



**Prescription Drug Pricing in the United States:
Drug Companies Profit at the Expense of Older Americans**

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EXECUTIVE SUMMARY

Many senior citizens in the United States cannot afford the high prices of prescription drugs. One of the principal causes of these high prices is price discrimination by drug manufacturers. This report by the minority staff of the Committee on Government Reform quantifies the extent of prescription drug price discrimination in the United States and its impacts on seniors.

The report finds that older Americans and others who pay for their own drugs are charged far more for their prescription drugs than are the drug companies' most favored customers, such as health maintenance organizations and the federal government. The report finds that a senior citizen in the United States paying for his or her own prescription drugs must pay, on average, more than twice as much for the drugs as the drug companies' favored customers. And the report finds that this is an unusually large price differential -- more than six times greater than the average price differential for other consumer goods.

In effect, the pricing strategies of drug manufacturer victimize those who are least able to afford it. As a result of price discrimination, large corporate and governmental customers with market power are able to buy their drugs at low prices while senior citizens, who often have the greatest need and the least ability to pay, are forced to pay the highest prices for prescription drugs.

A. Methodology

This study investigates the pricing of the five brand name prescription drugs with the highest sales to the elderly. It estimates the differential between the prices charged to the drug companies' most favored customers, such as HMOs and the federal government, and the prices charged to seniors who lack prescription drug coverage. The results are based on surveys of retail prescription drug prices in over 1000 chain and independently owned drug stores in nearly 100 congressional districts in 38 states and the District of Columbia. These prices are compared to the prices paid by the drug companies' most favored customers. For comparison purposes, the study also estimates the differential between prices for favored customers and retail prices for other consumer goods.

B. Findings

Older Americans pay inflated prices for commonly used drugs. For the five drugs investigated in this study, the average price differential was 134% (Table 1). This means that senior citizens and other individuals who pay for their own drugs pay more than twice as much for these drugs than do the drug companies' most favored customers. In dollar terms, senior citizens must pay on average \$58.46 to \$97.88 more per prescription for these five drugs than favored customers.

Table 1: Average Prices for the Five Best-Selling Drugs for Older Americans Are More Than Double the Prices That Drug Companies Charge Their Most Favored Customers.

Prescription Drug	Manufacturer	Use	Prices For Favored Customers	Average Prices For Seniors	Average Differential For Senior Citizens	
					Percent	Dollar
Zocor	Merck	Cholesterol	\$27.00	\$107.66	299%	\$80.66
Norvasc	Pfizer, Inc.	High Blood Pressure	\$59.71	\$118.96	99%	\$59.25
Prilosec	Astra/Merck	Ulcers	\$59.10	\$117.56	99%	\$58.46
Procardia XL	Pfizer, Inc.	Heart Problems	\$68.35	\$133.22	95%	\$64.87
Zoloft	Pfizer, Inc.	Depression	\$125.73	\$223.61	78%	\$97.88
Average Price Differential					134%	

For other popular drugs, the price differential is even higher. This study also analyzed a number of other popular drugs used by older Americans, and in some cases found even higher price differentials. The drug with the highest price differential was Synthroid, a commonly used hormone treatment manufactured by Knoll Pharmaceuticals. For this drug, the average price differential for senior citizens was 1,566%. A typical prescription for this drug would cost the manufacturer’s favored customers only \$1.75, but would cost the average senior citizen over \$29.00. For Micronase, a diabetes treatment manufactured by Upjohn, a prescription would cost favored customers \$10.05, while seniors in the United States are charged an average of \$50.52, a price differential of 403%.

Price differentials are far higher for drugs than they are for other goods. The report compared drug prices at the retail level to the prices that the pharmaceutical industry gives its most favored customers, such as HMOs and the federal government. Because these customers typically buy in bulk, some difference between retail prices and “favored customer” prices would be expected. The study found, however, that the differential was much higher for prescription drugs than it was for other consumer goods. The average price differential for the five prescription drugs was 134%, while the price differential for other goods was only 22%.

