

IMPOSSIBLE CHOICES:

Food and Housing or Prescription Drugs?

October 2000

Prepared by the Fiscal Policy Institute for **USAction**

USAction is the nation's largest consumer organization with 37 affiliates and over 4 million members. **USAction** advocates for quality, affordable health care for all Americans. Through working with key lawmakers and organizing at the grass-roots to raise awareness, **USAction** has led the fight on prescription drugs at both state and national levels.

USAction is truly unique among national progressive organizations in its ability to mobilize coordinated efforts in 25 states. **USAction** reaches a broad constituency including communities of color, people with disabilities, and senior citizens. **USAction** also advocates for quality public schools for all students, a safe and clean environment, and consumer rights.

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Acknowledgements

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IMPOSSIBLE CHOICES: Food and Housing or Prescription Drugs?

Several recent studies have documented the phenomenal increases in prescription drug prices that have occurred in recent years. This report builds upon these previous analyses by examining how rising drug prices have affected the household budgets and living standards of older Americans.

During the 1990s, the price of most prescription drugs commonly used by seniors increased much more than the increase in the overall cost of living as measured by the Consumer Price Index (CPI). Moreover, the prices of prescription drugs increased faster than any other basic necessity — food, housing and even medical services. The average cost per prescription also increased faster than the overall price index and the indices for other basic necessities.

Over this same period, older Americans, on average, saw some growth in their incomes, but not enough to keep pace with skyrocketing drug prices. The squeeze on household budgets was even greater for those seniors whose incomes were stagnant or grew more slowly than the average. Those whose incomes did not grow with the average and who also happened to be in need of prescription drugs whose prices had increased at two or three or even more times the rate of inflation were particularly hard pressed. Many older Americans with incomes well above the poverty level are forced to make difficult choices between the prescription drugs they need and other necessities of life, from food, clothing and shelter to other medical services and transportation.

Section I of this report (The Basics: What happened to prescription drug prices during the 1990's?) reviews the findings of two reports from Families USA and one from the Kaiser Family Foundation that document the changes that have occurred during various portions of the 1990's in average retail prices per prescription, average manufacturer prices for all prescription drugs and for brand name drugs, the average price for seniors' prescriptions, and the price of the 50 prescription drugs most commonly used by older Americans.

Section II (The Cost Factors: How have the increases in prescription drug prices compared to increases in the overall cost of living and the cost of other necessities?) presents data from the U. S. Bureau of Labor Statistics on changes in the Consumer Price Index and in key components of that index (for necessities like food and housing). It then compares the changes in these components of living costs with the increases in prescription drug prices over the same period.

Section III: The Impact on Household Incomes uses data from the Social Security Administration and the Census Bureau to compare prescription drug price increases with the increases that have occurred in Social Security benefits and incomes for elderly women living alone and for elderly couples. Average prescription prices and the prices of the majority of the prescription drugs commonly used by seniors have grown faster than the Social Security benefits and the total incomes of both income for elderly married couples and elderly women living alone.

That prescription drug prices have increased faster than incomes has meant that the burden of paying for prescription drugs has worsened for the elderly across the United States. Section IV: The Impossible Choices shows that seniors today are paying a greater percent of their income for prescription drugs. This section of the report also includes a number of case studies of elderly couples and individuals whose prescription drug costs consume an inordinate percentage of their incomes.

This report shows that the increasing prices of prescription drugs represent a burden not just for low-income seniors but for middle-income seniors as well. Any solution to the problem of prescription drug coverage must address both the needs of this broader spectrum of the elderly population and the soaring prices of prescription drugs.

Section I: The Basics

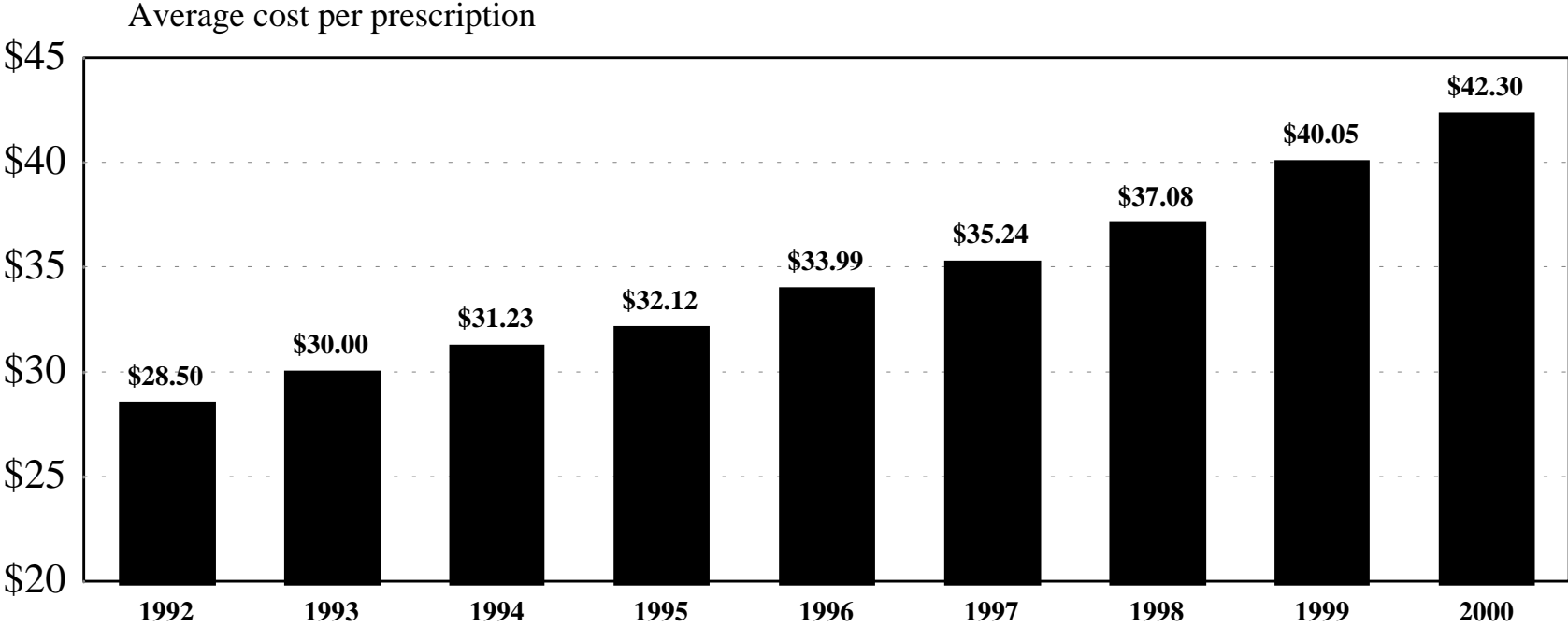
What has happened to prescription drug prices during the 1990s?

