



**Prescription Drugs Are More Expensive in Maine than in
Canada, Europe, and Japan**

Prepared for Rep. Tom Allen

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EXECUTIVE SUMMARY

The high cost of prescription drugs poses a severe financial hardship for millions of senior citizens in the United States. Because the Medicare program does not cover the cost of prescription drugs, many seniors spend thousands of dollars on prescription drugs each year. Over the next decade, spending on prescription drugs by Medicare recipients is expected to almost triple, further exacerbating the problem of drug affordability.

One of the root causes of these high drug prices is price discrimination by drug manufacturers. The United States is the only developed country that does not protect its consumers from drug price discrimination. As a result, prescription drug prices for seniors without drug coverage in the United States far exceed the prices charged in other developed nations.

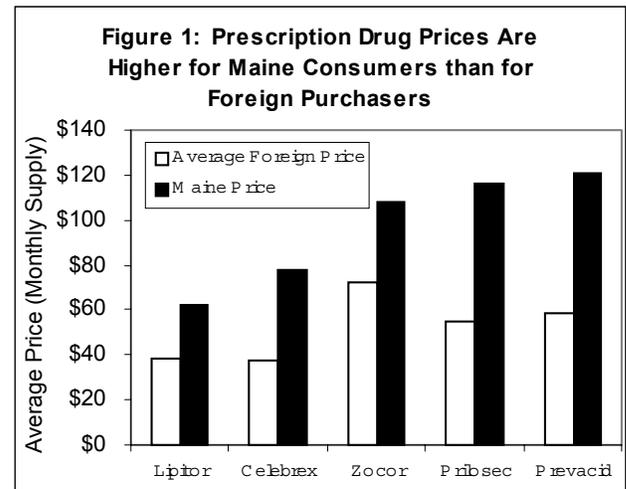
Because of the growing public concern about inequities in drug pricing, Rep. Tom Allen asked the Special Investigations Division of the minority staff of the Committee on Government Reform to quantify the extent of this price discrimination in Maine. This report, the latest in a series of studies on prescription drug pricing conducted for Rep. Allen since July 1998, presents the results of this investigation. The report compares the prices paid by seniors in Maine for the five most popular brand-name prescription drugs used by seniors with the prices paid by purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom for the same drugs.

The report finds:

- **Maine seniors pay far more for prescription drugs than purchasers in other countries.** Seniors in Maine who lack drug coverage must pay, on average, more than twice as much for the five most popular drugs as purchasers in Canada, France, and Italy. Maine seniors must also pay substantially more than purchasers in the United Kingdom, Germany, and Japan.

Prices for Maine seniors are above the average

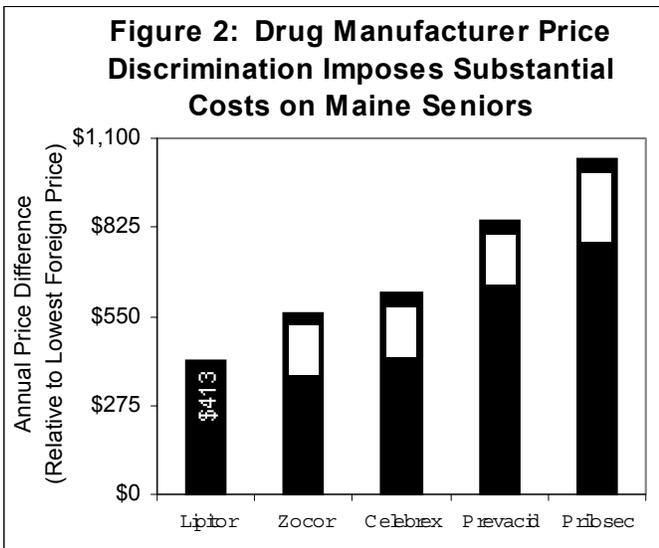
foreign price for all five drugs. Figure 1. The average price differential for the five



drugs is 88%.