Pharmaceutical manufacturers, not drug stores, are primarily responsible for the discriminatory prices that older Americans pay for prescription drugs. In order to determine whether drug manufacturers or retail pharmacies cause the high prescription drug prices paid by seniors in the United States, the report compared average wholesale prices that pharmacies pay for drugs to the prices at which the drugs are sold to consumers. This comparison revealed that the pharmacies appear to have relatively small markups between the prices at which they buy prescription drugs and the prices at which they sell them. Average retail prices in the United States are actually below the published national Average Wholesale Price, which represents the manufacturers’ suggested price to pharmacies. The differential between retail prices and a second indicator of pharmacy costs, the Wholesale Acquisition Cost, which represents the average price wholesalers actually pay for drugs, is only 22%. This indicates that it is drug manufacturer pricing policies that account for the inflated prices charged to older Americans and other customers.

I. THE VULNERABILITY OF OLDER AMERICANS TO HIGH DRUG PRICES

Numerous surveys and studies have concluded that older Americans pay high costs for prescription drugs and are having a difficult time paying for the drugs they need. The cost of prescription drugs is particularly important for older Americans because they have more medical problems, and take more prescription drugs, than the average American. This situation is exacerbated by the fact that the Medicare program, the main source of health care coverage for the elderly, fails to cover the cost of most prescription drugs.

According to the National Institute on Aging, “as a group, older people tend to have more long-term illnesses -- such as arthritis, diabetes, high blood pressure, and heart disease -- than do younger people.”¹ Other chronic diseases which disproportionately affect older Americans include depression and neurodegenerative diseases such as Alzheimer’s disease, Lou Gehrig’s disease, and Parkinson’s disease. Older Americans spend almost three times as much of their income (21%) on health care than those under the age of 65 (8%).²

The latest survey data indicate that 86% of Medicare beneficiaries are taking prescription drugs.³ Almost 14 million senior citizens, 38% of all Medicare beneficiaries, use more than \$1,000 of prescription drugs annually.⁴ The average older American uses 18.5 prescriptions annually.⁵ It is estimated that the elderly in the United States, who make up 12% of the population, use one-third of all prescription drugs.⁶

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

¹ National Institute on Aging (NIA), *NIA Age Page* (1997) (online at www.nih.gov/nia/health/pub/medicine.htm).

² AARP Public Policy Institute and the Lewin Group, *Out of Pocket Health Spending By Medicare Beneficiaries Age 65 and Older: 1997 Projections* (Feb. 1997).

³ Health Affairs, *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, 237 (Jan./Feb. 1999).

⁴ National Economic Council, Domestic Policy Council, *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage* (July 22, 1999).

⁵ *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, *supra* note 3, at 237.

⁶ Senate Special Committee On Aging, *Developments in Aging: 1993*, 103d Cong., 2d Sess. 35 (1994) (S. Rpt. 403).

drugs. According to a recent analysis by the National Economic Council, approximately 75% of Medicare beneficiaries lack dependable, private-sector prescription drug coverage.⁷

Thirty-five percent of Medicare recipients, over 13 million senior citizens, do not have any insurance coverage for prescription drugs.⁸ In rural areas, the problem is even worse, with 48% of Medicare recipients lacking any prescription drug coverage.⁹ In total, Medicare beneficiaries pay more than half of their drug costs out of their own pockets.¹⁰

Even when seniors have prescription drug coverage, the coverage is often inadequate. The number of firms offering retirees prescription drug coverage is declining, from 40% in 1994 to 30% in 1998.¹¹ Medigap policies are often prohibitively expensive, while offering inadequate coverage.¹² Medicare managed care plans are also sharply reducing benefits and coverage.¹³

The high costs of prescription drugs and the lack of insurance coverage cause enormous hardships for older Americans. One survey found that 13% of older Americans -- more than one

⁷ *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage*, *supra* note 4.

⁸ *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, *supra* note 3.

⁹ *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage*, *supra* note 4 (supplemental materials).

¹⁰ Health Care Financing Administration, *The Characteristics and Perceptions of the Medicare Population*, 107 (1996).

¹¹ *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage*, *supra* note 4.

