

PAYING THE PRICE

A 19-State Survey of the High Cost of Prescription Drugs

U.S. PIRG Education Fund
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Acknowledgements

Written by Jennifer Thompson of U.S. PIRG Education Fund. Edited by Alison Cassady, Research Director for U.S. PIRG Education Fund.

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U.S. PIRG Education Fund
218 D Street SE
Washington, DC 20003
(202) 546-9707
www.uspirg.org

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Executive Summary

While the pharmaceutical industry is the most profitable industry in the world, millions of uninsured and underinsured Americans struggle to afford the medicines they need, even forgoing medically necessary drugs when prices are out of reach. Meanwhile, the federal government uses its buying power to negotiate fairer prices for the drugs it purchases for its beneficiaries – such as veterans, government employees and retirees. Unfortunately, uninsured individuals have no one doing the same on their behalf. They thus remain at the whim of the pharmaceutical industry, one that has behaved in a manner considered by many to be monopolistic and unethical.

Frustrated by years of gridlock and inaction at the federal level, states across the nation are now considering filling that role for their citizens by establishing state-run buying pools and using their power to negotiate fairer drug prices, allowing uninsured or underinsured consumers of all ages to buy their prescription drugs at lower cost.

The time for state governments to act to lower drug prices has never been greater. The costs of the 50 most popular drugs rose three times higher than the rate of inflation in 2001. As drug prices have climbed, some employers have dropped or reduced the prescription drug coverage offered to their employees. The recent wave of corporate bankruptcies and layoffs has left many consumers without any health insurance at all. Medicare recipients—senior citizens most likely to take prescription medications—lack prescription drug coverage entirely. Moreover, the recent efforts by the Bush administration and U.S. Congress to reform Medicare have failed to address the root cause of the skyrocketing cost of prescription medication.

In the spring of 2003, the National Association of State Public Interest Research Groups (PIRGs) conducted a survey of more than 500 pharmacies in 18 states across the country and Washington, DC to determine how much uninsured consumers are paying for 10 common prescription drugs. We then compared these prices with the prices the pharmaceutical companies charge one of their “most favored” customers, the federal government.

In each of the surveyed locations, we found that uninsured citizens are paying much more than the federal government for these 10 common prescription medications. Among the key findings from this survey:

In Washington, DC and Northern Virginia:

- On average, uninsured consumers in Washington, DC and the northern Virginia cities of Arlington, Alexandria and Fairfax have to pay 80% more for the 10 common prescription medications than the federal government.
- The price differences ranged from 25% for Lanoxin to 121% for K-Dur 20. This means that residents of DC and northern Virginia without prescription drug coverage suffering from potassium deficiency pay more than double the amount paid by the federal government for K-Dur 20.

- Of all the locations surveyed, Washington, DC was the second most expensive for uninsured consumers. On average, uninsured residents of the District of Columbia have to pay 82% more for the 10 common prescription medications than the federal government.
- Of all the locations surveyed, the northern Virginia cities of Arlington, Alexandria and Fairfax were the fifth most expensive for uninsured consumers. On average, uninsured residents of northern Virginia have to pay 78% more for the 10 common prescription medications than the federal government.

Nationally:

- Based on the results of our 19-state survey, uninsured Americans pay 72% more on average for these 10 common prescription medications than the federal government. The price differences ranged from 31% for Lanoxin to 110% for K-Dur 20.
- Many of the drugs featured in the PIRG survey treat chronic conditions – meaning that the percent difference between the retail and discounted prices quickly adds up. An uninsured person regularly taking Zocor for his high cholesterol, for example, would pay at least \$1671 for a year's supply of Zocor. The government, on the other hand, must pay only \$814 for the same quantity of Zocor – a savings of \$857.
- Prices varied sharply amongst the surveyed regions. Prescription drugs cost substantially more for uninsured consumers in urban areas in the Northeast and Middle Atlantic states; somewhat less in the Midwest and Mid-South; and substantially less in the Southeast and South/Southwest.
- Of the major metropolitan areas surveyed, the four most expensive cities in which to buy medication were Baltimore, Washington, D.C., Philadelphia and Boston. Prescription drugs were the least expensive, but still significantly above the federal supply price, in New Orleans, Denver, Grand Rapids, Houston and Tampa.

