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Drugmakers pledge restraint, but prices will still soar

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In this July 30, 2013, file photo, people walk along a corridor at the headquarters of Johnson & Johnson in New Brunswick, N.J. Several big drugmakers are trying to quell the ongoing furor over high drug prices by revealing more information about their pricing and even pledging to keep a lid on increases. The latest drugmaker move came Monday, Feb. 27, 2017, when Johnson & Johnson, the world's biggest maker of health care products, issued its first public report on price increases for its drugs. (AP Photo/Mel Evans, File)

Several big drugmakers are trying to quell the furor over high drug prices by revealing more information about their pricing and even pledging to keep a lid on increases.

No one should expect to be paying less for medicine anytime soon, experts say, though the drugmakers' response to public pressure may help slow the rise in prices for some drugs.

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The political and public anger over drug prices has been stirred by a few factors: Sky-high prices for new drugs, enormous increases for many existing drugs, and changes in insurance coverage that make patients pay a bigger portion of the drug bill.

The drug industry's top two lobbying groups have been running advertising campaigns that reinforce a point the industry has long pushed: Medical breakthroughs that improve or save patients' lives are very difficult—and expensive—and high prices are needed to fund research into new treatments.

But now individual companies are making their own cases to the public in hopes of showing that at least they aren't as bad as some other guys.

Erik Gordon, a professor and pharmaceuticals analyst at University of Michigan's Ross School of Business said those drugmakers promising to hold future price hikes below 10 percent will be able to lock in substantial increases but still say they kept their pledge.

"If it works, it's brilliant," he says. "They're doing everything but the obvious, simple thing—just lower the price."

On Monday, Johnson & Johnson reported that over the past five years, the list price, or retail price, of its drugs rose less than 10 percent each year on average, while the net price, the payment it receives after discounts and fees insurers and other middlemen get, rose 5 percent or less per year.

That's far less than some of the eye-popping price increases that have been criticized over the past year, like the 547 percent jump over 9 years in the price of the EpiPen emergency allergy auto-injectors.

But J&J's increase is still more than double the U.S. rate of inflation, which means its prices rose far faster than prices for other goods and services.

Johnson & Johnson's disclosure is the latest in a string of similar moves.

Sanofi SA, maker of top-selling insulin Lantus, reported earlier this month that last year its list prices increased by 2.3 percent on average, but its average net price dipped 0.5 percent because insurers got discounts that averaged 50 percent. Merck & Co. in January reported its annual net price increase since 2010 has ranged from 3.4 percent to 6.2 percent, roughly half its list price increases, while its average discount to payers climbed to 41 percent in 2016.

Allergan CEO Brent Saunders kicked off the trend last fall when he announced the Botox maker had ended big list price hikes and would stick to single-digit increases. Novo Nordisk and AbbVie Inc. later followed suit.

Other companies, including GlaxoSmithKline and Takeda Pharmaceuticals, say they've been keeping annual list price increases below 10 percent, though they're not making pledges. And Eli Lilly is reducing prices for most of its insulins up to 40 percent for people who pay the full price.

These moves might translate to smaller price increases, according to Edward Jones analyst Ashtyn Evans.

"I think in the near term, we are certainly going to see smaller price increases. We've already seen that this year," she says. "But it's possible that if the headlines die down and the government doesn't take action, that they could creep back up again."

Frustration over high drug prices isn't new, but the latest uproar, the result of a series of extraordinary price hikes at a time when patients are paying substantially more for health care, has lasted far longer than in the past. Big pharmaceutical companies posted a net profit margin of nearly 26 percent last year, compared with the 10 percent average profit for the biggest 500 U.S. companies, according to FactSet.

Ed Schoonveld, a former pricing director at three drugmakers and now a managing partner at consultants ZS Associates, predicts "most companies will probably jump on board" because the industry wants to escape the pricing uproar.

Not everyone, though.

Pfizer Inc., the biggest U.S. drugmaker, says there's no need for such pledges. Like the industry trade groups, it blames the furor on a handful of "irresponsible" companies that raised prices many times over for older products, the way Turing Pharmaceuticals, Valeant Pharmaceuticals International Inc. and EpiPen maker Mylan NV have done.

Schoonveld said no matter what pledges companies make, overall drug spending will continue to rise as costly new therapies emerge and the population ages.

And high prices will continue to shock the public: Earlier this month Marathon Pharmaceuticals LLC triggered a huge backlash by announcing it would charge $89,000 a year for its muscular dystrophy drug Emflaza, an old steroid that some patients had been importing from other countries for roughly $1,000 per year. Marathon has since delayed Emflaza's launch while it talks with patients and advocacy groups about ensuring access to the drug.