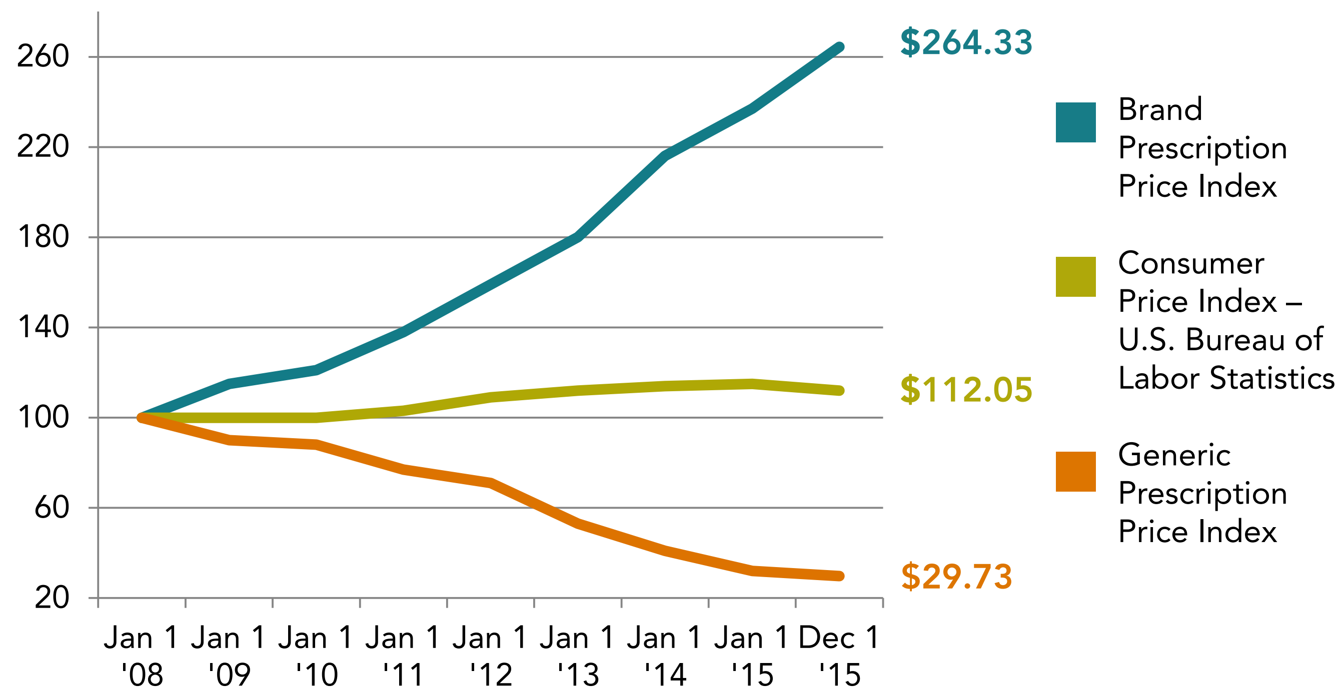
Brand-name medications: what you should know

Brand-name medications basics

Brand-name medications are discovered, developed and marketed by pharmaceutical companies. There can be huge cost differences between brand-name medications and generic medications with the same active ingredients in the same amounts. According to the 2015 Prescription Price Index below, the **average price of brand-name medications rose 16.2% in 2015, and 164% since 2008**. One third of brand-name medications had price increases greater than 20% in 2015.

2015 Prescription Price Index



Source: Express Scripts 2015 Drug Trend Report, March 2016

The *Prescription Price Index* shown above illustrates the gap between brand-name medication inflation and generic medication deflation vs. a market basket of commonly used household goods (the Consumer Price Index). Starting with a base price of $100.00 in January 2008, prices for the most commonly used brand-name medications increased to $264.33 in December 2015, while the most commonly used generic medications decreased to $29.73. In contrast, a basket of commonly used household goods costing $100.00 in 2008 grew to just $112.05 by December 2015.

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What's driving the rising costs of brand-name medications?

In a November, 2014 OnPoint: Health Policy Brief, the Massachusetts Association of Health Plans (MAHP) identified four key drivers of rising brand-name medication costs:

1. **Subsidization**
   Americans pay more for prescription medications than any other nation, subsidizing medication costs for other countries.

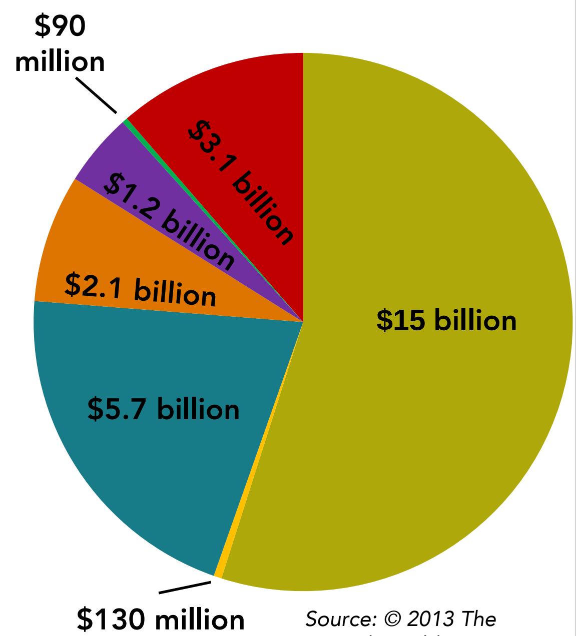
2. **Research and development vs. promotion**
   - For every dollar spent on basic research, $19 goes toward promotion and marketing.
   - Reports by the States National Science Foundation and the U.S. government found that only 1.3% of revenues are devoted to basic research to discover new molecules, while at least 25% is spent on promotion

3. **Patents and market power**
   The federal government allows pharmaceutical manufacturers to temporarily take sole control of a new medication through patents, encouraging them to accept the burden of upfront costs. Patents allow manufacturers of brand-name medications to set prices at will since they are the only option available.

4. **Follow-on patenting and development of closely related compounds**
   Once a patent expires, the brand-name manufacturer's monopoly also expires, so the manufacturer goes on the defensive. A familiar practice is to create medications that are similar to, or offshoots of, the original medication. Another practice is to pay makers of generic medications not to compete ("pay to delay"). For more detailed information about medication patents, see Fallon's *"Medication patents: what you should know"* flyer.

Expenditure by type of pharmaceutical marketing:

Over $27 billion spent in 2012



Source: © 2013 The Pew Charitable Trusts

- **Sales/promotional activities**
- **Clinical trials**
- **Samples** *(free medication provided to physicians)*
- **Educational and promotional meetings**
- **Promotional mailings**
- **Advertisements** *(print)*
- **Direct-to-consumer advertising**

Why you should care

Pharmaceutical companies can boost revenues for a medication by increasing the price—even if demand falls for the medication. Monopoly-like pricing power ignores the basic laws of economics, which was the case for drugs like Lantus and Abilify year after year. For more information about all the factors contributing to rising pharmacy costs, what steps Fallon takes and what you, your clients and their employees can do, please see the complete series of our *Pharmacy: A Growing Concern* flyers.

This flyer is one in a series designed to help educate brokers and their clients about pharmacy costs and trends. To view the complete series, please visit **fallonhealth.org/brokers.**

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