- **For some drugs, Maine seniors pay several times the price paid by purchasers in other countries.** Prilosec is the most popular drug used by seniors. A monthly supply of this drug costs only \$29.40 in Italy, but a senior in Maine without drug coverage must pay \$116.01. This is a price differential of 295%. Prevacid, an ulcer medication made by TAP Pharmaceuticals, is the second most popular drug used by seniors. A monthly supply of this drug costs only \$48.62 in Canada, compared to \$121.14 in Maine, a price differential of 149%. Similarly, Celebrex, an arthritis medication made by Pharmacia and Upjohn, costs only \$31.20 in France, compared to \$77.91 in Maine, a price differential of 150%.
- **Price differentials are substantial in dollar terms.** All five of the medications analyzed in this report are used to treat chronic conditions and are taken for months or years at a time. As a result, Maine seniors must spend hundreds of dollars more each year than foreign purchasers for each of the five drugs. An uninsured senior in Maine will spend over

\$1,000 more than a purchaser in Italy for a one year prescription of Prilosec. Similarly, an uninsured senior in Maine will spend almost \$850 more than a purchaser in France for a one year prescription of Prevacid, and over \$560 more than a purchaser in France for a one year prescription of Celebrex. The other two drugs included in the study are Zocor and Lipitor, both of which are cholesterol medications. A Maine senior will spend over \$600 more than a purchaser in Canada for a one year supply of Zocor, and over \$400



more than a purchaser in France for one year supply of Lipitor. Figure 2.

I. INTRODUCTION

A. The High Cost of Prescription Drugs for Seniors

The high cost of prescription drugs causes severe problems for millions of senior citizens in the United States. Because they suffer more health problems, seniors use more prescription drugs than other age groups. In fact, although seniors comprise only 13% of the population, they account for 42% of all prescription drug spending.¹ More than 80% of seniors take prescriptions drugs,² with the average senior filling almost 30 prescriptions every year.³ Overall, seniors filled an estimated one billion prescriptions in 2000.⁴

Because of this heavy use of prescription drugs, drug spending by seniors is extremely high. The Congressional Budget Office (CBO) estimates that the average senior citizen will spend more than \$1,750 on prescription drugs this year. More than one in six seniors -- almost seven million seniors -- will spend more than \$3,000.⁵

These problems are exacerbated by rapidly increasing costs. CBO estimates that per capita

spending on prescription drugs will increase by 15% this year, and will triple in the next decade.⁶ The increase in costs is being driven by the introduction of expensive new drugs and increasing prices for existing drugs. In recent years, prices for the most popular prescription drugs have risen at more than twice the rate of inflation.⁷

Although senior citizens have the greatest need for prescription drugs, they often have the most inadequate insurance coverage for the cost of these drugs. With the exception of drugs administered during inpatient hospital stays, Medicare generally does not cover prescription drugs. A 1999 National Economic Council study found that approximately 75% of Medicare beneficiaries lack dependable, private-sector prescription drug coverage.⁸ Thirty-two percent of Medicare recipients -- ten million senior citizens -- do not have any coverage at all for prescription drugs.⁹

Even when seniors have prescription drug coverage, it is often inadequate. Medicare Supplement ("Medigap") policies are often

¹Families USA, *Cost Overdose: Growth in Drug Spending for the Elderly 1992 - 2010* (July 2000).

²Health Affairs, *Beyond Survey Data: A Claims-Based Analysis of Drug Use and Spending by the Elderly*, 203 (Mar./Apr. 2000).

³*Cost Overdose: Growth in Drug Spending for the Elderly 1992 - 2010*, *supra* note 1.

⁴*Id.*

⁵Congressional Budget Office, *January 2001 Baseline Projections* (Jan. 2001).

⁶*Id.*

⁷*Cost Overdose: Growth in Drug Spending for the Elderly 1992 - 2010*, *supra* note 2.

⁸National Economic Council, Domestic Policy Council, *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage* (July 22, 1999).

⁹Health Affairs, *Medicare Beneficiaries and Drug Coverage*, 252 (Mar./Apr. 2000).

prohibitively expensive, while offering inadequate coverage.¹⁰ And Medicare managed care plans are also sharply reducing benefits and coverage.¹¹

The high cost of prescription drugs and the lack of prescription drug coverage cause enormous hardships for older Americans, often leaving them unable to afford the drugs that they need. One recent survey found that almost one in ten seniors was forced to skip necessary medications because of their high cost.¹²

¹⁰For example, one typical Medicare Supplemental (Medigap) policy requires beneficiaries to meet a \$250 deductible, and then covers only 50% of the cost of prescription drugs, up to a maximum benefit of \$1,250. *Id.*

¹¹While some Medicare managed care plans may offer prescription drug coverage, these plans are dramatically reducing coverage. Nearly 60% of plans reported that they capped prescription drug benefits below \$1,000, and 28% reported that they capped benefits below \$500 in the year 2000. In recent years, Medicare managed care plans have withdrawn coverage for hundreds of thousands of seniors and they are expected to drop nearly one million beneficiaries from coverage in 2001. Overall, only 6% of Medicare recipients obtain prescription drug coverage through managed care plans. *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage*, *supra* note 8; Health Care Financing Administration, *Medicare+Choice Enrollees Affected by Non-Renewals and Service Area Reductions for 2001* (July 21, 2000); *Medicare Beneficiaries and Drug Coverage*, *supra* note 9.

