Understanding the Real Impact of Recent Drug Pricing Announcements

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In July, several major pharmaceutical companies responded to President Trump’s call to action to lower drug prices by announcing they would freeze price increases through the end of 2018. While much was made in the media about the effectiveness of the president’s request and the public announcements by some pharmaceutical companies at the time, no one really knew what the real impact would be on the actual cost of medications. Further, a recent poll by the Kaiser Family Foundation showed that 55 percent of Americans didn’t believe this strategy would be effective and sadly, they may not be wrong.

For nearly 20 years, Vizient has been tracking drug price increases for our member hospitals and each year they have exceeded the rate of inflation. In our most recent Drug Price Forecast we projected drug prices to rise by 4.92 percent, more than double the U.S. inflation rate, which was reported at 2.4 percent in July 2018.

We recently looked at eight major pharmaceutical companies (Pfizer, Merck, Novartis, Roche, Novo Nordisk, Gilead, Bayer and Astra Zeneca) that publicly promised to freeze prices for the balance of 2018. While we applaud these companies for stepping forward and giving providers a level of price predictability never seen before, we shouldn’t minimize the impact of the price increases that were taken prior to July 2018. Data compiled by Vizient show those companies will have a combined effect of more than $450 million in drug price increases for Vizient members alone in 2018.

For example, while Pfizer reversed price increases on some drugs for this year, which resulted in $21.7 million in savings for Vizient members, overall they are still projected to experience $28 million in increased expenses related to price increases Pfizer passed down in January of this year.

In assessing the public promises made by the other drug manufacturers we found other items of note:

- All of the companies had already raised prices in the first half of 2018, with some raising prices more than they did in all of 2017
- One manufacturer executed a second round of price increases a few weeks prior to pledging a price freeze. As a result, Vizient members have experienced $173 million in additional costs in 2018 from the two increases.
- Merck notably pledged to reduce prices on certain drugs. Unfortunately, those drugs were not widely used so the impact was minimal.

Since the July announcements, no other manufacturers have made any public comments about price freezes. However, pharmaceutical manufacturers continue to engage in practices that drive up the cost of medications:

- **Price of new products** - The price of new products seems to know no bounds. New drugs, biologics and immunotherapies are entering the market at prices never seen before. Just this year we saw the introduction of voretigene neparvovec-rzyl (Luxturna™; Spark Therapeutics), the first in vivo gene therapy product to treat a rare form of vision loss, whose price for treatment of both eyes is $850,000.
- **Blocking competition** - Companies continue to use litigation and other market strategies to block market entry for generics and biosimilars. As reported in our last Drug Price Forecast, this has a substantial impact considering that 79 percent of the projected price inflation for the next 12 months will be caused by drugs with no competition.

The great unknown in all of this is what will happen in early 2019. Will any of the more than 200 manufacturers who have not yet publicly commented about price freezes step up and commit to not raising prices? Or, will pharmaceutical companies resume raising prices as usual? Will the president again try to publicly pressure drug companies? And, will the next round of price increases be even larger to make up for the increases they didn’t take in 2018? 2019 may be shaping up to be a watershed year for pharmaceutical pricing practices.

About the author. In his role as senior vice president of pharmacy services, Dan Kistner has oversight for an expanded pharmacy program that links analytics, strategic sourcing and pharmacy networks into one team, while setting the strategic direction to ensure that members maximize value by utilizing the industry’s leading GPO pharmacy program. Kistner joined Vizient through the MedAssets integration and his most recent role at MedAssets was as general manager, where he led the pharmacy group by using customer insight and data to drive value for clients and the pharmacy program. Kistner has a diverse background in the pharmaceutical industry with experience in retail, hospital, specialty, pharmacy benefits management, supply chain management and mail order.

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