Over the last 8 years, the average cost per prescription for senior citizens increased steadily.

- From 1992 through 2000, according to a recent report by Families USA, the average cost per prescription for senior citizens grew from \$28.50 to \$42.30, an increase of over 48%.
- In 5 of these 8 years, the average price per prescription increased by more than 5%.
- In only one of the 8 years, did the average price increase by less than 3%.
- For a senior citizen whose usage remained constant during this period, at 23.5 prescriptions per year — the average number of prescriptions per senior for the 8 year period — the increase in price alone would have increased the average senior's prescription drug costs from \$669.75 per year to \$994.05 per year.
- For seniors with greater health problems and a greater need for prescription drugs, the increase over the period would have been even more substantial as will be demonstrated later in this report.
- A couple, such as the Bergeons of South Milwaukee, who now spend about \$6,500 annually for their prescription drugs, would be devoting \$2,120 (or more than 10%) less of their annual \$21,000 income to prescription drugs if it were not for these price increases.

* Families USA, "Cost Overdose: Growth in Spending for the Elderly, 1992-2010," July 2000.

The average cost per prescription for senior citizens in the U.S. increased by over 48.4% between 1992 and 2000



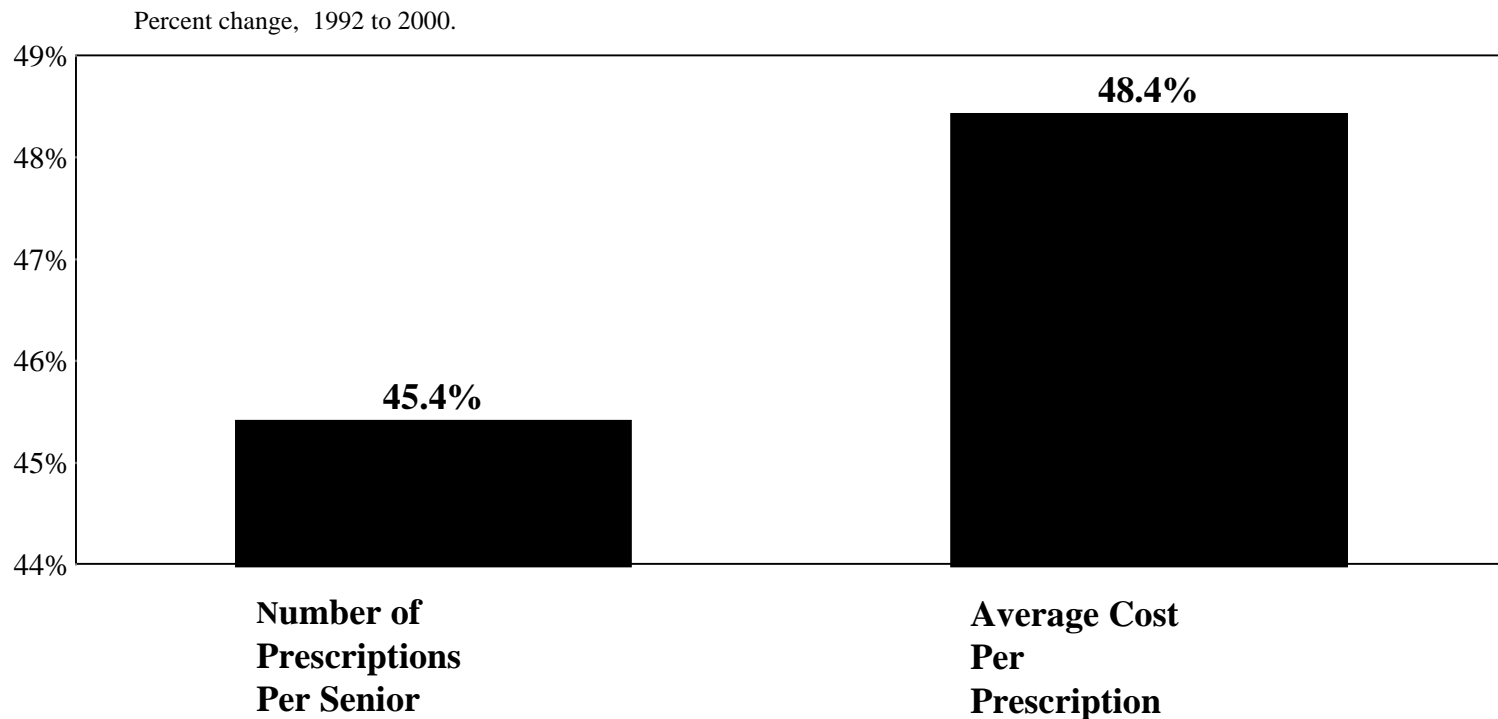
Source: Families
USA.

More than half of the increase in prescription drug expenditures has been driven by the growth in the average price per prescription.

In its July 2000 report, *Cost Overdose: Growth in Drug Spending for the Elderly, 1992 -2010*, Families USA, in conjunction with PRIME Institute of the University of Minnesota, used data from the Medicare Current Beneficiary Survey to calculate both total and average prescription drug expenditures per senior for the period 1992 to 1996. Data from the Health Care Financing Administration (HCFA), Office of the Actuary, was then used to estimate total and average prescription drug expenditures per senior for the years 1997 to 2000.

