High Cancer Drug Prices: The Harm to Americans and Proposed Solutions

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THE PROBLEM

High cancer drug prices are a significant contributor to health care costs in the United States. The average annual price of new cancer drugs increased from less than $10,000 before 2000 to $145,000 in 2015. Annual drug industry profits average 20%, the second-highest of any industry. The drug industry needs to make reasonable profits to survive, sustain investment, and fulfill its fiduciary duty toward shareholders. But in its recent laser-focused desire to maximize profits, the drug industry has crossed the line into profiteering—maximizing profits even when it harms patients.

Despite numerous discussions in the media and elsewhere, cancer drug prices are escalating at an alarming rate. The price per year of life gained from such therapies increased from $54,000 in 1995 to $207,000 in 2013 (adjusted for inflation). In contrast, real (inflation adjusted) median U.S. household income decreased by 4% between 1999 and 2015. In Europe and elsewhere, the prices of older drugs remain close to their launch prices, unless new benefits are discovered after the drug is on the market. Not so in the U.S., where prices rise an average 8–12% annually. Newer drugs enter the market at higher prices every year, partly justified by the high prices of older drugs.

The pharmaceutical industry and its lobbying groups (for example, the Pharmaceutical Research and Manufacturers of America [PhRMA]), under criticism, repeat the same mantra: the high cost of research and development; benefit justifies price; market forces settle prices at reasonable levels; and price regulation stifles innovation and hinders important research and discoveries. None of the arguments is convincing. First, independent studies calculate the cost of R&D is only 10% of the $1 billion–$2.6 billion figure claimed in industry-supported studies (all by the same source, the Tufts group). Eighty-five percent of basic research is conducted in academic centers, while the drug industry spends only 1.3% of its budget on basic research, but 20–40% on advertisements and promotion. Over 50% of important research discoveries emerge from independent research, largely funded by taxpayers. The drug industry recently shifted its strategy from in-house R&D to buying most of their pipelines from small biotechnology companies, further increasing prices. Second, studies show no relationship between a drug’s benefit and its price. Third, drug companies enjoy monopoly-like conditions that discourage price competition. Fourth, innovation is driven by independent academic scientists who continue their mission of research and discovery regardless of drug prices.

Multiple studies document the harm to Americans of high drug prices. Medical
This policy brief is part of a series of recommendations from the Baker Institute for the incoming president’s administration.

GENERIC DRUGS

Despite scrutiny of high cancer drug costs, prices continue their relentless ascent. Two issues compound the problem. First is the increasing shift of health care costs and drugs to patients, as insurers seek to reduce spending. But high out-of-pocket expenses deter more than a third of patients from seeking timely care or buying needed drugs. The second is the spillover of high drug prices to generics. Complex regulations and bureaucracies, and drug shortages, have created monopolistic opportunities for drug companies that can increase the price of generics to exorbitant levels. The three latest publicized scandals by Turing, Valiant, and Mylan are the most excessive form of a common pricing strategy by the drug industry. Generic imatinib (a CML drug) is priced at $5,000–$8,000/year in Canada, $400/year in India, and $140,000/year in the U.S. For a generic drug to be available and affordable to all patients. In the U.S., high drugs prices force many patients to omit or compromise treatment, so that the five-year survival rate for CML is only 60%. The high cost of drugs is the most significant health care concern of Americans.

RECOMMENDATIONS

How can we address high cancer drug prices? Here are several solutions:

1. Allow Medicare to negotiate drug prices (estimated to save $400 billion–$800 billion over a decade).
2. Establish mechanisms to review the benefits of drugs and define fair prices during or following FDA approval.
3. Encourage cancer organizations to incorporate price into the assessment of “treatment value.”
4. Prevent strategies that delay the availability of generics (this saved the U.S. health care system $227 billion in 2015 and $1.46 trillion over a decade).
5. Improve the FDA generics approval process and reduce the cost of filing.
6. Request transparent reporting of drug industry R&D costs to justify price.
7. Allow cross-border importation of cancer drugs for personal use if the U.S. price is prohibitive.
8. Disallow direct-to-consumer advertising of cancer drugs (the U.S. and New Zealand are the only nations that allow this). Such advertising creates false impressions and false markets, which increase costs.

These measures have so far been opposed in Congress because of the influence of the drug industry lobby. Our legislators have been representing drug industry interests rather than the interests of the Americans who elected them. We hope that future legislation will show that the U.S. remains a cherished democracy rather than a feared “pharmaceutocracy.”