

Pharma and Hospital Systems Now Playing the Drug-Pricing Blame Game



By Jamie Wells, M.D. — September 15, 2018



Credit: [PublicDomainPictures.net](https://www.PublicDomainPictures.net) [1]

In addition to being a source of universal frustration, the high cost of drugs is a public relations nightmare for health systems and the much maligned pharmaceutical industry. Sold as an endeavor to save the day, the former are aligning in a multi-system collaborative effort led by [Intermountain Health](#) [2] to fight consolidation with consolidation in a strategic play to enter the generic drug market. Together, with the likes of the Mayo Clinic, Ascension and HCA Healthcare, thereby controlling 500 U.S. hospitals, their launch ([previously announced](#) [3] in January) of a not-for-profit generic drug company called [Civica Rx](#) [4] has the stated goal of lowering prices and reducing drug shortages.

And, now, the gloves are off

In a just released [analysis](#) [5] by the Moran Company for the Pharmaceutical Research and Manufacturers of America (PhRMA) which is a follow-up to an earlier report on hospital mark-ups, it [suggests](#) [6] “prescription drug spending is rising because approximately 83 percent of hospitals charge patients and payers more than double the acquisition cost for medications.”

[They found](#) [5], on average

- Hospitals charge 479% of their cost for drugs nationwide
- 53% of hospitals markup medicines between 200-400%
-

1 in 6 (17%) charge seven times the price of the medicine (eg. for a medicine with an average sales price of \$150, a 700% mark-up would be \$1050)

- 1 out of every 12 hospitals (8%) has markups greater than 1000% - thereby charging at least 10 times their acquisition cost for medicines

The work does acknowledge that hospitals are not routinely paid the entire billed charge but rather a percent of it. However, they further maintain that the evidence supports the higher they charge, the higher they get reimbursed. This financial burden gets shifted to patients, the uninsured and those in groups that don't have negotiating power - ultimately leading to higher premiums and great struggle.

The blame game's war of words

With both groups playing offense now, here's a glimpse into what is already underway to claim the narrative of who is to blame for rising drug costs.

"Hospitals receive billions of dollars every year in negotiated and mandatory discounts from biopharmaceutical companies while simultaneously increasing the price of these medicines to insurers and patients," said Stephen J. Ubl, president and chief executive officer of PhRMA in a [press release](#) [7] entitled **Nearly 1 in 5 Hospitals Marks Up Medicine Prices at Least 700 Percent**. "In order to make medicines more affordable for patients, we must address the role hospital markups play in driving up medicine costs." To learn more about their "Let's Talk About Cost" advertising campaign directed at hospital culpability for high markups, see [here](#) [7].

While the American Hospital Association (AHA) fought back in their [piece](#) [8] named **The Only Thing Transparent about PhRMA is Their Attempt to Blame Others for Rising Drug Prices**. AHA Senior Vice President of Public Policy Analysis and Development Ashley Thompson writes

"The Pharmaceutical Research and Manufacturers of America (PhRMA) released yet another "report" in an obvious attempt to divert attention away from a problem of their own making: skyrocketing drug prices. They return once again to their standard playbook of pointing fingers and blaming everyone other than themselves to try to justify the dramatic increases in the prices of drugs, as they continue to make double-digit profit margins."

Ironically, AHA goes on to state "The higher prices that drug manufacturers demand have caused immense hardships for many patients, their families, and the providers who care for them."

Patients and providers are entirely left out of this discussion that impacts them the most and both hospital and pharmaceutical camps have worked tirelessly to keep it that way. To see the entire statement from AHA's position, read [here](#) [8].

With each stakeholder espousing some truth, here is context that will clarify the picture

Given the deliberately opaque nature of the pharmaceutical industry, they are reflexively

scapegoated for all of healthcare's ails. The reality is there is an entire pharmaceutical industrial complex contributing to the problem. Hidden costs abound within this complicated ecosystem that involves ever expanding cogs in the wheel: retailers, manufacturers, wholesalers, payers who fund the supply chain (e.g., insurance, government, mostly us), distribution lines, pharmacy benefit managers, etc.

To understand the complicated nature of the many profit centers that influence drug pricing, review my ACSH colleague Dr. Chuck Dinerstein's two-part series on *The Spread- Exploring The Reason for The High Cost of Pharmaceuticals* [here](#) [9] and [here](#) [10]. First, he details the many parts of the supply chain and their tethered relationship. Second, he explores the integration and consolidation of the industry as a result of the high cost of research and development for branded manufacturers, compounded by the expensive and lengthy wait times for approval set forth by the U.S. Food and Drug Administration (FDA).

The refrain of the pharmaceutical industry is that branded drugs take on all the risk and expense; funding the clinical studies and extensive research and development to innovate and permit drug discovery, patent approvals, marketing, etc. It is true, they do and once those patents expire and the generics can enter the mix, the game entirely changes. Prices tend to go down. The company that holds the patents have a limited time to maximize their risk and profits, so they fight often in ingenious ways to extend the life of them. They further contend they must account for their losses when pricing. For every success, they count innumerable failures.