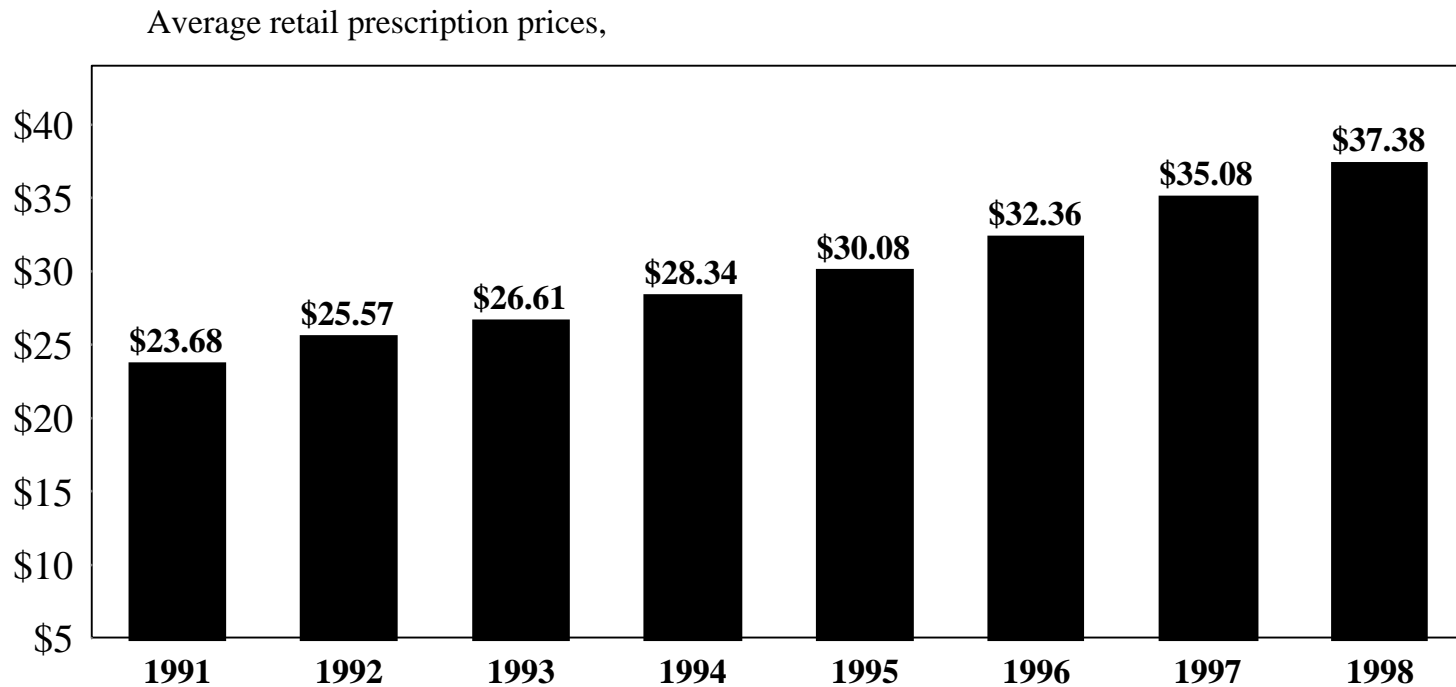
- Annual spending per elderly person for prescription drugs grew from \$559 in 1992 to \$1,205 in 2000, an increase of 115.6 percent;
- Some of this growth in spending is the result of increasing usage. The number of prescriptions per elderly person grew from 19.6 in 1992 to 28.5 in 2000, an increase of 45.4 percent.
- A more significant factor, however, in driving up spending on prescription drugs was the increase in the average cost per prescription. The average cost per prescription for the elderly increased from \$28.50 in 1992 to \$42.30 in 2000, an increase of \$13.80 per prescription or 48.4 percent.

Over the last eight years, the average cost per prescription has increased more than prescription drug usage.



Source: Families USA, "Cost Overdose: Growth in Drug Spending for the Elderly, 1992-2010," July 2000.

Retail prescription drug prices have increased significantly since 1991.



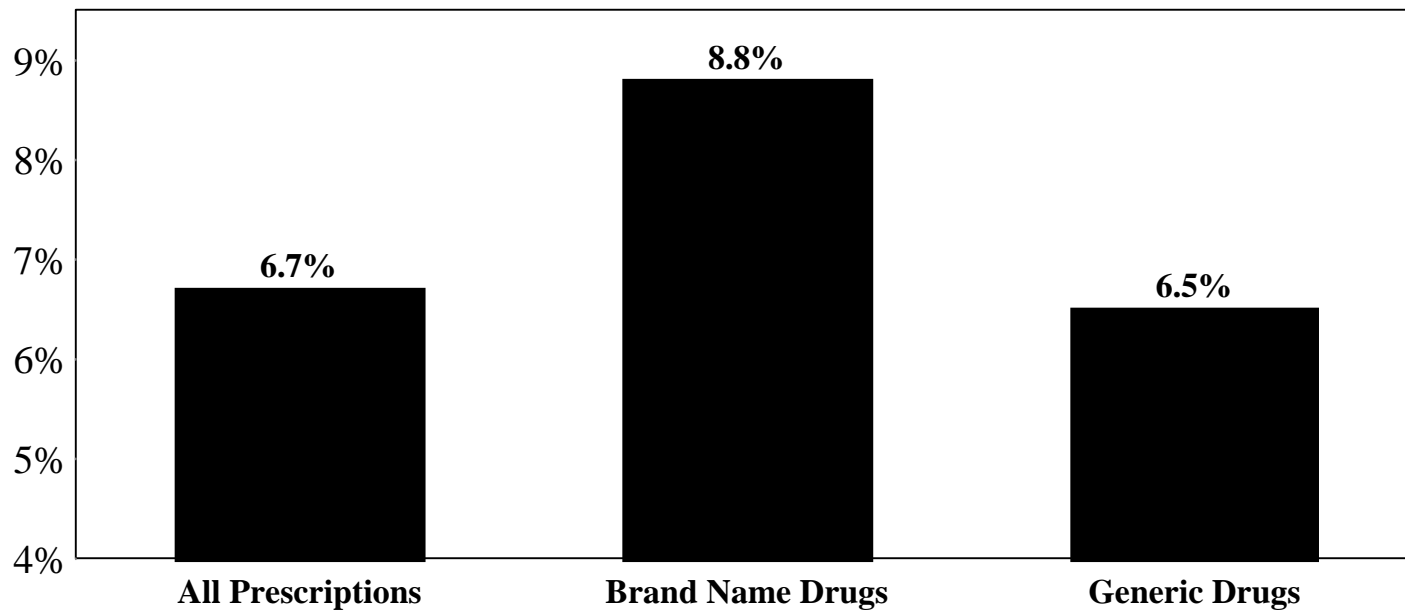
Source: Prescription Drug Trends: A Chartbook, The Henry J. Kaiser Family Foundation, July 2000.

