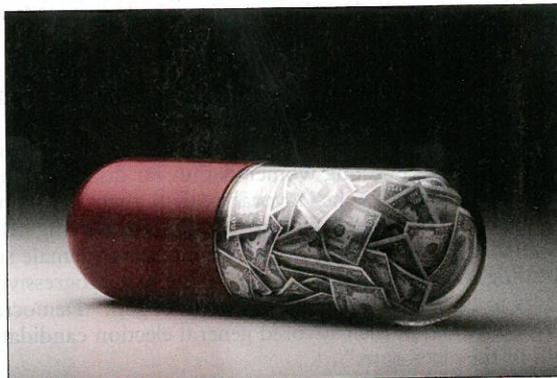


The \$750 pill

Americans pay the highest prices in the world for prescription drugs. Why?

How much more do we pay?

Americans spend an average of \$1,000 per person on prescription drugs every year—double the average of other developed countries. Even medicines for common conditions are exorbitant: Nexium, for example, an acid reflux drug that costs only \$23 in the Netherlands, sells for \$215 in the U.S. Some cancer drugs that provide only a few extra months of life can cost \$12,500 a month. Turing Pharmaceuticals CEO Martin Shkreli became the poster boy for soaring drug costs in September, when he hiked the price of a drug used to treat a life-threatening parasitic infection from \$13.50 a tablet to \$750 overnight—an increase of 5,500 percent. Thanks to generous patent laws that give them long-lasting monopolies on drugs, and a law banning Medicare from negotiating the price of drugs, Big Pharma can charge whatever it likes for medicines that are often a matter of life and death for consumers. “Essentially, we’ve chosen to let pharmaceutical companies write blank checks,” said drug pricing expert Stephen Schondelmeyer.



Some pharmaceutical firms are raising prices by 800 percent.

Why are prices so high?

Drug companies contend they need large profit margins on new medications to pay for the lengthy and highly regulated process of discovering, testing, and developing drugs. The average new drug costs about \$2.6 billion to develop, the industry says. The process—which includes both animal and human trials—takes about a decade, and only 1 in 10 drugs ultimately makes it to market. So if pharmaceutical firms couldn’t set drug prices high enough to cover the billion-dollar costs of R&D, they argue, then lifesaving medicines wouldn’t get made in the first place. “We are not going to have an Alzheimer’s cure if we have arbitrary price controls,” said Lisa Joldersma, of industry group PhRMA. Critics of the industry do not buy this argument, however.

Why not?

Nine of the 10 top drugmakers spend more on their TV ads and other marketing campaigns than they do on researching drugs. Moreover, many new drugs are actually discovered by academic researchers operating on funding from the National Institutes of Health and then developed by drug companies into commercial products. Big Pharma also has a profit margin of 20 to 30 percent—one of the highest profit margins of any industry. Much of that profit goes to the companies’ shareholders and executives—like Gilead Science’s CEO, who pulled in more than \$180 million in compensation in the same year that his company’s \$84,000-a-year

Hepatitis C drug, Solvadi, hit the market. Recently, many drugs companies have been dramatically increasing the price of drugs they didn’t even create or develop.

Is that what Shkreli did?

Yes. Shkreli’s company, Turing, is one of several companies that have made a fortune by buying up the rights to older medicines for rare conditions and price-gouging people dependent on them. Daraprim, the drug it decided was now worth \$750 a pill, has been on the market for 62 years and costs just \$1 to make.

Another company following this strategy is Valeant, which spends only 3 percent of its revenue on R&D, yet has raised the price of old diabetes pills, diuretics, and rheumatoid arthritis medicines by up to 800 percent. “It’s absolute insanity, what’s happened,” said multiple sclerosis specialist Clyde Markowitz. “They just keep jacking up the price.”

Do other countries have this problem?

Generally, no. In Europe, most governments negotiate the price of drugs. This centralized approach takes away drugmakers’ one-sided leverage over needy customers. In the U.S., dozens of insurance companies individually negotiate prices, which can vary wildly for the same drug; when insurers do get a cut in cost, they have been accused of putting that savings in their own pockets, rather than passing it along. Medicare, one of the largest buyers of prescription drugs in the U.S., is actually *banned* from negotiating drug prices, thanks to a provision Congress slipped into legislation creating the Plan D prescription benefit in 2003.

The dark side of clinical trials

In addition to price gouging, Big Pharma has been widely accused of hiding evidence that their drugs could cause potentially devastating side effects. In a recent series in *HuffingtonPost.com*, journalist Steven Brill reported that one company, Johnson & Johnson, aggressively marketed an anti-psychotic drug called Risperdal to young patients, covering up an internal study that had found 5.5 percent of boys who took the drug developed large breasts. Hundreds of boys were affected, including one who developed a 46DD bust. J&J’s deception was caught, and the company agreed to pay \$6 billion in misconduct settlements. But the company probably isn’t too concerned: Profits from Risperdal totaled \$18 billion in the U.S. and \$30 billion around the world. Avandia, a diabetes drug produced by GlaxoSmithKline, emerged from a 2006 trial with glowing reports about its effectiveness. Every author on that trial, it turns out, had received money from the company; four of them were actually company employees. But Glaxo’s own research had found that Avandia could dramatically raise “bad” cholesterol levels—a revelation that one employee said in an internal email should never “see the light of day.” Nine years later, Avandia is believed to have been responsible for up to 100,000 heart attacks.

What can be done?

Democratic presidential candidates Hillary Clinton and Sen. Bernie Sanders have proposed allowing Americans to import cheaper drugs from Canada to provide more competition; allowing Medicare to negotiate prices with pharmaceutical firms; and forcing drug companies to publish the costs of their R&D. But Congress is likely to continue to resist any proposal to lower drug prices, given how influential pharmaceutical companies are in the political process. The industry doled out nearly \$32 million in campaign contributions in the 2014 elections, rewarding friends and punishing enemies, and spent another \$229 million on lobbying. “The pharmaceutical industry is the third rail of politics,” said Matt Salo, executive director of the National Association of Medicaid Directors. “If you go against them, they will cut you off at the knees.”