Background

The price of prescription drugs has risen sharply in America in recent years. Americans spent \$192 billion on prescription drugs in 2002, up from \$82 billion in 1992. Some groups suggest that costs could double again by 2011.¹ While there are multiple factors behind this increase in drug spending – including drugs being prescribed more frequently to treat a wider variety of conditions – drug prices also are rising. One study found that the prices of individual drugs increased anywhere from 1.7% to 33.2% in 2001 alone.² These increases have rapidly outrun the rate of inflation, which currently holds steady at around 3%.³ And drug prices show the potential to grow to astounding heights; Roche Holding's new AIDS drug Fuzeon, for example, may cost a single patient as much as \$20,000 a year.⁴

Whatever the benefits of new medicines like Fuzeon, their costs are becoming prohibitive to consumers. Even as Americans spend more money than ever on prescription drugs, fewer are able to afford them. The Census Bureau estimates that 41.2 million Americans had no health insurance in 2001.⁵ Lacking health insurance has a profound effect on one's ability to obtain needed medication; one study found that 30% of uninsured persons had not filled a prescription within the past year because they could not afford to do so.⁶

Millions of other Americans – including most Medicare recipients – have health insurance but lack prescription drug coverage. In 2001, 10% of adults with health insurance reported that they lacked prescription drug coverage.⁷ Even drug coverage does not necessarily reduce a patient's drug expenses, as many plans may require patients to spend somewhere between \$100 and \$500 in deductibles before covering most services.⁸ The more a person has to pay for a drug, the less likely he is to have a prescription filled. One study published in the *Journal of American Medicine* found that increasing co-payments from \$5 to \$10 per prescription reduced consumer spending on drugs by 22%.⁹ In short, even health insurance that includes prescription drug coverage may not make medicine any more affordable.

Drug Prices Rise as an Industry Thrives

The high price of prescription drugs has helped the pharmaceutical industry remain consistently profitable, even in a stagnant economy. In 2001, it ranked first of any industry in rates of return on equity, assets, or revenues.¹⁰ The healthcare consumer group Families USA, meanwhile, found that the pharmaceutical industry has been the most profitable industry in the United States for the past 10 years, and that it “was five-and-one-half times more profitable than the average for Fortune 500 companies.”¹¹ In June 2003, the consumer group Public Citizen released two companion studies. The first found that in 2002, the top ten prescription drug companies netted profits of \$36 billion, or “more than one-half of all profits for Fortune 500 companies.” Further, the group also found that “the drug industry hired 675 different lobbyists from 138 firms in 2002 – nearly seven lobbyists for each U.S. senator, according to federal lobbying disclosure records. The industry spent a record \$91.4 million on lobbying activities in 2002, an 11.6 percent increase from 2001.”¹²

The industry insists, however, that its high prices are justified by the amount of money it must spend in researching and developing new medications. According to one industry source, the

cost of research and development – also known as R & D – averages \$800 million or more for a single compound.¹³ Another industry source suggests that out of 5,000 drugs under development, only five are likely to be tested in clinical trials and only one will be approved for patient use, meaning that industry must invest heavily in medicines that never turn a profit.¹⁴ The inherent risks of R & D and the need to recover losses from failed trials both necessitate and justify the cost of its products, the argument continues. According to the industry, lowering prices will result in less investment in R & D and fewer new and innovative drugs on the market.

Yet R & D is actually a much lower priority for drug companies than they suggest. First, the government funds a substantial portion of the research and development required to produce any given medicine. One group has estimated that R & D can cost companies no more than \$240 million per drug, once government-funded research and tax deductions are taken into account,¹⁵ rather than the industry figure of \$800 million. While \$240 million is still a substantial sum of money, these figures suggest that the pharmaceutical industry's research and development expenses may be far lower than anticipated.