During the 1990's, the price of brand name drugs grew even faster.

- In a July 2000 report, the Kaiser Family Foundation reported that the average retail price of all prescriptions grew from \$23.68 in 1991 to \$37.38 in 1998.
- This represented a 59% increase over the course of the seven year period, and an average annual increase of over 6.7% per year.
- Over this same seven year period, the retail price of brand name drugs grew even more rapidly — 8.8% per year.

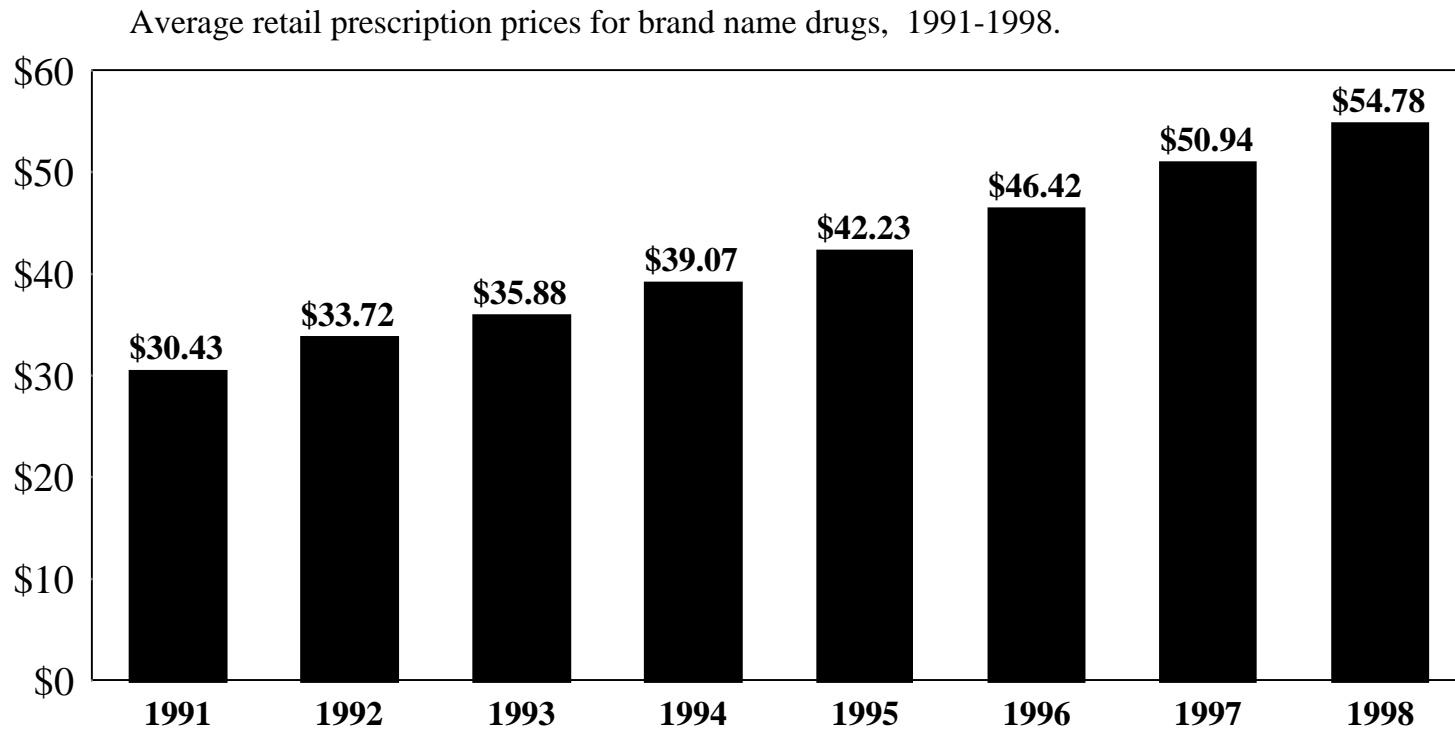
On average, retail prescription prices for brand name drugs increased by 8.8% per year during the 1990s.

Average annual percent change in retail prescription prices, 1991-1998.



Source: Prescription Drug Trends: A Chartbook, The Henry J. Kaiser Family Foundation, July 2000.

