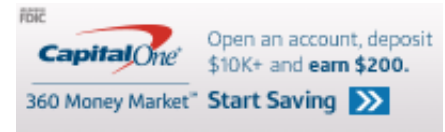


The Washington Post**Wonkblog**

The contradictory reasons cancer-drug prices are going up

**By Carolyn Y. Johnson** May 2, 2016

The \$10,000-a-month cancer drug has become the new normal, to the dismay of physicians and patients who increasingly face the burden of financial toxicity. A pair of new studies illustrate just how recently that pricing model has come into vogue and pull back the curtain on the strange market forces that push prices steadily higher in the years after the treatments are launched.

The first study, published in JAMA Oncology, examined 32 cancer medications given in pill form and found that their initial launch list prices have steadily increased over the years — even after adjusting for inflation. The average monthly amount insurers and patients paid for a new cancer drug was less than \$2,000 in the year 2000 but soared to \$11,325 in 2014.

A study published Monday in Health Affairs examined what happened to the prices of two dozen cancer drugs after launch and found that pharmaceutical companies on average increased prices 5 percent above inflation each year. That inflation dwarfed ameliorating effects from competing drugs being introduced, which resulted in an average discount of about 2 percent. And the biggest hikes — of about 10 percent — coincided with the drugs receiving

approval for other conditions. In other words, when a drug became useful to a larger number of patients, the price shot up.

The findings highlight the often mind-boggling ways that drug prices behave. Launch prices for cancer drugs have soared over time; after launch, those prices also increase steadily, despite competition from other treatments and even as the drugs are used by more patients.

“Many factors may cause the list price of a medicine to fluctuate over its lifetime, including competition in the market and the value the medicine provides to patients and the health-care system,” Holly Campbell, a spokeswoman for PhRMA, the trade organization for the drug industry, said by email. “For example, after a medicine comes to market, we may find out that it is more effective or has broader use than originally anticipated.”

A tenet of drug development has long been that drugs for rare diseases, including many cancer treatments, require high prices in part because of the small patient populations. The thinking goes that the smaller the number of patients who need the drugs, the higher the company needs to price the drug in order to recoup the significant costs of drug development. But the new research shows that when drugs get expanded to a broader groups of patients, the prices — surprisingly — go up.

“A lot of times, I’ve heard manufacturers say we can only give the drug to 1,000 patients; we need a high price to recoup costs of research and development. Then all of a sudden, they’re able to sell it to 10,000 patients. You’d think it [the costs] would be distributed across all patients and be cheaper. I think the argument that they’re trying to recoup the research and development over 1,000 patients is not actually representative of what’s going on,” said Caroline Bennette, a health economist at the University of Washington in Seattle who led the Health Affairs study.

Instead, Bennette said, the initial high price is behaving the way an economist would expect when thinking about supply and demand: Increase

the demand for the drug and the price goes up.

“When the pharmaceutical industry makes comments about setting the price high for a small patient population, that argument seems logically sound, because we recognize there’s a large amount of financial investment into drugs,” said Stacie Dusetzina, a health services researcher at the University of North Carolina at Chapel Hill. To see the price rising when drugs gain other approvals runs counter to that line of reasoning.

“Those arguments are not the basis on which the industry is arguing about the initial pricing,” Dusetzina said. “They’re increasing the price as the patient population grows, because I think they’re profit-maximizing first.”

Both studies were limited to studying the amount patients and insurers together paid for the drug, which do not reflect discounts that are negotiated in secret between pharmaceutical companies and the firms that provide prescription drug benefits to insurers.

But at a time when Congress has drug companies that make one-time egregious price spikes in its crosshairs, the slow and steady rise in drug prices — a far more widespread practice — flies under the radar.

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