In addition, despite the steep climb in the cost of prescription drugs, FDA approved only 17 new drugs in 2002, the fewest in a decade. Some suggest that this drop in new medications has prompted “companies to keep profits flowing the old-fashioned way: by charging more for their existing products.”¹⁶

Furthermore, the pharmaceutical companies spent greater portions of their net revenue on marketing, advertising, and administrative costs than on R & D in 2001. In fact, one study found that eight major American pharmaceutical companies spent more than twice as much on marketing and administrative costs than on R & D. And in 2001, the major pharmaceutical companies put only 11% of their revenue into R & D, counting 18% as profits.¹⁷

How the Drug Industry Keeps Prices High: Monopolies

Under current law, companies that file a patent on a drug and receive Food and Drug Administration approval are the sole vendors of that compound for a set period of time, generally anywhere from 10 to 15 years. Once that patent expires, other companies can file claims with the FDA to market generic versions of that medicine. The first generic company whose product is proven safe, effective, and bioequivalent to the original patented compound has a 180-day period within which it can be the sole vendor of the generic version of that drug. This six-month period is frequently enormously profitable for the maker of the generic drug; when Barr Laboratories began marketing a generic version of the Eli Lilly medication Prozac, it recorded \$366 million in sales during those six months, while Eli Lilly's profits dipped sharply.¹⁸ After the first 180 days, additional generic companies can enter the market, provided their products receive FDA approval. Generic drugs typically cost 20% to 30% less than the brand-name drug, and the introduction of multiple generics on the market lowers prices even more.¹⁹

The pharmaceutical companies, however, have learned to block the introduction of cheaper, generic versions of medications onto the market while keeping their own prices high by extending their patents. Companies have filed patents on everything from the color of a capsule to the shape of a bottle, all in an attempt to extend their control over a specific drug. Researchers have found that the average number of patents filed on brand-name medications has

increased from two to twelve in the past 10 years.²⁰ Drug companies can maintain these monopolies through a loophole in the regulations governing generic drugs, known informally as the Hatch-Waxman Act. Under that act, generic companies can challenge brand-name companies for the right to market a medication if a patent was never filed, has expired, or is otherwise invalid. If a generic drug manufacturer claims a patent to be invalid and the brand-name company retaliates with a lawsuit, the FDA must automatically delay the generic company's claim for 30 months while it investigates the dispute. The investigative process, repeated for each new patent, can delay the introduction of generic drugs for even longer. Every day that a generic drug is kept off the market means that consumers pay higher prices.

It is important to note that FDA does not investigate or validate every patent filed. If a company files or extends a patent on a prescription drug, it is up to consumers or generic manufacturers to challenge its validity. In its current role, FDA does not confirm that the patent or its extensions are lawful and justified.

BuSpar

In April 2001, the Prescription Access Litigation project filed suit on behalf of seven consumer organizations against Bristol-Myers Squibb, alleging that the company acted illegally to lock generic competitors out of the BuSpar market. It specifically charged that the company manipulated patent law to prevent other drug manufacturers from introducing a generic version of BuSpar to the market.

In April 2003, consumer advocates settled their suit against Bristol-Myers Squibb, winning new restrictions to prevent the company from establishing a monopoly over any of its drugs in the future. The settlement also created a \$42 million fund through which consumers may petition for reimbursement for BuSpar overcharges.

Source: Prescription Access Litigation Project

Collusion and Price Manipulation by the Pharmaceutical Industry

K-Dur 20

Schering-Plough Corporation, the manufacturer of the potassium supplement K-Dur 20, faces charges that it settled patent lawsuits with two other companies with agreements "calling for multi-million dollar payments... in exchange for the generic companies' commitment to stay out of the K-Dur 20 market for specified time periods." These agreements - which kept generic versions of K-Dur from the market - are estimated to have cost consumers more than \$100 million.

Source: Families USA, "Collusion and Other Anti-Competitive Practices: A Survey of Class Action Lawsuits Against Drug Manufacturers." April 2002.

