



## **IOWANS FACE RISING DRUG COST BURDEN: Iowa among the states most affected by rising prescription drug costs**

Rising prescription drug prices are having a devastating effect on Americans across the nation, and here in Iowa. According to a new study by the Health Reform Program (HRP) at the Boston University School of Public Health, the cost of prescription drugs increased so dramatically that the national drug cost burden—that is, the average share of income spent on prescription drugs—increased by about half in just four years, from 1998-2002.<sup>i</sup> The study authors found the burden for all states has risen by at least 25 percent. In Iowa, the drug cost burden rose by 55.9 percent. This incredible increase reflects a political environment that blindly favors profits over people, when, in fact, the two needn't be mutually exclusive. The burden tended to be greatest in states where people are poorer, sicker and older.

In Iowa, an estimated 19.5 percent (562,000 people) or more lack prescription drug coverage.<sup>ii</sup> In addition, many seniors, people with disabilities and others are insured but have very limited drug coverage. According to the HRP study, decreasing the drug cost burden by cutting prescription drug prices would not only relieve the economic pressure of purchasing medicine, but it would actually permit increased use, and thus, restore profits for the drug manufacturers. “Because higher volumes can restore revenue lost as prices fall, drug makers are wrong to insist that price cuts will harm research. Drug makers’ profits and research can be protected—while we buy all needed medications for all Americans, or for everyone in a state, at affordable prices.”<sup>iii</sup> The study continues:

Drug makers might challenge the term ‘burden.’ They say people should be willing to pay a lot because drugs save lives and money. But with other medical costs soaring, savings claims are questionable. And drugs’ rising share of income clearly strains family, employer, and government budgets. High burdens surely bar many Americans from getting needed drugs. We say it's good to get needed drugs, but better to pay lower prices.<sup>iv</sup>

### **How does Iowa Compare? A Look at the Health Reform Program’s Study**

In Iowa, the drug cost burden rose faster than the US average 1998-2002, up 56%. By 2002, measures, Iowa’s situation is near the worst when compared with the other 50 states. Iowa was 15<sup>th</sup> for the largest percentage increase in the drug cost burden. Also, Iowa was 18<sup>th</sup> in terms of the drug cost burden in relationship to per capita income. Respectively, 35 states saw their drug

cost burden rise more slowly than Iowa did from 1998-2002, and residents of 32 states spent a smaller percentage of their per capita income on prescription drugs than did Iowans in 2002.

### Iowa Prescription Drug Cost Burden:

(2002 figures unless noted)	Iowa	Rank Among States	% Above (or Below) US Average	US Average
2002 burden: Rx spending as % of personal income	2.1%	18	12%	1.87%
% rise in burden: 1998-2002	55.9%	15	--	49.6%
Rx Spending/person	\$589	22	2%	\$579
Average Rx Price	\$49.49	42	(9%)	\$54.58
Avg. number of Rx/person	11.9	11	12%	10.6
Personal income/person	\$28,089	20 (1=lowest)	(9%)	\$30,906
% over age 65: 2001-2002	13%	13	(8%)	12%
% uninsured: 2001-2002	8.5%	49	(43.3%)	15%

### Health Reform Program Study Data<sup>v</sup>

#### Cutting Drug Prices: The Only Practical Way to Reduce the Burden

The Health Reform Program’s study found that people generally use more medications in states where diabetes and heart disease are more common. The strongest influences on drug cost burden are the number of prescriptions used and average personal income. Since income isn’t easy to change, the study points out that there are only two ways to lower a state’s drug cost burden, cutting use or lowering prices. It finds that cutting drug prices is the only effective or sensible solution. According to the study, reducing a state’s cost burden by cutting prescription drug use puts vulnerable people at risk:

Many states with heavy drug cost burdens suffer high rates of illness and also have an older population—so their people tend to need more medications than the U.S. average. ... Especially in states with serious health problems or more older people, slashing use isn’t the way to lower burden. Further, even where use rates are high, many people don’t get the drugs they need—especially in lower-income states. An estimated 70 million Americans have no drug benefits. Many others with limited benefits or high co-pays also cannot afford needed prescriptions. This is another reason why it is hard to cut use without hurting people.<sup>vi</sup>

#### The Drug Companies Already Lower Drug Prices—for Some Consumers

From 2000 to 2003 the cumulative average prescription drug price increase was over 25 percent, dramatically outpacing the rate of inflation.<sup>vii</sup> Consumers don’t always pay these high prices. Drug companies routinely lower prices when negotiating with entities that have significant buying power, like the Department of Veterans Affairs (VA) and other nations. The VA negotiates the lowest drug prices available in the United States on behalf of our 25 million veterans. The VA gets one of the most popular drugs on the market, Protonix, for 30 percent of what it would cost with the lowest priced “discount” card under the new Medicare prescription drug law.<sup>viii</sup> Even Canadians pay lower prices for prescription drugs produced by U.S.

manufacturers. It is estimated that in 2004 alone, Americans would save some \$60 billion if they paid the same amount Canadians pay for their brand name drugs.<sup>ix</sup> As the Health Reform Program cost burden study shows, lower drug prices would enable more people in Iowa to buy needed drugs that they cannot afford today, without harming drug company profits.

Congress had the chance to cut prescription drug prices for the nation's most vulnerable when it passed last year's Medicare prescription drug bill. Instead of requiring Medicare to negotiate for lower prescription drug prices on behalf of 40 million beneficiaries, Congress prohibited Medicare from negotiating. Congress therefore gave drug companies and HMO's the ability to set their own prices and raise them at will. Imagine the savings that could have been earned with the bargaining power of more than 40 million seniors and people with disabilities—over 15 million more people than the VA buys for.