While brand name prescriptions cost 28.5% more than all prescriptions in 1991, they cost 46.6% more



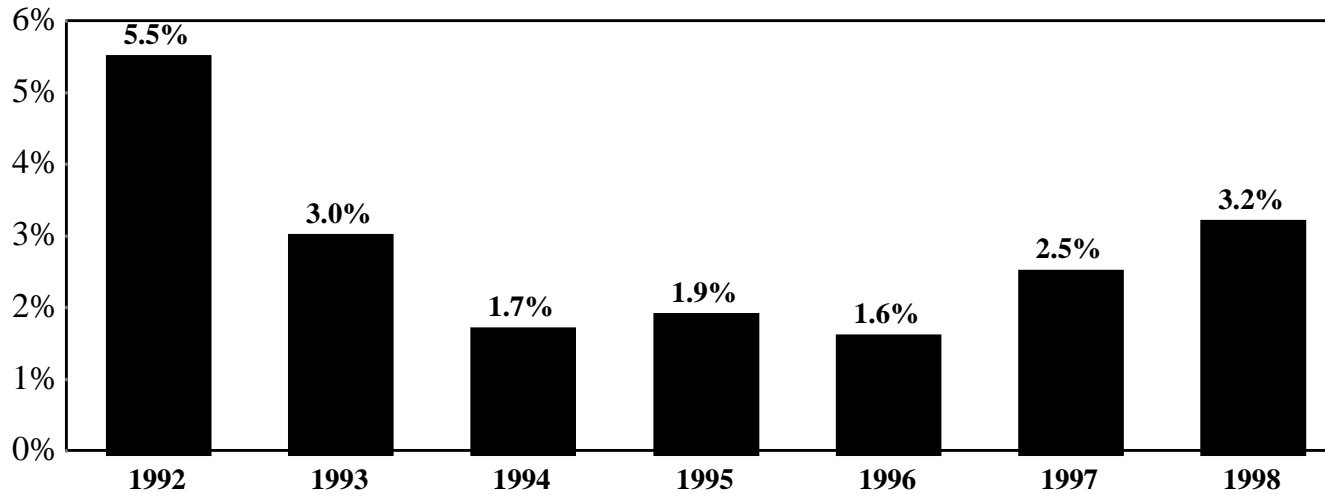
Source: Prescription Drug Trends: A Chartbook, The Henry J. Kaiser Family Foundation, July 2000.

While some of the increase in the average retail price of a prescription can be explained by shifts to the use of new, more expensive drugs, the prices for existing drugs have gone up year after year.

- According to a July 2000 Kaiser Family Foundation report, manufacturers prices for existing drugs have increased every year during the 10-year period studied.*
- On average, drugs that were marketed for the entire period studied, cost 52% more in 1998 than in 1989.

Prices of existing prescription drugs have increased rapidly.

Percent change in manufacturer price of existing prescription drugs from previous year, 1992-1998.



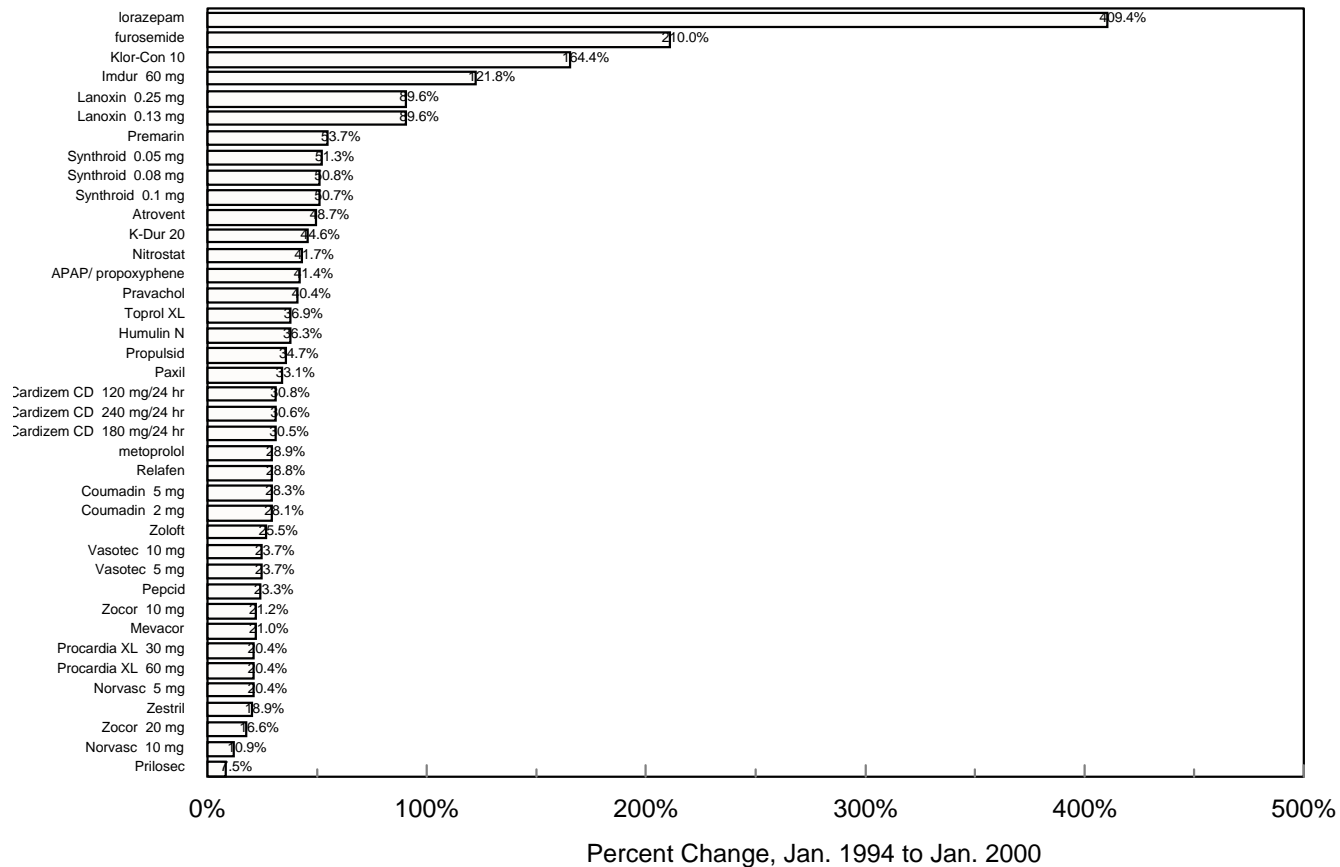
Source: Prescription Drug Trends: A Chartbook, The Henry J. Kaiser Family Foundation, July 2000.