There are multiple lawsuits pending that allege collusion between generic and brand name manufacturers. A result of the ongoing power struggle between brand-name and generic manufacturers, most of these cases develop when brand name companies holding expired or invalid patents are challenged by generic companies who want to market the same drug. Rather than spend millions defending themselves against lawsuits, which they would almost certainly lose, companies holding expired or invalid patents decide instead to cut both their losses and a deal with their competitors. Generally, two or more companies agree that one can continue to sell and market a drug while the other stays out of the market—usually in exchange for compensation.

Other lawsuits allege that some companies have systematically overcharged consumers for their medicines or waged misinformation campaigns against competitors. Wyeth-Ayerst Laboratories, for example, has been accused of maintaining a 99% monopoly over its estrogen supplement Premarin by waging a misinformation campaign

about its generic competitor, Cenestin, that discouraged consumers from purchasing it. Even as Wyeth-Ayerst worked to keep Cenestin off formularies—the list of medications covered by any given health plan—it continued to increase the price of Premarin.²¹ Other companies facing lawsuits for fraud include the Bayer Corporation, which recently pled guilty and agreed to pay the government \$257 million for overcharging the Medicaid and Medicare programs for its antibiotic Cipro.²²

Several state PIRGs have joined labor unions, senior citizen advocates and other consumer groups in litigation coordinated by the Prescription Access Litigation Project. The cases challenge numerous unfair drug company price manipulation tactics. One suit alleges manipulation of Medicare and Medicaid's average wholesale price rules, resulting in consumers nationwide being over-charged \$800 million.²³

Survey Findings

While the pharmaceutical industry is the most profitable industry in the world, millions of uninsured and underinsured Americans struggle to afford the medicines they need, even forgoing medically necessary drugs when prices are out of reach. Meanwhile, the federal government uses its buying power to negotiate fairer prices for the drugs it purchases for its beneficiaries – such as veterans, government employees and retirees. Unfortunately, uninsured individuals have no one doing the same on their behalf.

In the spring of 2003, the National Association of State Public Interest Research Groups (PIRGs) conducted a survey of 559 pharmacies in 18 states across the country and Washington, DC to determine how much uninsured consumers are paying for 10 common prescription drugs. We then compared these prices with the prices the pharmaceutical companies charge one of its “most favored” customers, the federal government. We found that uninsured citizens are paying much more than the federal government for these 10 common prescription medications.

As detailed in Table 1, nationally, uninsured Americans pay 72% more on average for these 10 common prescription medications than the federal government. The price differences ranged from 31% for Lanoxin to 110% for K-Dur 20.

In Washington, DC and Northern Virginia:

- On average, uninsured consumers in Washington, DC and the northern Virginia cities of Arlington, Alexandria and Fairfax have to pay 80% more for the 10 common prescription medications than the federal government.
- The price differences ranged from 25% for Lanoxin to 121% for K-Dur 20. This means that residents of DC and northern Virginia without prescription drug coverage suffering from potassium deficiency pay more than double the amount paid by the federal government for K-Dur 20.
- Of all the locations surveyed, Washington, DC was the second most expensive for uninsured consumers. On average, uninsured residents of the District of Columbia have to pay 82% more for the 10 common prescription medications than the federal government.
- Of all the locations surveyed, the northern Virginia cities of Arlington, Alexandria and Fairfax were the fifth most expensive for uninsured consumers. On average, uninsured residents of northern Virginia have to pay 78% more for the 10 common prescription medications than the federal government.

Refer to Appendix A for a detailed breakdown of the average cost of these prescription drugs in all of the states and major metropolitan areas surveyed.

Table 1. Average Cost to Uninsured Consumers of 10 Common Prescription Drugs

	Federal supply price	Average price paid by uninsured nationally	% more paid by uninsured nationally	Average price paid by uninsured in DC & NoVA	% more paid by uninsured in DC & NoVA
Prilosec	\$67.32	\$137.98	105%	\$143.37	113%
Norvasc	\$26.03	\$50.32	93%	\$54.75	110%
Lipitor	\$41.12	\$75.64	84%	\$82.22	100%
Celebrex	\$129.19	\$174.56	35%	\$186.63	44%
Plavix	\$94.26	\$131.46	39%	\$135.03	43%
Furosemide	\$7.31	\$12.03	65%	\$11.95	64%
Prevacid	\$72.11	\$144.11	100%	\$149.62	107%
K-Dur 20	\$12.18	\$25.58	110%	\$26.86	121%
Lanoxin	\$8.53	\$11.17	31%	\$10.62	25%
Zocor	\$67.81	\$139.28	105%	\$146.71	116%
AVERAGE	\$52.59	\$90.21	72%	\$94.78	80%