¹²Safran, Dana, et al., *Drug Coverage and Out-of-Pocket Spending Among Medicare Beneficiaries: What is Changing in the Face of the Current Market Frenzy*, Institute for Medicare Practice (May 2000).

B. Prescription Drug Price Discrimination

One of the principal causes of the high cost of prescription drugs for seniors is price discrimination by drug manufacturers. In the United States, drug manufacturers are not prevented from charging higher prices for drugs intended for use by uninsured consumers, such as seniors on Medicare, than for other purchasers who have market power. As the Congressional Budget Office reported, “[d]ifferent buyers pay different prices for brand-name prescription drugs. . . . In today’s market for outpatient prescription drugs, purchasers that have no insurance coverage for drugs . . . pay the highest prices for brand-name drugs.”¹³ The Federal Trade Commission has reached the same conclusion, reporting that drug manufacturers use a “two tiered pricing structure” under which they “charge higher prices to . . . the uninsured.”¹⁴

In other industrialized countries, purchasers are protected from manufacturer price discrimination. Different countries use a variety of approaches to ensure that purchasers are protected from high prices. For example:

- In Canada, the country’s Patented Medicine Prices Review Board requires that the prices of new, brand-name drugs not exceed the average price of the same drugs in seven other

¹³Congressional Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry*, xi (July 1998).

¹⁴Federal Trade Commission, *The Pharmaceutical Industry: A Discussion of Competitive and Antitrust Issues in an Environment of Change*, 75 (Mar. 1999).

industrialized countries.¹⁵

- In Italy, the government uses a similar approach, refusing to reimburse manufacturers for a drug if its price exceeds a twelve country European average price.¹⁶
- In France, Germany, and Japan, maximum prices for each drug are based on the therapeutic value of the drug.¹⁷ Prices for new drugs are determined by comparing them with similar drugs that are already on the market. Prices are based upon the safety and effectiveness of the drug; drugs that are shown to be safer or more effective than existing drugs are priced higher.
- In the United Kingdom, drug companies are free to establish their own prices on individual drugs. However, under the country's pharmaceutical laws, the maximum profit that drug manufacturers can earn on sales in the United Kingdom is limited to 17%.¹⁸

¹⁵ See Patented Medicine Prices Review Board, *Eleventh Annual Report for the Year Ending December 31, 1998* (1999).

¹⁶ See Health Policy, *The New Pharmaceutical Policy in Italy*, 46, 21-41 (1998).

¹⁷ See Congressional Research Service, *Determination of Prescription Drug Prices in France, the United Kingdom, and Italy* (Sept. 11, 2000); United States International Trade Commission, *Pricing of Prescription Drugs*, Investigation No. 332-419, Publication 3333 (Dec. 2000); Boston Consulting Group, *Ensuring Cost-Effective Access to Innovative Pharmaceuticals: Do Market Interventions Work?* (Apr. 1999).

¹⁸ See *Pricing of Prescription Drugs*, *supra* note 17.

While the methods used by these countries vary, the results are the same: purchasers are protected from price discrimination and therefore pay significantly less for prescription drugs than uninsured consumers in the United States.

C. Purpose of this Report

Because of increasing concern about the impact of prescription drug price discrimination on seniors in the United States, Rep. Tom Allen asked the Special Investigations Division of the minority staff of the Government Reform Committee to conduct an international comparison of the prices of prescription drugs frequently used by seniors. Rep. Allen represents the 1st Congressional District of Maine, which includes Portland and southern Maine. He requested that the Special Investigations Division compare the prices paid for popular brand-name prescription drugs by uninsured seniors in Maine with the prices paid by purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom for the same drugs.

