

November 2015

Branded Medicine Price Increases and the Impact of Off-Invoice Discounts and Rebates



Introduction

Price levels for pharmaceuticals in the U.S. market are often reported to the public based on list prices, and therefore do not reflect the series of adjustments that occur throughout the healthcare system and ultimately determine who pays what for medicines.

The purpose of this healthcare brief is to draw specific attention to previously published research from the IMS Institute which highlights not only the visible aspects of price increases, but also the less visible off-invoice discounts, rebates, coupons, and other price concessions to payers that often substantially offset these changes in list price. By bringing context and perspective to the complex interplay of factors that determine the level of price changes for branded medicines we hope to better inform discussions of the issues.

As we previously published in our April 2015 report, our analysis shows that branded pharmaceuticals raised invoice prices on average 13.5% in 2014, but on a net basis, after all of the concessions are adjusted for, the increase was 5.5%. This level of net price increases is notable for being the lowest of the past five years and has occurred even as invoice price increases have accelerated.

The study is based on analysis first published in the April 2015 IMS Institute report “Medicine Use and Shifting Costs: A Review of the Use of Medicines in the U.S. in 2014” and was produced independently by the IMS Institute for Healthcare Informatics as a public service, without industry or government funding. The contributions to this report of Michael Kleinrock is gratefully acknowledged.

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Scope, Methodology & Definitions

This study analyzes all U.S. branded medicines protected by patents or other forms of exclusivity, excluding “new” products launched in the prior two years of each year analyzed and for which price increase measures are not meaningful. The cohort of branded medicines analyzed changes in each year shown as some medicines lose patent protection, while others which were previously “new” products age into the analysis group. Products must have been a protected branded product in the current year and have been marketed in the prior year to be analyzed for price changes.

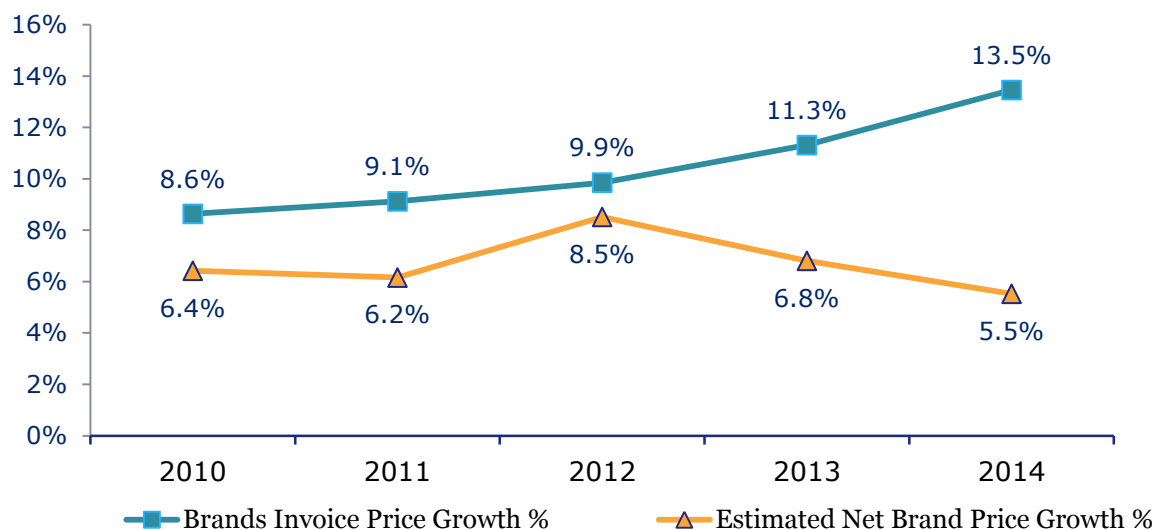
The analysis covers the total U.S. prescription-bound pharmaceutical market, including all channels of distribution (pharmacies, mail order, hospitals, clinics, etc).

Invoice-based pricing is derived from IMS Health proprietary information gathered from wholesalers and company direct sales, and may differ from list prices in that wholesalers may contract with a manufacturer to reduce their prices through various discounts such as volume or prompt payment adjustments. While IMS Health prices do reflect these kinds of supply-chain price concessions, they do not reflect the off-invoice discounts and rebates separately paid to insurers.