Prices varied sharply amongst the surveyed regions. Prescription drugs cost substantially more for uninsured consumers in urban areas in the Northeast (MA, RI, VT) and Middle Atlantic states (DC, MD, NC, PA, VA), where retail prices are almost twice that of the federal supply price. The retail price for uninsured consumers is somewhat less in the Midwest and Mid-South (MI, OH, TN), Southeast (AL, FL, GA, LA, SC) and South/Southwest (CO, NM, TX). Even in the South/Southwest, however, consumers lacking prescription drug coverage pay 1.6 times the price for prescriptions on average than the federal government.

Table 2. Average Cost to Uninsured Consumers of 10 Common Prescription Drugs: By Region

	Regional Average	% above Federal Supply Price Average
Mid-Atlantic	\$94.70	80.07%
Northeast	\$92.55	75.98%
Mid-South/Midwest	\$89.30	69.81%
Southeast	\$87.99	67.31%
South/Southwest	\$87.40	66.20%

Of the major metropolitan areas surveyed, the most expensive city in which to buy medication was Baltimore, where uninsured consumers have to pay almost twice the average price paid by the federal government, followed closely by Washington, D.C., Philadelphia and Boston. Prescription drugs were the least expensive in New Orleans, Denver, Grand Rapids, Houston

and Tampa. Even in New Orleans, however, uninsured consumers pay 1.5 times more on average than the federal government for these 10 common prescription drugs.

Table 3. 10 Major Metropolitan Areas with Highest Average Cost to Uninsured Consumers of 10 Common Prescription Drugs

City	City Average	% above Federal Supply Price Average
Baltimore	\$98.59	87.48%
Washington, DC	\$95.56	81.72%
Philadelphia	\$95.16	80.96%
Boston	\$94.63	79.95%
Cleveland	\$92.88	76.62%
Chapel Hill/Raleigh/Durham	\$92.87	76.61%
Providence	\$91.43	73.87%
Pittsburgh	\$91.05	73.15%
Birmingham	\$90.45	72.00%
Dallas	\$90.17	71.47%

Solutions and Policy Recommendations

While the prescription drug crisis is undeniably complex, there is no shortage of suggestions to alleviate it.

The Bush administration's preferred policy, recently passed by the U.S. House and Senate (see sidebar), follow the pharmaceutical industry's preferred road: providing more comprehensive health insurance, especially to senior citizens and the disabled, instead of taking action to reduce the costs of prescription drugs.²⁴ Rather than instituting the "price controls" of some healthcare systems, the pharmaceutical industry would prefer that legislators "empower seniors to choose among competing private-sector plans that would give them coverage similar to the plans that millions of working Americans, including members of Congress, now enjoy."²⁵

This approach has many flaws. Most importantly, it fails to address the root causes of rising drug prices and does not offer any relief to uninsured or underinsured consumers that are too young to qualify for Medicare.

In order to fill these important holes, the state PIRGs support the following solutions to the problem of unaffordable prescription drugs:

Prescription drug buying pools. The state PIRGs support creating prescription drug-buying pools at the state level that would allow businesses, the government and individuals of all ages to use their combined buying power to negotiate lower drug prices, similar to what the federal government and big HMOs do. Specifically, this would:

- Give the state government the ability to negotiate substantial rebates from drug companies and discounts from retailers, then pass those savings along to participants; and
- Provide tools to help persuade drug companies to negotiate prices in good faith, including public disclosure of uncooperative companies.

Access for generic drugs. The state PIRGs support policy to close the loopholes that allow companies to block lower-priced generic versions of their drugs from reaching the marketplace.