¹² For example, one typical 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. *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, *supra* note 3.

¹³ While some Medicare managed care plans may offer optional prescription drug coverage, these plans are dramatically reducing coverage, with nearly 60% reporting that they will cap prescription drug benefits below \$1,000, and 28% reporting that they will cap benefits below \$500 in the year 2000. These managed care plans are also withdrawing coverage for over 400,000 seniors this year, and are expected to drop coverage for an additional 50,000 next year. 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 4; *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, *supra* note 3.

out of every eight -- were forced to choose between buying food and buying medicine.¹⁴ By another estimate, five million older Americans are forced to make this difficult choice.¹⁵

II. ARE DRUG COMPANIES EXPLOITING THE VULNERABILITY OF OLDER AMERICANS?

Independent analysts who have investigated the drug industry have concluded that drug manufacturers engage in “price discrimination.” In 1998, for example, the Congressional Budget Office (CBO) conducted a detailed examination of drug pricing. CBO found that drug manufacturers employ pricing practices that force consumers without prescription drug coverage to pay the highest prices for drugs. According to CBO:

Different 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.¹⁶

In March 1999, the Federal Trade Commission (FTC) released a comprehensive analysis of prescription drug pricing that reached a similar conclusion. As in the CBO study, the FTC study found that drug manufacturers engage in price discrimination. According to the FTC: “A notable example of differential pricing is the so-called ‘two tiered pricing structure’ under which pharmaceutical companies set lower prices to large buyers like hospitals, HMOs, and PBMs, and charge higher prices to other buyers that include the uninsured and independent and chain retail pharmacies.”¹⁷

Although these and other analyses conclude that drug manufacturers engage in price discrimination, few analyses have sought to quantify the extent of price discrimination and its impact on senior citizens. This report investigates these issues. It analyzes whether the drug companies are exploiting the vulnerability of older Americans through discriminatory pricing practices and whether these pricing practices cause the high drug prices being paid by older Americans. The results presented in this report are a compilation of the results of prescription drug pricing studies prepared by the minority staff for nearly 100 members of Congress.

¹⁴ Families USA Foundation, *Worthless Promises: Drug Companies Keep Boosting Prices*, 6 (Mar. 1995).

¹⁵ Senate Special Committee on Aging, *A Status Report -- Accessibility and Affordability of Prescription Drugs For Older Americans*, 102d Cong., 2d Sess. 2 (1992) (S. Rpt. 100).

¹⁶ Congressional Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry*, xi (July 1998).

¹⁷ Federal Trade Commission, *The Pharmaceutical Industry: A Discussion of Competitive and Antitrust Issues in an Environment of Change*, 75 (Mar. 1999).

III. METHODOLOGY

A. Selection of Drugs

The principal drugs investigated in this report are the five patented, nongeneric drugs with the highest annual sales to older Americans in 1997. The list was obtained from the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE). The PACE program is the largest outpatient prescription drug program for older Americans in the United States for which claims data is available, and is used in this study, as well as by several other analysts, as a proxy database for prescription drug usage by all older Americans. In 1997, over 250,000 persons were enrolled in the program, which provided over \$100 million of assistance in filling over 2.8 million prescriptions.¹⁸

B. Determination of Drug Prices for Seniors

In response to requests from members of Congress, the minority staff has analyzed prescription drug pricing in nearly 100 congressional districts in 38 states since July 1998.¹⁹ In conducting these investigations, the minority staff and the staff of the members of Congress have

¹⁸ Pharmaceutical Assistance Contract for the Elderly (“PACE”), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly January 1 - December 31, 1997* (Apr. 1998).

