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Patients Curb Prescription Spending

Already Ailing, Drug Industry Takes Hit On Higher-Priced Brand Name Medicine

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In an ominous sign for drug makers, the number of prescriptions dispensed by pharmacies in the U.S. is growing at its worst rate in at least a decade as consumers are squeezed by both a troubled economy and the growing burden of out-of-pocket health-care costs.

The pharmaceutical industry by conventional wisdom is resistant to economic downturns, because people need medicine in good times and bad. But data from market researcher IMS Health and Wall Street analysts indicate that the rate of prescription growth has fallen steadily since early last year and in recent months has slipped in and out of negative territory.

Preliminary data suggest the number of prescriptions actually fell in the second quarter. The last time that happened, says Lehman Brothers drug-industry analyst C. Anthony Butler, may have been 1994, when the market was buffeted by the emergence of managed care and the threat of the Clinton administration's plan to overhaul the health-care system.

The hit is coming at the expense of some of the industry's biggest brands. In May, branded medicines accounted for 30.6% of treatments dispensed, down from 45.9% in 2003, according to IMS. Pills for such chronic conditions as cardiovascular disease are vulnerable, since patients tend to think they can do without treatments for so-called silent diseases more easily than for conditions such as cancer or HIV.

The slowdown is happening as economic pressures have snowballed in the first half of the year, from record-high gasoline prices to mortgage defaults. Skyrocketing out-of-pocket drug costs and an increasing number of uninsured Americans are making this downturn especially challenging for the health-care sector, says Kevin Schulman, a specialist in health economics at Duke University.

"The last couple months have gotten worse, and that's going to continue," says Dr. Schulman. "The health-care industry thinks it's immune from these macro forces but at some point it can't be."

The development also comes as employers and insurers have shifted a larger share of health-care costs to consumers in a bid to tame growth of the $2 trillion health-care system. Pharmaceuticals may be an early look at how consumers react, especially when the broader economy turns sour.

"We don't have a real track record for understanding how the health-care system will respond to this new economic model where people are exposed significantly to the cost of care," says Jeff Goldsmith, president of consultant Health Futures Inc.

The burden on consumers has increased sharply. The average copay for a preferred drug on an insurance company's tiered system rose 67% to $25 in 2007 from $15 in 2000, according to the Kaiser Family Foundation. Out-of-pocket costs to cover family insurance premiums were $3,281 per employee last year, up nearly 84% from 2001.

Consumers appear to be skimping on medicines as a result. An April poll from the Kaiser foundation showed 23% of patients who responded didn't fill a prescription in the last year because of cost, up from 20% in 2005; 19% split pills or skipped doses, up from 16% in 2005. A report last month from the nonpartisan Center for Studying Health System Change in Washington, D.C., said 20% of respondents in a 2007 survey of 18,000 people had put off or gone without medical treatment in the previous year, compared to 14% in 2003.

Data from IMS Health show growth in prescription volume for the first five months of this year slowed to 1.5%, the lowest rate at least since 1996. From 2003 to 2007, annual volume growth averaged 3%. In December 2007, total prescriptions dipped by 2.1%. The decline was 0.2% in April and 0.1% in May.

Flagging prescription growth comes at a period of particular vulnerability for the drug industry. Several blockbuster products have lost patent protection in the past two years, the main reason industry sales growth is at its lowest level since the 1960s, according to IMS Health. More patent expirations loom, including the one for the $13 billion-a-year seller Lipitor, which faces generic competition in 2011.

There are few new drugs in late-stage development to take up the slack.

Safety worries, including scares surrounding contaminated Heparin and reports linking anti-smoking and epilepsy drugs to a risk of suicidal behavior could be turning off demand.
Whatever the cause, the trend has the industry's attention. Lori Reilly, vice president of policy and research at PhRMA, the drug industry's Washington, D.C.-based trade group, says she was surprised to learn recently that prescription growth had turned negative.

"That was the first time in recent memory that this has happened and it's something we're monitoring closely," she says.

IMS Health's June data are due out this month, but based on calculations by Lehman Brothers of weekly June data, that month, and the entire quarter, are likely to be down as well. "I don't think you would have seen it this bad ever" for a quarter for prescription data, said Meredith Adler, drug retailing analyst at Lehman Brothers.

In a June earnings call, Jeffrey Rein, chief executive of Walgreen Co., the drug-store chain, said that the number of prescriptions his pharmacy filled in its fiscal third quarter ended May 31 increased 1.1% over the previous year, while industry-wide prescriptions at stores other than Walgreen fell 0.9%.