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## Drugmakers' Profits May Soar

Proposed Medicare Bill Could Generate \$139 Billion, Study Finds

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If Congress reaches an agreement on a landmark \$400 billion Medicare prescription drug bill, the pharmaceutical industry stands to make a "windfall profit" of at least \$139 billion over eight years, according to an academic study released yesterday.

The flood of new customers envisioned under the proposed legislation would boost industry profits by 30 percent, predicted Alan Sager, director of the Health Reform Program at Boston University's School of Public Health and a co-author of the report.

Sager said the primary reason for the jump in profits is that neither Congress nor the administration would negotiate for price discounts in the same way that the Department of Veterans Affairs and other government agencies now bargain with pharmaceutical companies, but administration and industry said that view is misleading.

"This report shows that these unrestrained prices -- given the remarkably low real cost of producing the added volumes of pills that Medicare patients need -- will bestow enormous windfall profits on prescription drug makers," the report concludes.

But the administration and industry officials said Sager had produced a "political document" that made too many leaps of faith in its assumptions.

"They should be ashamed of themselves," said Thomas Scully, director of the Centers for Medicare & Medicaid Services. If the legislation passes, drug companies "may have higher volume, but they will have lower margins," he predicted.

"The study seems to be an effort to scuttle a very needed benefit for America's seniors," said Rick Smith, vice president of the trade association Pharmaceutical Research and Manufacturers of America.

For the first time since it created Medicare in 1965, Congress is considering adding prescription drug coverage for the 40 million seniors and disabled people in the program. President Bush, the House and Senate have all agreed in principle to spend \$400 billion on medications between 2006 and 2014. But the players are deeply divided over details of the complex legislation, and even with a nudge from Bush this week, it is unclear whether the package will be enacted this year.

Opponents such as Rep. Gil Gutknecht (R-Minn.) have complained that taxpayers get a raw deal out of the legislation because it does little to curb soaring drug prices.

"Unless you have some very strong method for negotiating prices or some market mechanisms, you will wind up in a circumstance where Americans will still be paying way more than any other country," he said. "There is empirical evidence to prove Sager's point."

Sager, who has been critical of the legislation, said his group studied where the \$400 billion would go

because no one else has done so.

After deducting 5 percent for administrative costs, the researchers determined that a little more than half of the money would be used to buy drugs that patients currently do not get, presumably because they do not have coverage. The remainder of the \$400 million would cover drug purchases already being made by seniors.

Next the analysis deducted the costs to manufacturers, distributors, wholesalers and pharmacies to arrive at the \$139 billion profit estimate.

At the center of the dispute over how much profit drugmakers stand to gain is what sort of prices Medicare recipients will pay.

Joshua Cohen, a senior researcher at the Tufts Center for the Study of Drug Development, said drug companies will "certainly get an increase in volume that could be 20 to 30 percent. That's substantial to an industry that depends not only on high prices but also volume."

But he cautioned that Medicare customers would not pay the retail price that many are now forced to pay because they lack prescription drug coverage. The Tufts center receives financial support from the industry.

Spokesmen for the pharmaceutical trade association said the analysis failed to take into account that the legislation would rely on pharmacy benefit managers to negotiate on behalf of seniors, similar to the way such firms now buy medications for insurance companies and large firms.

But Sager said he did take this into account in the form of the higher manufacturing costs factored into his model.

Scully, who was disdainful of Sager's work, said he would rather trust the marketplace than government to resolve pricing. He said it would be "ludicrous" and potentially illegal to have the government take over purchasing for Medicare beneficiaries.

"Find me any place where the government sets prices for 55 percent of the market," he said.

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