

## Prescription Drug Costs and Your Health Plan – A Reality Check

The folks in Washington or rather those in “puzzle palace” are, again, meddling in our health care system.

They don't seem to understand that mandating us into oblivion while pushing the parity line that increased benefits has inevitably yielded higher costs.

Now they have decided that Medicare should pay for prescription drugs. Our friends, the pharmaceutical companies, long opposed to a drug benefit for Medicare for fear the feds will jump at the chance to set prices have mysteriously dropped their opposition.

If the American public knew the numbers behind the U.S. drug industry and the broad effect these numbers have had on the cost of insurance there would be a revolution.

Here are some statistics and facts you need to know. According to the journal *Public Affairs*, spending on prescription drugs lately has grown more than any other single category of health-care cost.

Drug spending grew by 15.4% in 1998, to a whopping \$90.6 billion. Placed in the context of changes in health care costs as a whole the number is even more astronomical.

Total health care spending grew 5.6% in 1998 according to an annual report from the Health Care Financing Administration or HCFA. This was the single biggest increase since the 8.7% jump in 1993.

The study further reported prescription drug costs have been accelerating in 1993 because new drugs are being brought to the market more quickly and, in some measure, because HMO's are offering people prescription coverage at a lower out-of-pocket.

However, there are some other factors. The government has allowed more advertising of brand-name drugs.

In addition, according to a study by the nonpartisan Congressional Research Service, while other major industries are taxed at an average rate of 27.3%, drug

companies were taxed at a rate of 16.2% from 1993 to 1996. The study also found that drug companies' after-tax profits as a percentage of sales averaged 17%, compared with 5% for other major industries from 1994 to 1998.

A spokesperson for the Pharmaceutical Research and Manufacturers of America was quoted as saying that the pharmaceutical industry is “one of most innovative and productive industries in the country.” However, when I read the tax tables, the most productive companies usually pay the highest rates, not the lowest.

Also, according to the Bureau of Labor Statistics, the Producer Price Index for generic drugs rose 20.1% last year.

This increase begs the question: How can an industry that raises prices on generic drugs at a much higher rate than on its patent drugs argue that it should pay a lower tax rate than other industries?

How can it make that argument in a country in which it charges more for drugs simply because its pricing is unregulated here?

*Drug Trend Reports* cited direct-to-consumer (DTC) advertising as one of the largest drivers of end-user costs. Drug manufacturers spend nearly \$600 million of DTC advertising in 1996, twice what they spend in 1995. It was further reported that DTC advertising further increased by 23% in 1998 to a record \$1.32 billion.

So let's see if we have this right. If the government agrees not to set prices, the industry will sell drugs to Medicare beneficiaries. The feds will buy more drugs than anyone, and the companies will reap profits, all the while taxed at a rate lower than other major industries.

The government will continue to allow the companies to advertise ever-more expensive remedies to the public thus fueling their sales, and will allow them to see drugs for a higher price here than in other nations.

It all sounds so logical doesn't it?