¹⁹ The members of the U.S. House of Representatives who have released reports analyzing prescription drug pricing in their districts are Reps. Neil Abercrombie (HI); Thomas H. Allen (ME); Tammy Baldwin (WI); Thomas M. Barrett (WI); Ken Bentsen (TX); Shelley Berkley (NV); Marion Berry (AR); David E. Bonior (MI); Leonard L. Boswell (IA); Sherrod Brown (OH); Lois Capps (CA); Robert E. Cramer, Jr. (AL); Joseph Crowley (NY); Elijah E. Cummings (MD); Danny K. Davis (IL); Peter A. DeFazio (OR); Diana DeGette (CO); William D. Delahunt (MA); Rosa L. DeLauro (CT); Lloyd Doggett (TX); Michael F. Doyle (PA); Chet Edwards (TX); Harold E. Ford, Jr. (TN); Martin Frost (TX); Charles A. Gonzalez (TX); Gene Green (TX); Baron P. Hill (IN); Maurice D. Hinchey (NY); Ruben Hinojosa (TX); Steny H. Hoyer (MD); Eddie Bernice Johnson (TX); Dennis H. Kucinich (OH); Nick Lampson (TX); John B. Larson (CT); Barbara Lee (CA); Ken Lucas (KY); Bill Luther (MN); James H. Maloney (CT); Frank Mascara (PA); Carolyn McCarthy (NY); James P. McGovern (MA); Martin T. Meehan (MA); George Miller (CA); John P. Murtha (PA); Eleanor Holmes Norton (DC); David R. Obey (WI); Nancy Pelosi (CA); David D. Phelps (IL); Earl Pomeroy (ND); Ciro D. Rodriguez (TX); Bobby L. Rush (IL); Bernard Sanders (VT); Max Sandlin (TX); Janice D. Schakowsky (IL); Ronnie Shows (MS); Louise McIntosh Slaughter (NY); Debbie Stabenow (MI); Fortney Pete Stark (CA); Ted Strickland (OH); Bart Stupak (MI); Mike Thompson (CA); John F. Tierney (MA); Karen Thurman (FL); Jim Turner (TX); Mark Udall (CO); Tom Udall (NM); Bruce F. Vento (MN); Peter J. Visclosky (IN); Henry A. Waxman (CA); Robert E. Wise, Jr. (WV); Lynn Woolsey (CA); David Wu (OR); and Albert R. Wynn (MD). Senators Max Baucus (MT) and Tim Johnson (SD) have also released reports.

surveyed over 1000 chain and independently owned pharmacies. In this report, average drug prices for seniors are calculated by averaging the prices obtained from these pharmacies.

C. Determination of Drug Prices for Favored Customers

Drug pricing is complicated and drug companies closely guard their pricing strategies. For example, drug companies require HMOs to sign confidentiality agreements before offering them pricing discounts. The best publicly available indicator of the prices drug companies charge their most favored customers is the prices the companies charge the federal government.

The federal government pays for prescription drugs through several different programs. One important program is the Federal Supply Schedule (FSS), which is a price catalogue containing goods available for purchase by federal agencies. Drug prices on the FSS are negotiated by the Department of Veterans Affairs (VA) and approximate the prices that the drug companies charge their most favored nonfederal customers. According to the U.S. General Accounting Office, “[u]nder GSA procurement regulations, VA contract officers are required to seek an FSS price that represents the same discount off a drug’s list price that the manufacturer offers its most-favored nonfederal customer under comparable terms and conditions.”²⁰ To obtain additional price discounts available to the private sector, the VA has established at least two additional negotiated-price programs: (1) a VA formulary that operates similarly to the formularies established by well-managed HMOs,²¹ and (2) a Blanket Price Agreement (BPA) program, under which the VA commits to purchasing minimum quantities of particular prescription drugs. Yet another program through which the federal government obtains prescription drugs is section 340(b) of the Public Health Service Act, which entitles four agencies (the VA, the Indian Health Service, the Department of Defense, and the Public Health Service) to purchase drugs at a maximum price of 24% below the manufacturer’s average nonfederal price.

This analysis uses the lowest negotiated price paid by the federal government as a proxy for the prices paid by drug companies most favored customers.²² All prices were updated in September 1999 to reflect current pricing.

²⁰ U.S. General Accounting Office, *Drug Prices: Effects of Opening Federal Supply Schedule for Pharmaceuticals Are Uncertain* 6 (June 1997) (emphasis added). In an April 21, 1999, letter to Rep. Henry A. Waxman, GAO confirmed that “federal supply schedule prices represent the best publicly available information on the prices that pharmaceutical companies charge their most favored customers.” Letter from William J. Scanlon, Director, GAO Health Financing and Public Health Section.