This report presents the results of the investigation requested by Rep. Allen. It investigates the five most popular brand-name drugs used by seniors, comparing the prices paid for the drugs by seniors in Maine who buy their own drugs with the prices paid by purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom. This is the first report to compare the prices in Maine and other countries for the most popular drugs used by seniors.

II. METHODOLOGY

A. Selection of Drugs

The drugs examined in this report are the five brand-name prescription drugs with the highest annual sales to seniors in 2000. The list was obtained from the Pennsylvania Pharmaceutical

Assistance Contract for the Elderly (PACE). The PACE program is the largest out-patient prescription drug program for older Americans in the United States for which claims data is available.¹⁹ PACE data is used in this study, as well as by several other analysts, as an indicator of prescription drug usage by all older Americans. Over 200,000 seniors are enrolled in the program, which provided over \$200 million of assistance in filling over four million prescriptions.²⁰

Based on the PACE data, the five prescription drugs with the highest sales to seniors in 2000 are:

- C Prilosec, an ulcer and heartburn medication manufactured by Astra/Merck.
- C Prevacid, an ulcer and heartburn medication manufactured by TAP Pharmaceuticals.
- C Celebrex, an arthritis medication manufactured by Pharmacia and Upjohn.
- C Zocor, a cholesterol-reducing medication manufactured by Merck.
- C Lipitor, a cholesterol medication manufactured by Pfizer.

B. Determination of Prices in Maine

In order to determine the prices that seniors

¹⁹Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Top 50 NDCs By Expenditure and Claims Volume For Period January 1 - December 31, 2000* (Mar. 16, 2001).

²⁰ Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly, January 1999 -December 1999* (2000).

without drug coverage are paying for these drugs in Maine, the Special Investigations Division and the staff of Rep. Allen's congressional office surveyed nine drug stores -- including both independent and chain stores -- in his congressional district. The prices obtained from the chain stores represent prices at numerous stores operated by the chains throughout the district. Rep. Allen represents the 1st Congressional District of Maine, which includes Portland and southern Maine. Average drug prices in Maine were estimated by averaging the prices obtained from these drug stores. The prices presented in this study include the senior discounts given by almost all pharmacies. These generally reduce costs for seniors by 10%.

C. Determination of Prices in Canada, Europe, and Japan

Prices for prescription drugs in Canada, Europe, and Japan were determined via a survey of pharmacies in six countries: Canada, France, Germany, Italy, Japan, and the United Kingdom. At the request of the Special Investigations Division, pricing surveys were conducted by the Office of NAFTA and Inter-American Affairs and the Office of the Foreign Commercial Service of the U.S. Department of Commerce in March 2001. All prices were obtained in local currency and converted to U.S. dollars using commercially available exchange rates in effect at the time of the survey.

None of the prices used in this report include any government contribution or subsidy. In Canada, provincial governments pay the cost of prescription drugs for children, the elderly, and the indigent. Some provincial governments pay for the cost of prescription drugs for other residents, while other provincial governments do not. Citizens who do not receive drug coverage from a provincial government must either pay for their own prescription drugs or obtain additional coverage, generally through their employer. The

Canadian prices in this report are the retail prices paid by consumers with no drug coverage.

France, Italy, Japan, Germany, and the United Kingdom all provide universal prescription drug coverage for their citizens. Under these systems, pharmacists pay the wholesale price of the drug and add an appropriate retail markup for each prescription sold. If the drug is reimbursed by the country's health insurance plan, the pharmacist receives payment for the wholesale price of the prescription drug and the retail markup from the insurance plan. If the drug is not reimbursed, the consumer must pay the full retail cost, including the wholesale cost plus the pharmacy markup. For these countries, the prices presented in this report are the prices that would be paid by a consumer whose purchase is not covered by the government health insurance plan.²¹

D. Selection of Drug Dosage

Prices were obtained for a monthly supply of each of the drugs. Zocor is taken twice daily, and 60 tablets represent a monthly supply. Prilosec, Prevacid, Celebrex, and Lipitor are taken once a day, and 30 tablets represent a monthly supply. For these drugs, the most popular forms and dosages were chosen based on information provided by the PACE Program. The dosages, forms, and package sizes used in the study are shown in Table 1.

