

Wednesday, April 15, 2009

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APRIL 15, 2009

# Drug Makers, Hospitals Raise Prices

Article

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By BARBARA MARTINEZ and AVERY JOHNSON

Hospitals and pharmaceutical companies have been pushing through hefty price increases aimed at bolstering earnings, even as government and private insurers are struggling to rein in healthcare costs.

Drug makers increased prices on drugs like Viagra and the leukemia pill Sprycel by more than 20% in the first quarter from a year earlier, according to data from Credit Suisse. Meanwhile, one of the largest hospital owners in the country, HCA Inc., said Tuesday it expects to report higher revenue for the first quarter even though it had fewer hospitals and its admissions declined. It also said its income before taxes had nearly doubled.

## Rising Drug Costs

Drug companies are hiking prices as health-care reform looms. Price of selected drugs and change from previous year *per month*

Drug	Disease treated	Usage	Price (1Q 2009)	Per. chg.
Sprycel	Leukemia	60 20-mg pills	\$3,763.98	32.7%
Viagra	Erectile dysfunction	30 25-mg pills	519.46	20.7
Strattera	ADHD	30 10-mg pills	159.28	15.6
Sutent	Kidney cancer	28 25-mg pills	4,997.61	14.3
Cialis	Erectile dysfunction	30 20-mg pills	551.17	14.2

Source: Credit Suisse analysis based on Wall Street Journal's Pricing Database.

The prices of a dozen top-selling drugs increased by double digits in the first quarter from a year earlier.

Bristol-Myers Squibb Co.'s Sprycel was up 32.7%, and Pfizer Inc.'s Sutent rose 14.3%.

Erectile-dysfunction medicines are also getting pricier, including Pfizer's Viagra, up 20.7%, and Eli Lilly &

Co.'s Cialis, up 14.2%. Another costlier class of medicines is used to treat attention-deficit disorder, such as Lilly's Strattera, whose price has increased 15.6% over the past year.

Express Scripts Inc., one of the country's largest pharmacy-benefits managers, said it saw prices rise more than 10% to 15% between the 2008 first quarter and this year's first quarter.

The price increases underscore the deep challenges facing the Obama administration and Congress as they seek to control healthcare costs and ensure coverage for the 45 million or more Americans without insurance.

Higher hospital and drug prices trickle down to consumers in out-of-pocket costs or in the form of higher premiums and copayments. Rising healthcare costs also put pressure on employers that provide health benefits to their workers.



## Colorado Association of Health Plans

Ben Price

Executive Director

1177 Grant Street, #306

Denver, CO 80203

303-832-9611 (business)

303-861-9749 (fax)

bprice@colohealthplans.org

www.colohealthplans.org

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Bristol-Myers Squibb Co.(BMY)	20.22	0.36	12:25a.m.
Johnson & Johnson(JNJ)	52.02	0.65	12:25a.m.
Eli Lilly & Co.(LLY)	32.91	0.76	12:25a.m.
Pfizer Inc.(PFE)	13.91	0.57	12:25a.m.

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These kinds of price increases are way out of line with what's being experienced in the rest of the economy," said Ron Pollack, executive director of Families USA, a consumer healthcare advocacy organization.

Credit Suisse's Catherine Arnold said that drug companies have increased prices so aggressively in recent months to wring sales out of products before any healthcare cost-cutting efforts eat into profits.

"When the government is talking about more aggressive discounts, your start price is going to determine your end price," she said. "I don't think I have ever seen anything quite like this."

Ms. Arnold also said that the desire to boost revenue from a large number of medicines now facing patent expirations is contributing to the price increases.

For hospitals, the price increases may in part reflect contracts that were hammered out before the current downturn. Hospitals have also gained market power in recent years as a result of acquisitions. In addition, health plans have been reluctant to exclude hospitals from their networks because of price.

On Tuesday, HCA said it anticipates reporting first-quarter revenue of \$7.40 billion to \$7.45 billion, up from \$7.13 billion a year earlier. Reflecting an industry-wide trend of weak hospital admissions, same-facility admissions at HCA are expected to be down 0.9%.

The company, which owns 166 hospitals across the country, said it expects to report income before income taxes of between \$600 million and \$650 million, up from \$344 million a year earlier. The Nashville, Tenn., company expects to report final first-quarter numbers on April 27.

HCA wouldn't say whether its strong revenue figures were the result of price increases. But across the industry, hospitals have been reporting no difficulty charging commercial insurance companies the 6%-to-9% price increases they've become accustomed to in recent years, "including into the current year," said Matthew Borsch, a health-insurance analyst at Goldman, Sachs & Co.

The increases may be short lived, however. Mr. Borsch said he has begun to hear "chatter" that some employers -- having already raised employee premiums, deductibles and copays -- are considering leaving hospitals out of networks in 2010 if they continue to demand big price increases.

Others agree. "I'd be cautious about the ability of hospital companies to continue to receive those rates of increase, particularly in this kind of economy and as healthcare spending becomes a huge political issue," said David Peknay, director of corporate healthcare rating at Standard & Poor's.

Johnson & Johnson, the first big drug company to report first-quarter earnings, said Tuesday that its pharmaceutical sales fell 10.1% from a year earlier.

J&J raised its drug prices an average of 10% in the first quarter compared with a year earlier, Credit Suisse figures show, compared with an average price increase of 6.7% between the 2007 and 2008 first quarter.

Bill Price, a J&J spokesman, declined to comment on pricing. Chief Financial Officer Dominic Caruso acknowledged some pricing moves in the first quarter on a call Tuesday with analysts but called them "really not that significant overall for the business."

Among other drug companies, Lilly boosted drug prices by an average of 9.9% and Pfizer by 7.9% in the first quarter from a year earlier, according to Credit Suisse. Price increases were particularly aggressive in the 2008 fourth quarter, with both Bristol-Myers and Lilly boosting year-over-year prices more than 10%.

Chris Loder, a Pfizer spokesman, said, "In the U.S., the vast majority of our customers receive some type of legislated or negotiated discount off our announced list prices."

Rebecca Goldsmith, a Bristol-Myers spokeswoman, said that pricing increases are necessary as drugs mature and that Bristol's pricing moves are consistent with the rest of the industry.

Lilly spokesman Mark Taylor declined to comment on the company's pricing strategy but said,

J&J's Profit Falls 2.5% as Sales Slip

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