²¹ For a detailed description of the Department of Veterans Affairs Formulary program, see the National Formulary Content Page, online at www.dppm.med.va.gov/newsite/national.htm.

²² For Norvasc, Prilosec, Procardia XL, Zoloft, Micronase, and Synthroid, the Federal Supply Schedule price was used as the indicator of best price. For Zocor the VA’s formulary price was used as the indicator of best price.

D. Determination of Drug Prices for Pharmacies

The report also examines two other pricing indicators: (1) the Average Wholesale Price (AWP) and (2) the Wholesale Acquisition Cost (WAC). These two prices provide an indicator of the extent of markups that are attributable to the pharmacy (in contrast to those that are due to the drug manufacturer). The AWP represents the price that manufacturers suggest that wholesalers charge retail pharmacies; the WAC represents the actual average price that wholesalers pay to acquire drugs. The typical wholesaler markup on drugs for sale to pharmacies is an additional 2% - 4%.²³ Both AWP and WAC were obtained from the Medispan database and were updated in June 1999 to reflect current pricing.

E. Determination of Drug Dosages

When comparing prices, the study used the same criteria (dosage, form, and package size) used by the GAO in its 1992 report, *Prescription Drugs: Companies Typically Charge More in the United States Than In Canada*. For drugs that were not included in the GAO report, the study used the dosage, form, and package size common in the years 1994 through 1997, as indicated in the *Drug Topics Red Book*. The dosages, forms, and package sizes used in the study are shown in Appendix B.

F. Price Differentials for Other Consumer Goods

In order to determine whether the differential between the most favored customer prices and retail prices for drugs commonly used by older Americans is unusually large, the study compared the prescription drug price differentials to price differentials on other consumer products. To make this comparison, a list of consumer goods other than drugs available through the FSS was assembled. FSS prices were then compared with the retail prices at which the items could be bought at a large national chain.²⁴

²³ Patricia M. Danzon, *Price Comparisons for Pharmaceuticals: A Review of U.S. and Cross-National Studies* (April 1999).

²⁴ The items used were paper towels, envelopes, rubber bands, toilet paper, pencils, Rolodexes, tape dispensers, waste baskets, correction fluid, post-it notes, paper clips, and scissors.

IV. DRUG COMPANIES CHARGE OLDER AMERICANS DISCRIMINATORY PRICES

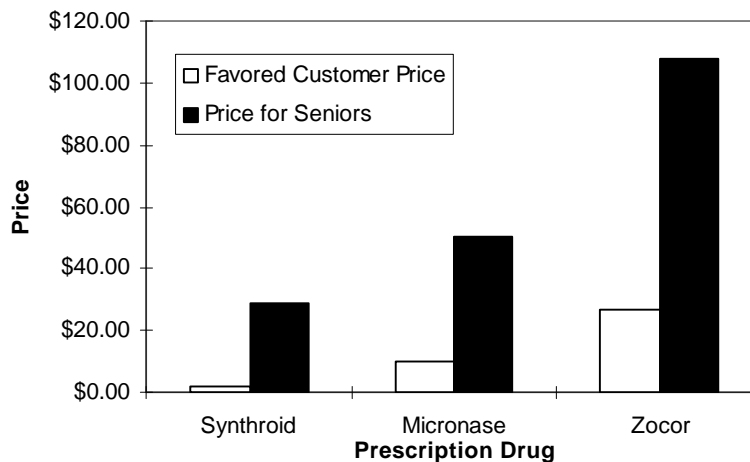
A. Discrimination in Drug Pricing

In the case of the five drugs with the highest sales to seniors, the average price differential between the price that would be paid by a senior citizen in the United States and the price that would be paid by the drug companies' most favored customers was 134% (Table 1). This means that the average price that older Americans and other individual consumers pay for these drugs is more than double the price paid by the drug companies' favored customers, such as HMOs and the federal government.