### **Case Study: The Medicare Prescription Drug Law is a Broken Promise to Iowa Seniors and People with Disabilities**

While the high cost of prescription drugs was the main source of pressure to enact a Medicare drug benefit, it was also the main reason why the benefit that passed is so meager for patients and so profitable for the pharmaceutical industry.<sup>x</sup> The Medicare law puts no restraints on prescription drug prices, giving the pharmaceutical industry an estimated \$139 billion in increased profits over the first eight years the drug benefit is in effect. This windfall accounts for 61.1 percent of the Medicare dollars that will be spent to buy more prescriptions—money that could have expanded the benefit to get seniors and people with disabilities more of the drugs they need to survive.<sup>xi</sup>

In addition to lobbying for a Medicare prescription drug benefit that favored industry's interests, allegations have been made that the pharmaceutical companies conspired to gouge consumers by raising the prices of drugs.<sup>xii</sup> Medicare and most Medicaid programs base their drug reimbursement rates on what's known as the average wholesale price, or AWP, which is set by the drug companies. Insurance companies and patients also pay doctors and pharmacies based on the AWP. But nearly 30 drug companies have been giving doctors deep discounts compared to the price that they bill Medicare. Drug makers use the profit margin between the AWP and what doctors can bill Medicare to manipulate physicians and health insurance companies to use their products for Medicare beneficiaries. In one investigation by the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services, OIG compared 1999 prices paid by Medicare, which used the AWP to set its provider reimbursements, with the Department of Veterans Affairs, which did not use the AWP and instead negotiated directly with the drug companies, and "concluded that Medicare and Medicare beneficiaries would have saved \$1.6 billion if they had paid the same price for the 24 drugs that the VA paid."<sup>xiii</sup>

### **Conclusion: The Government Must Act to Rein in Drug Prices**

ICAN concludes that the only realistic solution to curbing the skyrocketing drug cost burden is to cut drug prices, as the Health Reform Program has shown. The Medicare Prescription Drug, Improvement and Modernization Act is a big step in the wrong direction, offering a windfall to the drug companies and failing to rein in rising drug prices. We need to lower prescription drug costs for all Americans, starting with the nation's most vulnerable citizens, seniors and people with disabilities. Congress should repeal the Medicare prescription drug law and replace it with a real prescription drug benefit that covers all drugs, for all seniors and people with disabilities,

and that follows the VA's example and allows Medicare—not insurance companies—to be the price negotiator with the drug companies.

This report was prepared by USAction Education Fund (USAEF), with assistance from the Health Reform Program at the Boston University School of Public Health. USAEF provides research, information and technical assistance to USAction, the nation's largest progressive activist organization, dedicated to winning social, racial, and economic justice for all. USAction represent three million members in 34 affiliates, with statewide organizations in 24 states.

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<sup>i</sup>Alan Sager, Ph.D. and Deborah Socolar, M.P.H., “Poorer, Sicker States Face Much Heavier Prescription Drug Cost Burdens,” Health Reform Program, Boston University School of Public Health, July 14, 2004, <<http://www.healthreformprogram.org>>.

<sup>ii</sup>Alan Sager, Ph.D. and Deborah Socolar, M.P.H., “A Prescription Drug Peace Treaty,” Health Reform Program, Boston University School of Public Health, October 5, 2000, Exhibit 1, <<http://www.healthreformprogram.org>>.

<sup>iii</sup>Sager and Socolar, “Poorer, Sicker States,” p. i.

<sup>iv</sup>Sager and Socolar, “Poorer, Sicker States,” p. 1.

<sup>v</sup>All data for the accompanying chart was prepared by Sager and Socolar as part of their research for “Poorer, Sicker States Face Much Heavier Prescription Drug Cost Burdens.”

<sup>vi</sup>Alan Sager, Ph.D. and Deborah Socolar, M.P.H., “Rising Drug Costs Burden Tennessee—A Fact Sheet,” Health Reform Program, Boston University School of Public Health, July 14, 2004, <<http://www.healthreformprogram.org>>. While much of the fact sheet is Tennessee-specific, this quote is relevant to all states.

<sup>vii</sup>“Growth in Prescription Drug Prices Dramatically Outpaced Inflation 2000-2003,” AARP Rx Watchdog Report: A Consumer Newsletter on Prescription Drug Costs, Summer 2004, <<http://research.aarp.org/>>, and “Sticker Shock: Rising Prescription Drug Prices for Seniors,” Families USA, June 2004, <<http://www.familiesusa.org>>.

<sup>viii</sup>From a chart prepared by USAction Education Fund and based on a similar chart prepared by Families USA, “Price Comparison: The Department of Veterans Affairs, Canada, Drugstore.com and the Medicare Discount Card.”

<sup>ix</sup>Alan Sager, Ph.D. and Deborah Socolar, M.P.H., “Do Drug Makers Lose Money on Canadian Imports?” Health Reform Program, Boston University School of Public Health, April 15, 2004, <<http://www.healthreformprogram.org>>.

<sup>x</sup>Alan Sager, Ph.D. and Deborah Socolar, M.P.H., “61 Percent of Medicare's New Prescription Drug Subsidy is Windfall Profit to Drug Makers,” Health Reform Program, Boston University School of Public Health, October 31, 2003, <<http://www.healthreformprogram.org>>.

<sup>xi</sup>Sager and Socolar, “61 Percent.”

<sup>xii</sup>“Buyer Beware: The Truth behind High Prescription Drug Prices,” USAction Corporate Truth Squad Alert #9, June 15, 2004, <<http://www.e-guana.net/organizations/org/BuyerBewareAlert9FINAL.pdf>>.

<sup>xiii</sup>“Buyer Beware.”