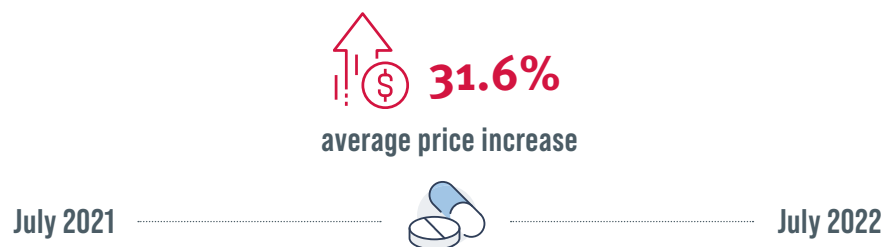




The Reality of Prescription Drug Innovation: Drug Manufacturers Limit Innovation to Protect Patents and Profits.

For the first time in history, thanks to prescription drug price reforms in the Inflation Reduction Act, the federal government can negotiate directly with big drug companies to lower the outrageous prices they are charging older adults and people with disabilities who rely on Medicare. This is a major step forward in decreasing the cost of lifesaving prescription drugs.

Too often, big drug companies use their immense profits to protect their drug patents — a move that ensures they do not face legitimate price competition and allows them to continue to price gouge millions of Americans who rely on prescription drugs.



Between July 2021 and July 2022, 1,216 drug products had price increases that were higher than the inflation rate (8.5%). Some increased by more than 500%.

The truth is:



Big drug corporations earn massive profits at the expense of America's families

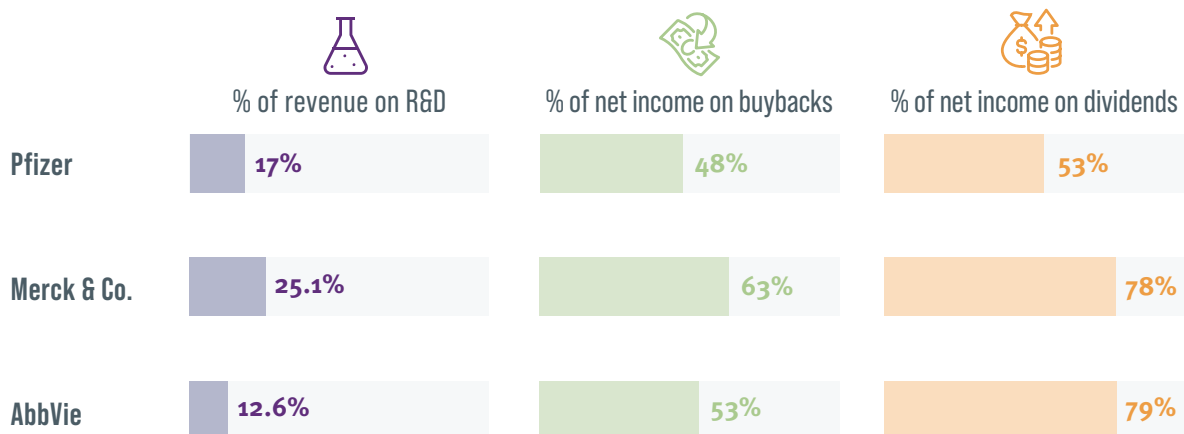


If brand-name drug manufacturers lost \$1 trillion in sales, they would still be the most profitable industry sector. Even with this \$1 trillion sales loss, drugmakers could maintain their existing research investments.¹



Big drug corporations spend relatively little on innovation

- » In 2021, big drug companies spending the most on research and development (R&D) spent only about 20% of their revenue on R&D.²
- » In contrast, from 2012-2021, big drug companies spent a much higher percentage of net income on stock buybacks and dividends.³
- » 2012-2021, the top 14 drug companies spent 13% more on distributions to stakeholders — stock buybacks and dividends combined — than they spent on research and development.