In Canada, France, Germany, and Italy, all five drugs were available in the same dosage as in the United States. In Japan, Celebrex was not

²¹ Although most prescription drug transactions in these countries are covered by the government health insurance plans, there are a number of different types of transactions where consumers must pay the full retail costs. These include cases where noncitizens purchase drugs and cases where citizens are prescribed drugs that for a number of reasons may not be reimbursed by the government insurance plans.

available, but the other four prescription drugs surveyed in this report were available in the same dosage as in the United States. Prevacid was not available in the United Kingdom. Zocor was available in the United Kingdom, but not in the five mg. dosage.

III. FINDINGS

A. Maine Seniors Pay Far More for Prescription Drugs than Purchasers in Other Countries

Prescription drug prices are substantially higher for uninsured seniors in Maine than in Canada, France, Germany, Italy, Japan, and the United Kingdom. In Maine, the average price for a one-month supply of the five most popular drugs for seniors is \$97.01. This is more than twice as much as the price in France, Canada, and Italy. In France, the average price is only \$43.98; in Canada only \$46.77; and in Italy only \$48.06.

Maine seniors also pay far more for prescription drugs than purchasers in the United Kingdom, Germany, and Japan. Prices for a monthly supply of all of the individual drugs in Maine and in the six foreign countries can be seen in Appendix 1.

B. For Some Drugs, Maine Seniors Pay Several Times the Price Paid by Purchasers in Other Countries

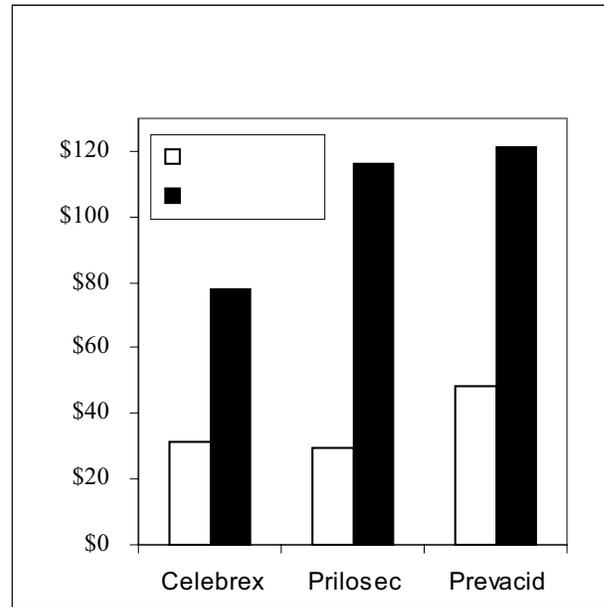
Prilosec, an ulcer and heartburn medication manufactured by Astra/Merck, is the most popular drug for U.S. seniors. It has the highest average price difference of the five most popular drugs: 111%. A monthly supply of this drug costs \$116.01 in Maine, but an average of only \$54.98 in the six foreign countries. A monthly supply of this drug costs a purchaser in Italy only \$29.40. This means that a senior in Maine without drug coverage must pay 295% more for Prilosec -- nearly four times as much -- as a purchaser in Italy.

Prevacid, an ulcer medication made by TAP Pharmaceuticals, is the second most popular drug used by seniors. It costs Maine seniors more than twice as much as purchasers in other countries. For example, a monthly supply of Prevacid costs only \$48.62 in Canada, compared to \$121.14 for Maine seniors without prescription drug coverage. This is a price differential of 150%.

Celebrex, an arthritis medication made by Pharmacia and Upjohn, is also twice as expensive for Maine seniors as for purchasers in other countries. This drug costs only \$31.20 in France, compared to \$77.91 in Maine, a price differential of 150%. Figure 3.

The two cholesterol reducing drugs, Zocor and Lipitor, also have large price differences. A monthly supply of Lipitor costs \$62.29 for Maine seniors, but only \$27.90 in France, a price difference of 123%. And a monthly supply of Zocor costs \$107.70 for Maine seniors, but only \$55.50 in Canada, a price difference of 94%.

Overall, the average price in Maine for the five most popular drugs for seniors is 88% higher than the average price of the drugs in Canada, Europe, and Japan. This means that, on average, the drugs cost almost twice as much for seniors in Maine as they cost in other countries. The prices of the five drugs in Maine and the average prices in the six foreign countries can be seen in Table 1.



C. Price Differentials Are Substantial in Dollar Terms

The differences in drug prices for uninsured Maine seniors and foreign purchasers can translate into large dollar differences. All five of the medications analyzed in this report are used to treat chronic conditions and are taken for months or years at a time. As a result, on an annual basis, seniors in Maine will spend hundreds of dollars more than foreign purchasers for each of the five drugs.