- The Kaiser Family Foundation, "Prescription Drug Trends: A Chartbook," July 2000.

A study of the 50 prescription drugs most commonly used by older Americans found that prices increased by over 30%, from January 1994 to January 2000, for the existing drugs that were marketed throughout this period.

- The prices of the 39 such drugs that were marketed during all of this six year period, when weighted on the basis of sales, increased by 30.5%.
- Of these 39 drugs,
 - 4 saw their prices more than double
 - 10 had price increases of 50% or more
 - 27 have had price increases of more than 25%
 - all except 2 had increases of more than 15%.

The prices of the prescription drugs most commonly used by older Americans increased substantially over the last six years.



Of the 39 drugs, commonly used by older Americans, that were marketed during the entire 6-year period studied, 27 had 6 or more price increases. One drug (Imdur) had 11 increases and two others (Premarin and Atrovent) had 10 increases each.

Number of Increases 1994-2000	Name of drugs
11	Imdur
10	Premarin, Atrovent
9	Synthroid (.01 mg), Synthroid (.05 mg), Synthroid (.08 mg)
8	Lanoxin (0.13 mg), Pravachol, Lanoxin (0.25 mg)
7	Humulin N, Topral XL, Propulsic, metaprolol
6	Norvasc (5 mg), Pepcid, Vasotec (5 mg), Procardia XL (30 mg), Zolof, Vasotc (10 mg), Cardizem CD (240 mg), Cardizem CD (180 mg), Coumadin (5 mg), Procardia XL (60mg), Coumadin (2 mg), Klor-Con 10, Paxil, Relafen, Cardizem CD (120 mg) , Nitrostat
5	Prilosec, Zocor (10 mg), Mevacor, Iorazepam
4	Norvasc, Zocor (20 mg), Zestril
3	Xalatan
2	APAP/propoxyphene, forosemide

Source: Families USA, "Still Rising: Drug Price Increases for Seniors 1999-2000," April 2000.

For all 50 of the prescription drugs commonly used by older Americans, the overwhelming majority (83.9%) of the year-to-year price changes exceeded the average annual rate of inflation (2.4%) for this period. Of the total number (273) of year-to-year price changes studied, there were only 2 reductions.

	Year-to-Year Price Changes	Number of Changes of This Type
	Reductions	2
	No Change	39
	0 to 1.8%	3
	2.5 to 4.4%	133
	5 to 9.8%	62
	10 to 22.5%	25
	25% or more	9
	Total	273

Section II: The Cost Factors

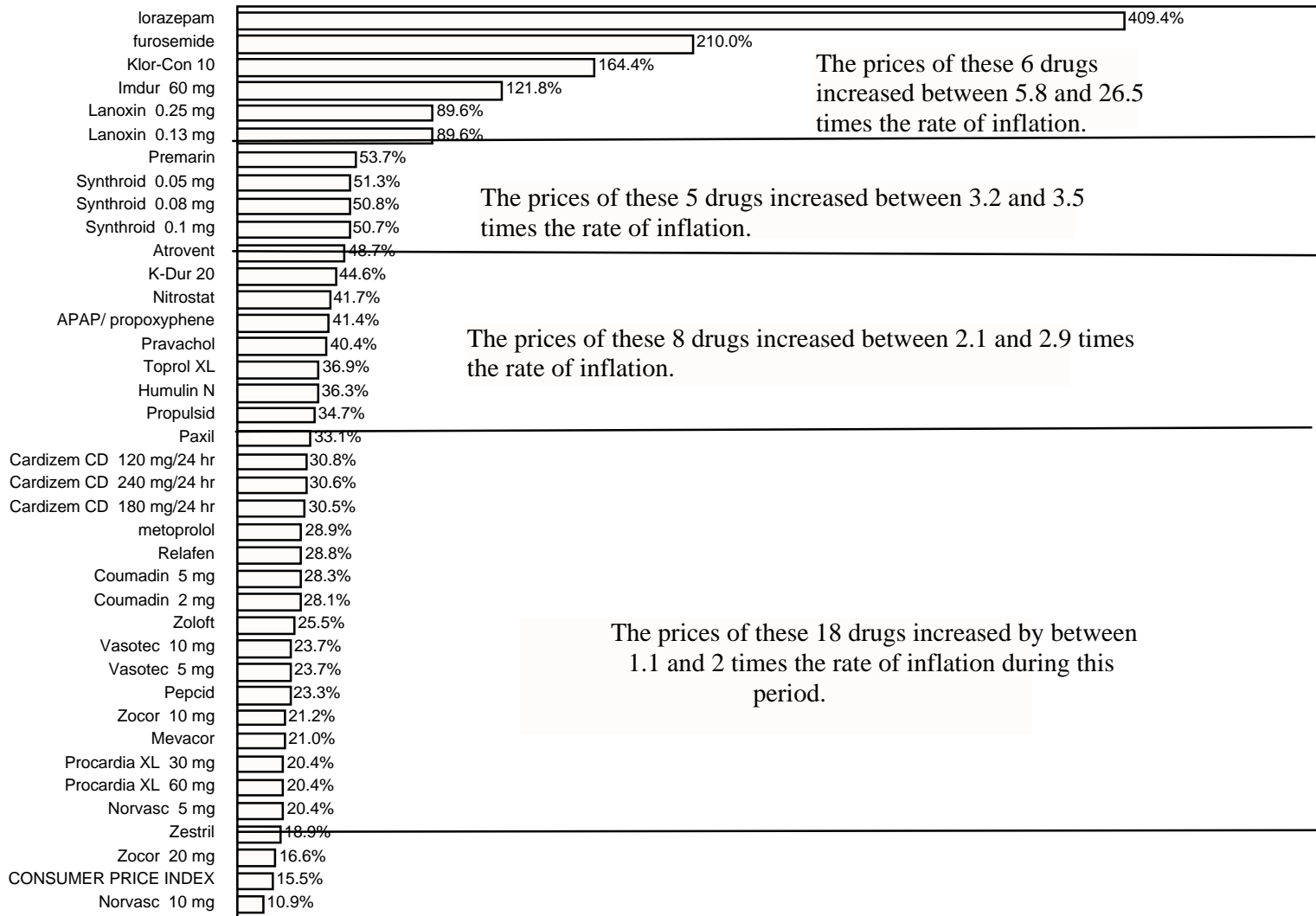
How have the increases in prescription drug prices compared to increases in the overall cost of living and the cost of other necessities?