Instead of innovating, big drug corporations protect their existing patents and keep real competition from the market, which allows them to increase the cost of existing drugs

- » On average, there are 140 patents filed and 74 patents granted for *each* of the top 10 selling drugs, and 66% of those patent applications are filed after approval by the Food and Drug Administration.⁴

Patent exclusivity brings higher profits:⁵

Revlimid	Keytruda	Humira
\$23.8 MILLION	\$26.8 MILLION	\$47.5 MILLION
A DAY	A DAY	A DAY
		before its first competitor entered the market in 2023

- » A June 2023 report by the Medicare Payment Advisory Commission (MedPAC) stated, “Manufacturers set prices based on what they believe the U.S. health care market will bear ... whether or not evidence exists that the product is comparatively more effective than existing standards of care.”⁶ This is as true for new treatments as it is for older drugs and those with therapeutic alternatives.⁷
- » MedPAC’s report also stated, “The largest factor contributing to growth in Part B drug spending has been the rise in average price paid by Medicare.”⁸ Another MedPAC report from June 2021 reported similar findings: Drug spending under Medicare Part B increased 26% from 2013 through 2018, with increased drug spending attributed to higher prices and not an increase in the number of prescriptions filled. The same 2021 report found the same true for Medicare spending on drugs that consumers purchased at the pharmacy, which grew by 26% for the same number of prescriptions.⁹

“In the 21st century, most drug companies have replaced moonshots with chip shots. ... Rather than chasing the elusive game-changing drug, today’s biopharma giants focus on monetizing easy wins.”¹⁰

— Dr. Robert Pearl, M.D.

Endnotes

- ¹ West Health, “New Analysis Finds Large Drugmakers Could Lose \$1 Trillion in Sales and Still Be the Most Profitable Industry,” press release, November 14, 2019, <https://www.westhealth.org/press-release/new-analysis-finds-large-drug-makers-could-lose-1-trillion-in-sales-and-still-be-the-most-profitable-industry/>.
- ² Brian Buntz, “Pharma’s Top 20 R&D Spenders in 2021,” Drug Discovery & Development, March 30, 2022, <https://www.drugdiscoverytrends.com/pharmas-top-20-rd-spenders-in-2021/>.
- ³ William Lazonick and Öner Tulum, “Sick With ‘Shareholder Value’: US Pharma’s Financialized Business Model During the Pandemic,” Institute for New Economic Thinking, December 6, 2022, <https://www.ineteconomics.org/perspectives/blog/sick-with-shareholder-value-us-pharmas-financialized-business-model-during-the-pandemic>.
- ⁴ Tahir Amin and David Mitchell, “Big Pharma’s Patent Abuses Are Fueling the Drug Pricing Crisis,” *Time*, February 24, 2023, <https://time.com/6257866/big-pharma-patent-abuse-drug-pricing-crisis/#:~:text=A%20recent%20national%20report%20reveals,for%20very%20minor%20product%20modifications>.
- ⁵ Amin and Mitchell, “Big Pharma’s Patent Abuses.”
- ⁶ Michael E. Chernew et al., *Report to the Congress: Medicare and the Health Care Delivery System* (Washington, DC: Medicare Payment Advisory Commission (MedPAC), June 2023), https://www.medpac.gov/wp-content/uploads/2023/06/Jun23_MedPAC_Report_To_Congress_SEC.pdf.
- ⁷ Chernew et al., *Report to Congress*, 2023.
- ⁸ Chernew et al., *Report to Congress*, 2023.
- ⁹ Michael E. Chernew et al., *Report to the Congress: Medicare and the Health Care Delivery System* (Washington, DC: Medicare Payment Advisory Commission (MedPAC), June 2021), https://www.medpac.gov/wp-content/uploads/import_data/scrape_files/docs/default-source/reports/jun21_medpac_report_to_congress_sec.pdf.
- ¹⁰ Robert Pearl, “Pharma Companies: A Conglomerate of Monopolies,” *Forbes*, January 31, 2023, <https://www.forbes.com/sites/robertpearl/2023/01/31/pharma-companies-a-conglomerate-of-monopolies/?sh=387ee8f81ce1>.

This publication was written by:

Bailey Reavis, Manager of Federal Relations, Families USA
Hazel Law, Policy Analyst, Families USA

The following Families USA staff contributed to the preparation of this material (listed alphabetically):

Chantez Bailey, Director of Communications
Sara Brandenburg, Communications Coordinator
Nichole Edralin, Associate Director of Design and Publications
Jude McCartin, Chief of Staff
Tony Viardo, Senior Director, Communications



1225 New York Avenue NW, Suite 800, Washington, DC 20005
202-628-3030 info@familiesusa.org FamiliesUSA.org facebook / FamiliesUSA twitter / @FamiliesUSA