It can't be ignored the drug industry is responsible for incredible innovations in the medical realm, from advances in cancer therapy (e.g. immunotherapy) to profound treatments for Hepatitis C. And beyond. But, at what financial cost is anyone's guess. Many have tried to figure that out, [a study](#) [11] published in *JAMA Internal Medicine* sought to quantify a standard amount by focusing on new cancer drugs and analyzing the Securities and Exchange Commission (SEC) filings of the respective companies selected. Read [here](#) [12] to understand why cancer drugs might be cheaper to make than previously thought - but, even this effort falls short on precise data.

Often, the gaming of patents is the bigger issue. Let's not forget the maker (Allergan) of the billion dollar drug Restastis--used to treat chronic dry eye from inflammation-- who maneuvered to transfer their ownership to a Native American tribe as a tricky way to avoid U.S. laws hoping they would qualify for immunity protections as a Sovereign nation. This didn't go over so well.

Which brings us to the latest play by Intermountain Health which, in consultation with the [U.S. Department of Veterans Affairs](#) [13](VA), formed a new, not-for-profit generic drug company. The VA has made no financial contributions to the project and an "Advisory Committee that includes a roster of well-known experts from the pharmaceutical industry, business, and government" will guide its development.

Because FDA can't directly alter drug prices, this new [effort](#) [2] is attempting to expand the generic market by becoming an FDA-approved manufacturer (or sub-contract to others) to increase competition with the hopes of greater affordability that can deliver hospitals more predictable supplies of generic drugs:

"As has been widely reported, certain generic drug manufacturers have been widely criticized for unwarranted and arbitrary price increases and for creating artificial shortages of vital medications. These activities have resulted in some generic drugs increasing in cost by more than 1,000 percent in just a few months for seemingly no reason... Many of the well-publicized problems in the U.S. generic drug market can be attributed to a reduction in the number of suppliers, consolidation of production volumes, and a concentration of market pricing power. These market factors are particularly problematic with older generic medications that hospitals rely on every day to take care of desperately ill patients. This new initiative will bring together healthcare systems from around the country to help address these generic drug market failures, providing the new not-for-profit generic drug company with plenty of customers ready and eager for its products."

To sum up

Basically, they are fighting consolidation with consolidation. What actually trickles to the patient, I will believe when I see it. Amazon-like companies are probably waiting in the wings to take hold of distribution as the possible CVS-Aetna merger shows promise for a stronghold on the information monopoly so vital to controlling the sector.

Given that hospitals can barely control their own inventory let alone run a generic pharmaceutical program that will have to be global in sourcing, it is quite suspect that this plan will work. With a robust pattern of these stakeholders not extending savings to patients, the jury is out if this move will do anything to ease the public's hardship.

COPYRIGHT © 1978-2016 BY THE AMERICAN COUNCIL ON SCIENCE AND HEALTH

Source URL: <https://www.acsh.org/news/2018/09/15/pharma-and-hospital-systems-now-playing-drug-pricing-blame-game-13414>

Links

- [1] <https://www.publicdomainpictures.net/en/view-image.php?image=2703&picture=money-fight>
- [2] <https://intermountainhealthcare.org/news/2018/01/leading-us-health-systems-announce-plans-to-develop-a-not-for-profit-generic-drug-company/>
- [3] <https://www.acsh.org/news/2018/01/22/hospital-systems-getting-big-pharma-game-12453>
- [4] [https://www.biospace.com/article/hospitals-launch-generic-drug-company-civica-rx-to-drive-down-drug-prices-jc1n-/](https://www.biospace.com/article/hospitals-launch-generic-drug-company-civica-rx-to-drive-down-drug-prices-jc1n/)
- [5] <http://www.themorancompany.com/wp-content/uploads/2018/09/Hospital-Charges-Reimbursement-for-Medicines-August-2018.pdf>
- [6] <https://revcycleintelligence.com/news/hospital-markups-drive-prescription-drug-spending-pharma-says>
- [7] <https://www.phrma.org/nearly-1-in-5-hospitals-marks-up-medicine-prices-at-least-700-percent>
- [8] <https://www.aha.org/news/blog/2018-09-06-only-thing-transparent-about-pharma-their-attempt-blame-others-rising-drug>

- [9] <https://www.acsh.org/news/2017/06/01/spread-%E2%80%93-exploring-reason-high-cost-pharmaceuticals-11339>
- [10] <https://www.acsh.org/news/2017/06/02/spread-%E2%80%93-exploring-reason-high-cost-pharmaceuticals-part-2-11340>
- [11] <https://jamanetwork.com/journals/jamainternalmedicine/article-abstract/2653012>
- [12] <https://www.acsh.org/news/2017/09/13/are-cancer-drugs-cheaper-make-previously-thought-new-study-claims-so-11819>
- [13] <http://www.va.gov/>