For individual drugs, the price differential was even higher. Among the five best selling drugs, the highest price differential was 299% for Zocor, a cholesterol treatment manufactured by Merck. The average senior without drug coverage must pay \$107.66 for 60 tablets of Zocor, compared to a favored customer price of just \$27.00.

For other popular drugs, the study found even greater price differentials. The drug with the highest price differential was Synthroid, a commonly used hormone treatment manufactured by Knoll Pharmaceuticals. For this drug, the average price differential for senior citizens was more than 1,550%. One hundred tablets of this drug would cost the most favored customers only \$1.75, but would cost the average senior citizen \$29.15. For Micronase, a diabetes treatment manufactured by Upjohn, the average price differential was 403% (Figure 1).

Figure 1: Older Americans Pay Inflated Prices for Prescription Drugs.



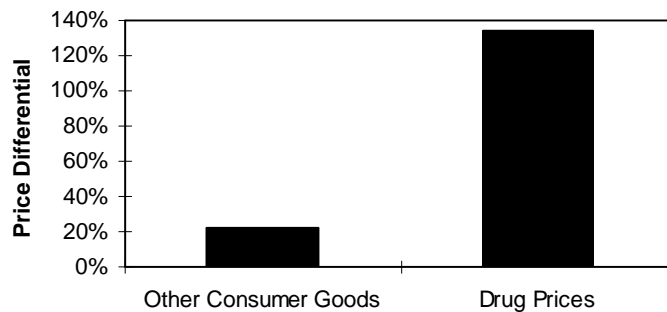
Every drug looked at in this study had a large price differential. Among the five highest selling drugs, four (Zocor, Norvasc, Prilosec, and Procardia XL) had price differentials that exceeded 90%. The lowest price difference was still high -- 78%, for Zoloft.

In dollar terms, Zoloft, an antidepressant, had the highest price differential. Senior citizens in the United States must pay nearly \$100 more for 100 tablets of Zoloft than a favored customer. The difference between seniors' prices and prices for favored customers was more than \$80.00 for 60 tablets of Zocor and over \$50.00 per prescription for each of the remaining three best selling drugs (Procardia XL, Norvasc, and Prilosec).

B. Comparison with Other Consumer Goods

The report analyzed whether the large differentials in prescription drug pricing could be attributed to a volume effect. The drug companies' most favored customers, such as HMOs and the federal government, typically buy large volumes of drugs. Thus, it could be expected that there would be volume-related differences between the prices charged the most favored customers and retail prices. The report found, however, that the differentials in prescription drug prices were much greater than the differentials in prices for other consumer goods. The report found that, in the case of other consumer goods, the average difference between retail prices and the prices charged most favored customers, such as large corporations and institutions, was only 22%. The average price differential in the case of prescription drugs was more than six times larger than the average price differential for other consumer goods (Figure 2). This indicates that a volume effect is unlikely to explain the large differential in prescription drug pricing.

Figure 2: Price Differentials on Drugs Commonly Used by Older Americans Are Far Higher Than Differentials for Other Consumer Goods.