Greater Use of Preferred Drug Lists. The state PIRGs support policy that allows states to convene panels of experts to evaluate the effectiveness and prices of similar medications, placing equally effective yet lower cost medications on "preferred drug lists," or PDLs. Health care

At the Federal Level

In June 2003, the U.S. House and Senate passed Medicare reform bills that attempt to achieve the Bush administration's goal of privatizing Medicare while creating a prescription drug benefit for Medicare recipients. Seniors seeking the drug benefit will have to join private drug benefit insurance providers organized on a regional basis and to pay unknown premiums not set by the law. In effect, this policy would not guarantee that Medicare beneficiaries will have an affordable prescription drug benefit with a fixed premium.

The Bush administration and Congress have not proposed any policy that would lower the cost of prescription drugs on the market. Creating a drug benefit for seniors is a step toward universal health care—but no solution to rising drug costs.

As this report went to print, Congress had yet to produce a final bill out of conference committee.

providers and state governments could use these PDLs when making purchasing decisions, ensuring that patients get the most cost-effective drugs available while encouraging drug manufacturers to offer competitive prices.

Disclose gifts by pharmaceutical industry. At minimum, the state PIRGs support policy to require pharmaceutical manufacturers to report to state officials (and the state officials to report to the public) information about gifts made to any person authorized to prescribe, dispense, or purchase prescription drugs.

The Maine Rx Program: Groundwork for State Action

In May 2000, the Maine legislature passed the Maine Rx Program, which allows the state to negotiate fairer drug prices for all residents, regardless of income level or age, by using the buying power of its Medicaid program. Maine Rx also gives the state the authority to establish maximum retail prices for pharmaceuticals if negotiations failed to lower drug prices within three years.

The U.S. Supreme Court heard arguments in a lawsuit brought by the Pharmaceutical Research and Manufacturers Association (PhRMA), ruling in May 2003 that the program does not interfere with interstate commerce and that the state could go forward with implementing the program. Meanwhile, dozens of states are considering adopting programs similar to Maine Rx.

Concerned over future legal challenges, Maine Governor John Baldacci signed legislation in June 2003 amending the state program to limit its benefits to Maine residents whose income falls under 350% of the federal poverty level (\$64,400 for a family of four and \$31,400 for an individual) and to individuals whose drug expenses exceed 5% of their income.

Source: National Conference of State Legislatures, Maine Citizen Leadership Fund

Methodology

The ten drugs selected for this survey were the drugs most frequently prescribed to seniors citizens, according to the 2001 list of the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE). PACE is the largest state pharmaceutical assistance program for older adults.^a The dosages were the most commonly prescribed amounts, according to the PACE database.

The drugs surveyed and their uses are as follows.²⁶

Prilosec, 20 mg/30 capsules. Prilosec belongs to a class of drugs called proton pump inhibitors. These drugs work to decrease the amount of acid produced in the stomach and is prescribed for patients with ulcers, gastric reflux disease or heartburn, and other conditions.

Norvasc, 5 mg/30 tablets. Norvasc is a calcium channel blocker, which works by relaxing and widening veins and arteries, thus reducing the heart's workload by making it easier for it to pump blood. Norvasc may be prescribed for patients with hypertension (high blood pressure) and angina (chest pain).

Lipitor, 10 mg/30 tablets. Lipitor works by blocking the production of cholesterol in a patient's body. Lowering cholesterol levels can reduce a patient's risk of hardened arteries, which can lead to heart attacks, strokes and peripheral vascular disease.

Celebrex, 200 mg/60 capsules. Celebrex is prescribed to patients suffering from osteoarthritis and rheumatoid arthritis and works by reducing substances that cause inflammation, pain, and fever.

Plavix, 75 mg/30 tablets. Plavix prevents blood clots from forming by preventing platelets, or red blood cells, from clumping in a patient's blood. Plavix can be prescribed to prevent and treat heart attacks, stroke, blood clots, and acute coronary syndrome.