A monthly prescription for the ulcer medication Prilosec costs an uninsured senior in

Table 1: Uninsured Seniors in Maine Pay Higher Prices for Prescription Drugs than Purchasers in Other Countries.

Drug	Manufacturer	Quantity	Avg. Foreign Price (Monthly Supply)	Maine Price (Monthly Supply)	Price Differential	
					Dollar	Percent
Prilosec	Astra/Merck	20 mg, 30 tab.	\$54.98	\$116.01	\$61.03	111%
Prevacid	TAP Pharmaceuticals	30 mg, 30 tab.	\$58.49	\$121.14	\$62.65	107%
Celebrex	Pharmacia and Upjohn	200 mg, 30 tab.	\$37.51	\$77.91	\$40.40	108%
Lipitor	Merck	10 mg, 30 tab	\$38.24	\$62.29	\$24.05	63%
Zocor	Pfizer	5 mg, 60 tab.	\$70.36	\$107.70	\$37.34	53%
Average					88%	

Maine \$116.01 per month. This same amount of Prilosec would cost only \$29.40 in Italy, a price difference of \$86.61 per month. For a year of treatment with Prilosec, an uninsured senior in Maine will spend over \$1,000 more than a purchaser in Italy.

A one-month supply of Prevacid costs an uninsured senior in Maine \$121.14. This same amount of Prevacid would cost only \$50.70 in France, a price difference of \$70.44 per month. For a year of treatment with Prevacid, an uninsured senior in Maine will spend almost \$850 more than a purchaser in France. Similarly, a one-month supply of Zocor costs an uninsured senior in Maine \$107.70. This same amount of Zocor would cost only \$55.50 in Canada, a price difference of \$52.20 per month. For a year of treatment with Zocor, an uninsured senior in Maine will spend over \$600 more than a purchaser in Canada.

Overall, an uninsured senior in Maine pays \$750 more than a purchaser in Canada, France, Germany, Italy, Japan, and the United Kingdom for an annual prescription of Prevacid, \$730 more for an annual prescription of Prilosec, \$485 more for an annual prescription of Celebrex, almost \$450 more for an annual prescription of Zocor, and almost \$290 more for an annual prescription of Lipitor.

IV. CONCLUSION

This report is the latest in a series of prescription drug pricing studies requested by Rep. Allen. It provides further documentation about the growing problem of high prescription drug costs for Maine seniors. The report analyzes the prices of the five most popular drugs for seniors and finds that uninsured Maine seniors pay significantly more for prescription drugs than purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom. The data show that if uninsured Maine seniors could purchase the five most popular drugs at the average foreign prices, they would receive an average savings of

more than 40%. Government pricing structures protect purchasers in these other countries from price discrimination by drug manufacturers, while uninsured Maine seniors have no such protection. As a result, drug manufacturers charge low prices for prescription drugs in other countries, but high prices for the same drugs in Maine. These price differences force Maine consumers to pay hundreds of dollars more annually for each of the five drugs than purchasers in foreign countries. These higher costs pose serious financial hardships for uninsured Maine seniors who are often unable to afford the drugs that their doctors prescribe.

Appendix 1: Prices of Individual Drugs in Maine, Canada, Europe, and Japan

Drug	Quantity, Dosage	1st District Price	Canadian Price	French Price	German Price	Italian Price	Japanese Price	U.K. Price	Average Foreign Price
Prilosec	20 mg, 30 tab.	\$116.01	\$53.05	\$49.50	\$69.30	\$29.40	\$66.20	\$62.40	\$54.98
Prevacid	30 mg, 30 tab.	\$121.14	\$48.62	\$50.70	\$67.20	\$57.90	\$68.05	Not Avail.	\$58.49
Celebrex	200mg,30 tab.	\$77.91	\$34.84	\$31.20	\$44.70	\$38.10	Not Avail.	\$38.70	\$37.51
Lipitor	10mg, 30 tab.	\$62.29	\$41.86	\$27.90	\$36.00	\$35.70	\$45.40	\$42.60	\$38.24
Zocor	5 mg, 60 tab.	\$107.70	\$55.50	\$60.60	\$60.60	\$79.20	\$95.90	**	\$70.36

**Zocor is available in the United Kingdom, but in a different dosage.