37 of the 39 prescription drugs most commonly used by seniors (which were marketed throughout the January 1994 to January 2000 period) experienced price increases greater than the increase in overall prices.

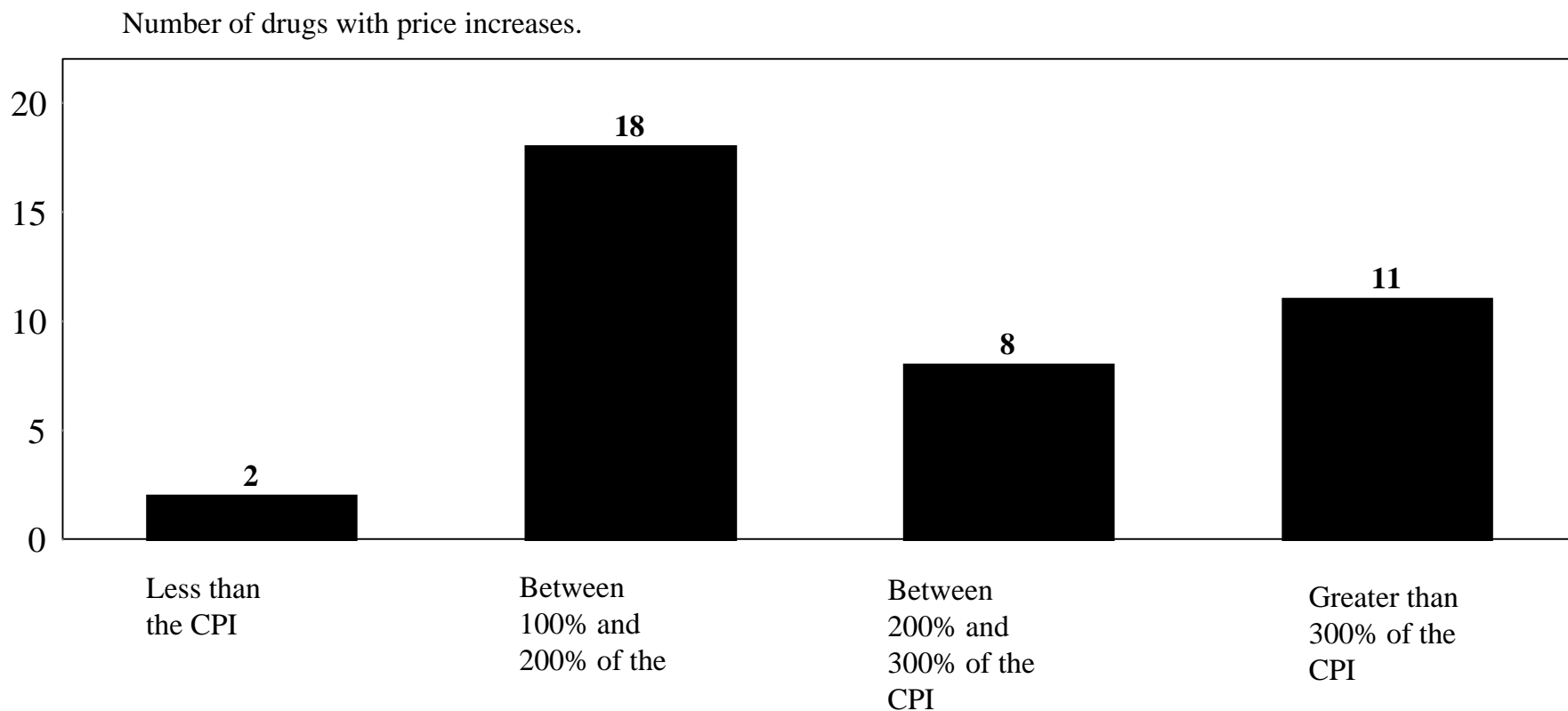
- Between January 1994 and January 2000, the overall Consumer Price Index (CPI) increased by 15.5%
- During this same period, the prices of all but two of these 39 prescriptions drugs increased faster than the CPI
- 19 of these prescription drugs experienced price increases which were greater than twice the overall increase in the Consumer Price Index during this period
- 8 of these prescription drugs increased in price more than TRIPLE the overall change in the Consumer Price Index.

Source: Fiscal Policy Institute analysis of drug price data reported by Families USA in “Still Rising: Drug Price Increases for Seniors: 1999-2000,” April 2000.

The prices of virtually all of the prescription drugs most commonly used by older Americans increased faster than inflation much faster most have increased