Furosemide, 40 mg/60 tablets. Furosemide, a diuretic, reduces the amount of fluid in the body by increasing the amount of salt and water lost in urine. Patients with congestive heart failure, kidney or liver disease may be prescribed furosemide to reduce swelling caused by excess fluid. Furosemide is the generic version of the drug Lasix.

Prevacid, 30 mg/30 tablets. Prevacid, like Prilosec, reduces the quantity of acid produced by the stomach. Prevacid may be prescribed for patients with stomach and intestinal ulcers and erosive esophagitis, in which stomach acid damages the esophagus.

K-Dur 20, 20 MEQ/30 tablets. K-Dur 20 is a potassium chloride supplement used to treat patients with a potassium deficiency. There are multiple versions of K-Dur 20 available.

^a While high drug prices are a problem for all age groups, we decided to focus on the elderly, since they tend to take more medications and have limited incomes and are thus hardest hit by high drug prices.

Lanoxin, .125 mg/30 tablets. Lanoxin works to help the heart beat more strongly and regularly. Patients with congestive heart failure and irregular heartbeats may be prescribed Lanoxin. Generic versions of Lanoxin are sold as its active ingredient, digoxin.

Zocor, 20 mg/30 tablets. Zocor works like Lipitor to reduce a patient's production of LDL, or "bad" cholesterol, while increasing the amount of HDL, or "good" cholesterol. Reducing cholesterol levels can reduce the risk of hardened arteries, which may lead to heart attacks, stroke, and peripheral vascular disease.

Average Retail Prices

We surveyed a total of 559 retail pharmacies in 18 states and Washington, DC in March and April of 2003. We chose to survey pharmacies – rather than online retailers or other outlets – because the vast majority of Americans purchase their medications from retail pharmacies. Retail pharmacies filled more than 3 billion prescriptions in 2001, totaling \$164 billion.²⁷ The pharmacies surveyed included independent and chain pharmacies, as well as pharmacies in larger discount retailers.

We selected the pharmacies at random from telephone books. As a condition of their voluntary participation, we assured pharmacists that we were not conducting a store comparison, only a prescription drug price comparison.

Federal Supply Schedule Pricing

The most favored customer price used for comparison is the federal supply schedule price, provided by the Pharmacy Strategic Benefit Management Group of the Department of Veterans Affairs, which oversees the federal supply schedule prices. We downloaded the Federal Supply Schedule prices from <http://www.vapbm.org/PBM/prices.htm> on June 30, 2003. The pharmaceutical industry, HMOs, and large insurers do not make public the drug prices paid by most favored private sector customers. The U.S. General Accounting Office, however, has found that "federal supply schedule prices represent the best publicly available information of the prices that pharmaceutical makers charge their most favored customers."²⁸

When multiple Federal Supply Schedule prices were available for a specific drug, we used the highest available price. Because the Federal Supply Schedule prices do not include pharmacy dispensing fees, we added \$4 to each price to reflect a reasonable fee. Large purchasers, including HMOs and the federal government, negotiate a fixed dispensing fee per prescription.

