for everyone. Why not start with the low hanging fruit (i.e., prescription drugs), and do what many other countries have already done to contain this runaway train? In my humble opinion, we've given PhRMA plenty of time to behave responsibly and charitably, but they've failed miserably. It's time to implement some real health care reform and affordability principles, and there's no better place to start than with the unrestrained and gluttonous pharmaceutical industry. After that, we can quickly rein in out-of-control medical costs and provider profits. It's the only way we're ever going to have true health care reform and “affordable care” in the U.S., and the window of opportunity is closing.

1 Gilead Science, Inc. based in Foster City, California, has said it plans to sell its branded version of Sovaldi in India at a cost of \$900 for 12 weeks of therapy (see, Gilead's India Patent Snag May Spur Low-Cost Sovaldi Copies, Bloomberg Business (January 15, 2015)).

2 I say “putative” R&D costs because drug companies spend far more on sales and marketing than they do on research and development (see, Big pharmaceutical companies are spending far more on marketing than research, Washington Post (February 11, 2015)).

3 See, Edwards J. 20 Expensive Drugs That Could Bankrupt Medicare: CBS Money-Watch (June 29, 2011).

4 See, Barlas S., Are Specialty Drug Prices Destroying Insurers and Hurting Consumers? A Number of Efforts Are Under Way to Reduce Price Pressures: National Library of Medicine (US), National Institutes of Health (August 2014).

5 All prices are based April 3, 2015 data. U.S. prices are the cash price at Walgreens Pharmacy according to www.goodrx.com. The Canadian price is the price listed at www.canadadrugs.com. The Indian price is the price listed at www.perfect-edstore.com. For Indian drugs that weren't available via the referenced website, pricing information was obtained through www.businesswire.com (Harvoni); www.drugsupdate.com (Aczone); www.pharmacychecker.com (Tecfidera); and www.pulmonaryhypertensionindia.com (Tracleer). It is important to note that India does not recognize prescription drug patents like the U.S. and most other countries. In many instances, the Indian government allows “generic” drugs to be sold when they would be prohibited in other countries (see, India's Solution to Drug Costs: Ignore Patents and Control Prices – Except for Home Grown Drugs, Forbes (April 8, 2013)). With this in mind, the reader should note that some of the Indian drug prices listed in this article are for brand drugs, and some are for the generic equivalent.

## As Always ...

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