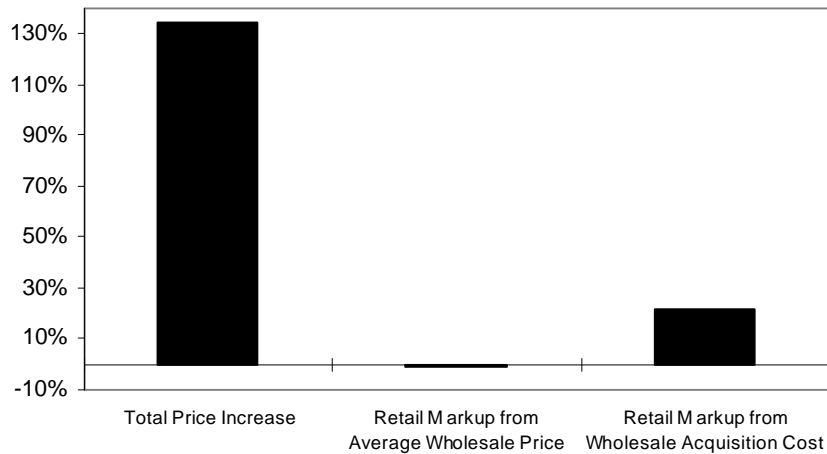


C. Drug Company Versus Pharmacy Responsibility

The report also sought to determine whether drug companies or retail pharmacies are responsible for the high prices being paid by older Americans. To do this, the report compared the average wholesale prices that pharmacies pay for drugs to the prices at which the drugs are sold to consumers. This comparison revealed that pharmacies appear to have relatively small markups between the prices at which they buy prescription drugs and the prices at which they sell them. The report found that the average retail price for the five best-selling prescription drugs was actually lower than the published Average Wholesale Price, and only 22% above the Wholesale Acquisition Cost (Figure 3). This finding indicates that it is drug company pricing policies, not retail markups, that account for the inflated prices charged to older Americans and other individual customers. These findings are consistent with other experts who have concluded

that because of the competitive nature of the pharmacy business at the retail level, there is a relatively small profit margin for retail pharmacists.²⁵

Figure 3: Drug Companies, Not Retail Pharmacies, Are Responsible for High Prescription Drug Costs



V. DRUG MANUFACTURER PROFITABILITY

Drug industry pricing strategies have boosted the industry's profitability to extraordinary levels. The annual profits of the top ten drug companies are over \$25 billion.²⁶ Moreover, the drug companies make unusually high profits compared to other companies. The average manufacturer of branded consumer goods, such as Proctor & Gamble or Colgate-Palmolive, has an operating profit margin of 10.5%. Drug manufacturers, however, have an operating profit margin of 28.7% -- nearly three times greater (Figure 4).²⁷

These high profits appear to be directly linked to the pricing strategies observed in this report. For instance, Merck, the country's largest pharmaceutical manufacturer, had a 24% increase in sales and a 12% increase in profits in the first quarter of 1999.²⁸ According to industry

²⁵ National Association of Chain Drug Stores, *Did You Know . . .* (pamphlet) (citing financial data assembled by Keller Bruner & Company, P.C., Certified Public Accountants 1995).

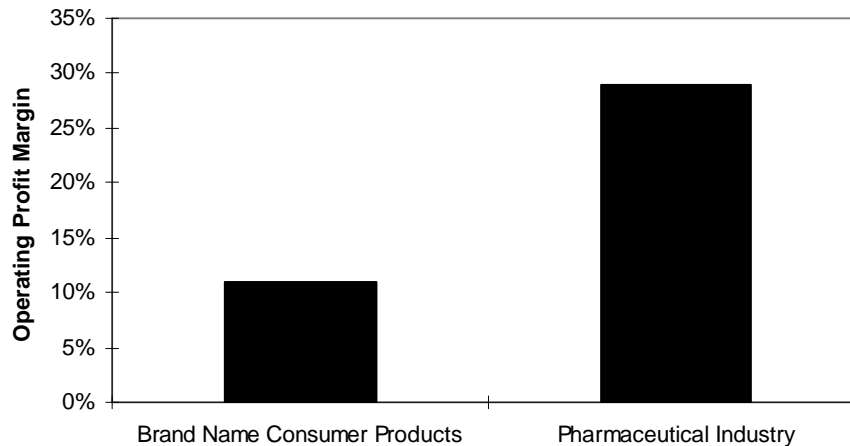
²⁶ Fortune, *1999 Fortune 500 Industry List* (1999) (Online at www.pathfinder.com/fortune500/ind21.html).

²⁷ Paul J. Much, Houlihan Lokey Howard & Zukin, *Expert Analysis of Profitability* (Feb. 1998).

²⁸ AP, *Merck Sales Jump by 24 Percent* (April 23, 1999).

analysts, Merck's increased profits have been due in large part to sales of Zocor,²⁹ which is sold in the United States at a price differential of 299%. Zocor itself accounts for 13% of Merck's revenues.³⁰

Figure 4: The Pharmaceutical Industry's Profit Margins Are Larger Than Those for Other Companies.