The overall invoice price growth for branded products shown in this analysis relates to the total cohort of all products. The estimated net price growth is projected from a sample of 24 companies continuously analyzed from 2005-2014, including large and mid-sized companies in a representative cross-section of the industry. The sample includes between 150 to 200 products, which represent between 55 and 65% of the total market share for brands in each of the years shown. Products are included in the samples if their net sales amount is disclosed in financial filings with the Securities and Exchange Commission and if the volume of sales captured in IMS Health audits is consistent with information provided directly by manufacturers in support of IMS Health proprietary datasets. The differences between company-reported net sales and IMS Health-reported sales for each product in the sample are weighted and aggregated and used to project to a national estimate.

Invoice prices increased in 2014 by 13.5% while net prices increased by 5.5% due to off-invoice discounts and rebates

Protected Brand Price Spending Growth %



Source: IMS Health, National Sales Perspectives, Dec 2014

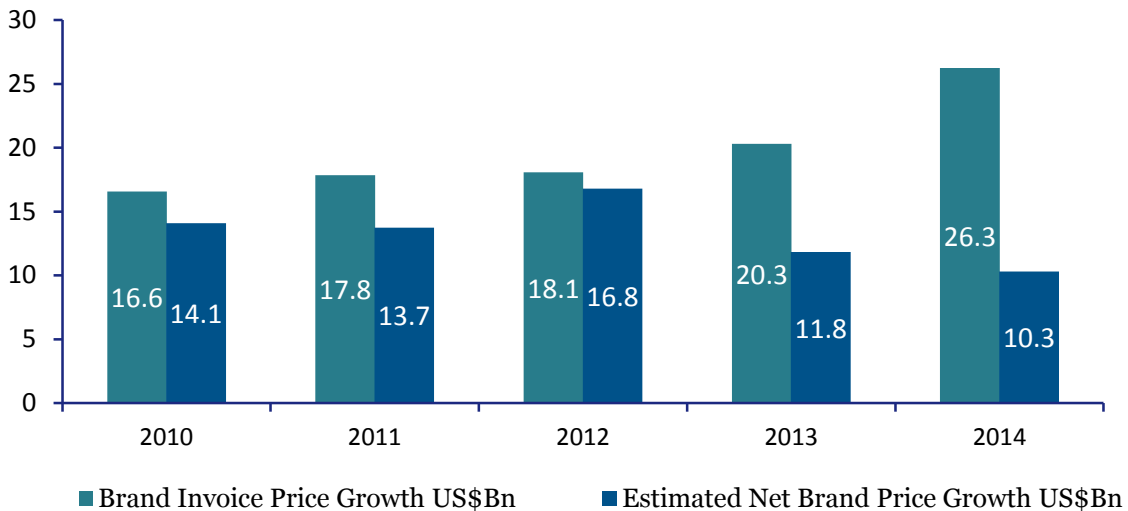
- Price growth for branded products based on invoice pricing reported by IMS Health has increased from 8.6% in 2010 to 13.5% in 2014.
- Price growth for branded products based on estimated net pricing as analyzed by the IMS Institute was 6.4% in 2010, rising to 8.5% in 2012 and then falling to 5.5% in 2014.
- The difference between branded product price growth as reported based on invoice prices and net prices is due to off-invoice rebates and discounts not captured in IMS Health pricing information but which are reflected in company reported net sales.
- The widening gap between invoice price growth and net price growth reflects higher levels of off-invoice and rebates especially in 2013 and 2014 which coincides with a period of higher levels of invoice price growth.
- Payers appear to be limiting overall branded product price growth through the negotiation of discounts and rebates.

Chart notes:

See Scope, Methodology and Definitions for details.

Price increases contributed \$10.3 billion to spending growth in 2014 on a net price basis, and \$26.3 billion based on invoice prices

Protected Brand Price Spending Growth US\$Bn



Source: IMS Health, National Sales Perspectives, Dec 2014

- Price growth for branded products based on invoice pricing reported by IMS Health has increased from \$16.6 billion in 2010 to \$26.3 billion in 2014.
- Price growth for branded products based on estimated net pricing as analyzed by the IMS Institute was \$14.1 billion in 2010, rising to \$16.8 billion in 2012 and then falling to \$10.3 billion in 2014.
- The difference between branded product price growth as reported based on invoice prices and net prices is due to off-invoice rebates and discounts not captured in IMS Health pricing information but which are reflected in company reported net sales.
- The widening gap between invoice price growth and net price growth reflects higher levels of off-invoice and rebates especially in 2013 and 2014 which coincides with a period of higher levels of invoice price growth.
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