Appendix A. Average Retail Prices by Location for 30-day Supply of Medication

	Prilosec	Norvasc	Lipitor	Celebrex	Plavix	Furosemide	Prevacid	K-Dur 20	Lanoxin	Zocor	Average for 10 Drugs	% above Federal Supply Average
Baltimore	\$144.68	\$53.81	\$81.96	\$189.18	\$137.88	\$13.25	\$159.14	\$34.00	\$18.82	\$153.17	\$98.59	87%
Washington, DC	\$144.74	\$55.15	\$82.90	\$186.98	\$135.20	\$12.84	\$151.31	\$27.15	\$10.96	\$148.36	\$95.56	82%
Philadelphia	\$142.32	\$54.19	\$80.44	\$182.11	\$141.12	\$10.17	\$156.20	\$26.56	\$10.64	\$147.85	\$95.16	81%
Boston	\$141.82	\$54.53	\$79.60	\$187.48	\$136.10	\$11.06	\$153.94	\$24.81	\$11.40	\$145.56	\$94.63	80%
Virginia (Northern)	\$141.62	\$54.26	\$81.39	\$186.20	\$134.82	\$10.92	\$147.46	\$26.47	\$10.17	\$144.47	\$93.78	78%
Cleveland	\$138.54	\$51.64	\$77.06	\$190.28	\$134.63	\$13.36	\$145.77	\$25.19	\$10.52	\$141.76	\$92.88	77%
Chapel Hill/Raleigh/Durham	\$140.84	\$52.14	\$79.22	\$180.71	\$135.14	\$12.75	\$148.47	\$26.82	\$10.85	\$141.77	\$92.87	77%
Vermont	\$140.19	\$49.83	\$76.22	\$170.00	\$138.78	\$10.24	\$154.02	\$26.42	\$9.76	\$143.96	\$91.94	75%
Providence	\$142.28	\$51.05	\$77.54	\$178.62	\$131.41	\$11.11	\$146.01	\$24.49	\$9.89	\$141.93	\$91.43	74%
Pittsburgh	\$139.53	\$50.50	\$78.15	\$177.37	\$131.49	\$10.10	\$146.55	\$23.94	\$10.04	\$142.87	\$91.05	73%
Birmingham	\$138.69	\$52.15	\$77.08	\$174.36	\$130.85	\$11.96	\$142.20	\$25.08	\$11.44	\$140.66	\$90.45	72%
Kalamazoo	\$135.87	\$50.57	\$75.03	\$176.71	\$132.59	\$14.16	\$140.72	\$26.18	\$12.74	\$137.17	\$90.17	71%
Dallas	\$135.84	\$47.91	\$73.75	\$173.20	\$136.80	\$12.07	\$150.14	\$24.10	\$10.69	\$137.20	\$90.17	71%
Columbus	\$140.61	\$49.92	\$75.65	\$176.95	\$128.68	\$9.61	\$142.63	\$25.30	\$10.24	\$140.71	\$90.03	71%
Atlanta	\$134.87	\$49.32	\$75.10	\$172.39	\$133.96	\$13.17	\$141.12	\$25.33	\$11.08	\$138.39	\$89.48	70%
Nashville	\$142.68	\$48.96	\$74.69	\$166.70	\$129.25	\$9.57	\$142.74	\$26.77	\$11.30	\$137.16	\$88.98	69%
Austin	\$140.37	\$50.21	\$72.21	\$171.25	\$133.17	\$11.41	\$139.00	\$25.36	\$11.14	\$135.06	\$88.92	69%
Detroit	\$134.49	\$51.04	\$74.56	\$169.05	\$127.79	\$10.78	\$140.13	\$24.82	\$11.21	\$137.82	\$88.17	68%
Columbia	\$134.56	\$48.86	\$74.29	\$168.83	\$127.22	\$12.20	\$140.14	\$25.87	\$10.96	\$136.83	\$87.97	67%
Tallahassee	\$135.24	\$47.69	\$71.35	\$168.09	\$128.42	\$17.84	\$140.35	\$25.68	\$11.04	\$134.05	\$87.97	67%
Albuquerque	\$131.40	\$48.76	\$73.65	\$167.40	\$126.73	\$11.02	\$141.12	\$24.10	\$10.97	\$135.73	\$87.09	66%
Tampa	\$134.80	\$47.02	\$71.35	\$165.08	\$126.99	\$15.47	\$140.97	\$25.51	\$10.78	\$131.87	\$86.98	65%
Houston	\$137.34	\$47.33	\$68.54	\$168.88	\$124.70	\$11.13	\$138.79	\$26.32	\$11.40	\$134.73	\$86.92	65%
Grand Rapids	\$137.97	\$46.26	\$69.73	\$168.56	\$129.08	\$10.65	\$137.22	\$22.99	\$10.23	\$133.51	\$86.62	65%
Denver	\$133.04	\$48.98	\$73.50	\$164.66	\$128.53	\$12.65	\$134.34	\$24.52	\$11.18	\$131.52	\$86.29	64%
New Orleans	\$127.93	\$44.59	\$69.27	\$161.47	\$119.67	\$8.80	\$131.39	\$22.66	\$9.56	\$126.75	\$82.21	56%

Notes

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