Pharmaceutical companies have been rapidly increasing their prices for drugs used by senior citizens. These price hikes make it even more difficult for uninsured senior citizens to afford prescription drugs. In 1998, the prices for the 50 prescription drugs most frequently used by senior citizens increased by 6.6%, more than four times the inflation rate.³¹ The price of Synthroid, which is sold at a price differential of more than 1,550%, increased by more than six times the inflation rate.³²

Overall, profits for the major drug manufacturers grew by over 21% in 1998, compared to 5% to 10% for other companies on the Standard & Poors Index. The drug manufacturers' profits are expected to grow by up to an additional 25% in 1999.³³ According to one analyst, "the prospects for the pharmaceutical industry are as bright as they've ever been."³⁴

²⁹ USA Today, *Drugmakers Have Healthy Outlook* (July 20, 1998).

³⁰ *Merck Sales Jump by 24 Percent*, *supra* note 28.

³¹ Families USA, *Hard to Swallow: Rising Drug Prices for America's Seniors* (Nov. 1999).

³² *Id.*

³³ *Drugmakers Have Healthy Outlook*, *supra* note 29.

³⁴ *Id.*

Appendix A

The Five Top Selling Patented, Nongeneric Drugs for Seniors Ranked by 1997 Total Dollar Sales

Rank	Drug	Manufacturer	Indication
1.	Prilosec	Astra/Merck	Ulcer
2.	Norvasc	Pfizer, Inc.	High Blood Pressure
3.	Zocor	Merck	Cholesterol reduction
4.	Zoloft	Pfizer, Inc.	Depression
5.	Procardia XL	Pfizer, Inc.	Heart Problems

Source: Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly: January 1 - December 31, 1997* (Apr. 1998).

Appendix B

Information on Prescription Drugs Analyzed in This Study

Brand Name Drug	Dosage and Form	Indication	Prices (Dollars)				Price Differential (Average Retail Price vs. Favored Customer Price)
			Favored Customer Price	Wholesale Acquisition Cost	Average Wholesale Price	Average Retail Price	
Zocor	5 mg, 60 tablets	Cholesterol reducer	\$27.00	\$86.07	\$106.84	\$107.66	299%
Norvasc	5 mg, 90 tablets	High Blood Pressure	\$59.71	\$96.00	\$119.17	\$118.96	99%
Prilosec	20 mg, 30 cap.	Ulcer	\$59.10	\$100.34	\$119.57	\$117.56	99%
Procardia XL	30 mg, 100 tab.	Heart Problems	\$68.35	\$111.46	\$138.37	\$133.22	95%
Zoloft	50 mg, 100 tab.	Depression	\$125.73	\$182.98	\$227.13	\$223.61	78%
Synthroid	.05 mg, 100 tab.	Hormone Treatment	\$1.75	N/A	N/A	\$29.15	1566%
Micronase	2.5 mg, 100 tab.	Diabetes	\$10.05	N/A	N/A	\$50.52	403%

Appendix C

Price Comparisons For Non-Prescription Drug Items

Item	FSS Price	Retail Price	Differential
Binder Clip, small, 1 box	\$0.49	\$0.49	0%
Rubber Bands, 1 lb.	\$2.57	\$2.67	4%
Toilet Paper, 96 Rolls	\$44.74	\$47.98	7%
Rolodex, 500 Card	\$13.24	\$14.29	8%
Tape Dispenser	\$1.44	\$1.69	17%
Wastebasket, Plastic, 13 qt.	\$2.95	\$3.49	18%
Scissors	\$10.88	\$12.99	19%
Pencils, #2, 20-pack	\$1.03	\$1.26	22%
Paper Towels, 30 Rolls	\$22.94	\$29.98	31%
Post-It Notes	\$2.08	\$2.89	39%
Envelopes, 500, White, 20 lb. weight	\$6.45	\$9.49	47%
Correction Fluid, 18 ml., dozen.	\$6.66	\$9.99	50%
Average Price Differential			22%