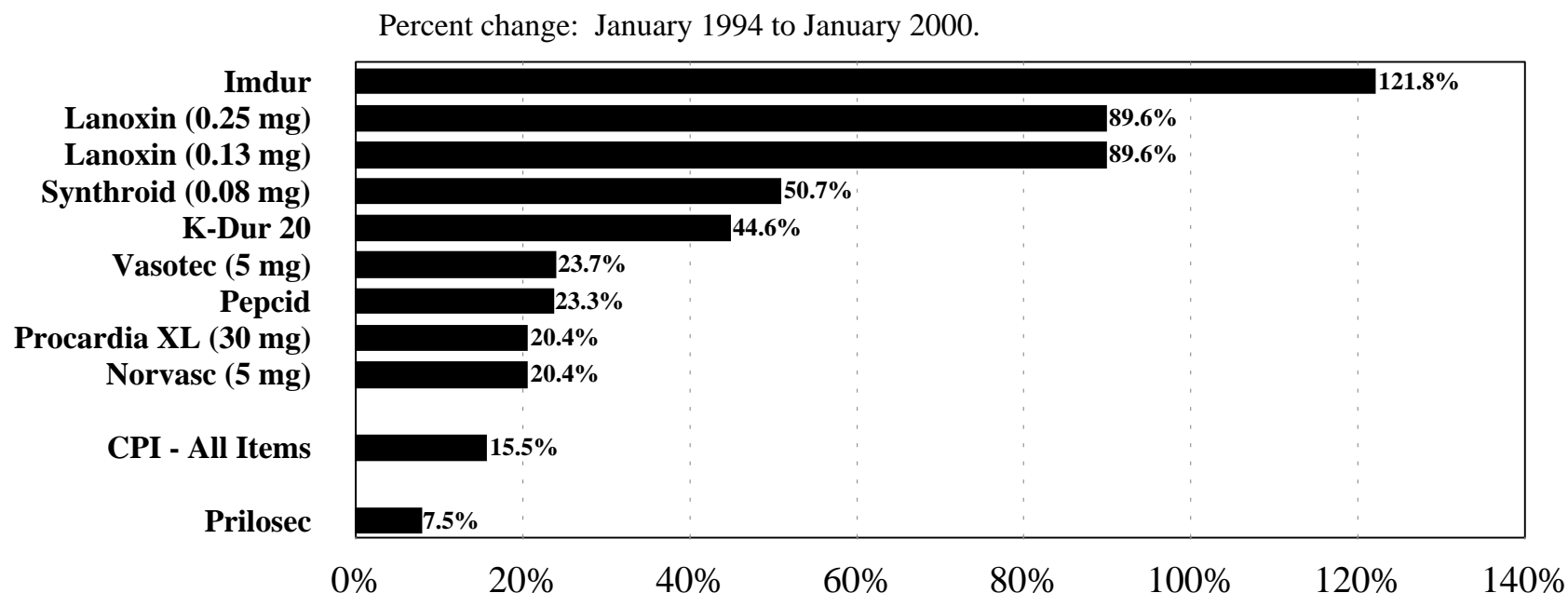


The prices of almost all of the prescription drugs most commonly used by seniors have risen much faster than the overall Consumer Price Index.



Sources: "Still Rising: Drug Price Increases for Seniors 1999-2000," Families USA, April 2000.
Change in the Consumer Price Indices from the U.S. Bureau of Labor Statistics.

The prices of 9 of the 10 prescription drugs most commonly used by the elderly have risen faster than Consumer Price Index, with 5 of those drugs increasing by almost 3 times or more greater than the rate of inflation.



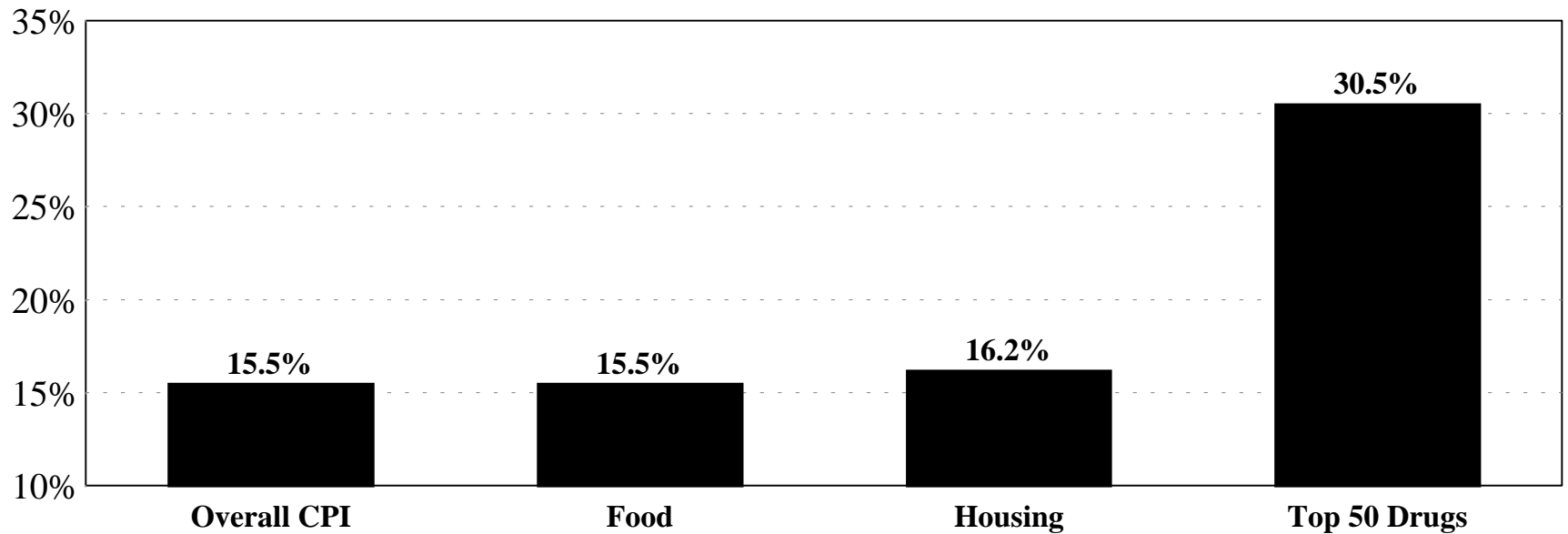
Sources: Change in the prices of prescription drugs from "Still Rising: Drug Price Increases for Seniors 1999-2000," Families USA, April 2000. Change in Consumer Price Index from the U.S. Bureau of Labor Statistics.

Other basic necessities are increasing at about the same rate as the overall CPI, but prescription drugs are putting much greater pressure on the budgets of older Americans.

- Senior citizens whose income increased at the rate of inflation, would be able to keep up with the cost of most necessities.
- But seniors who are in ill health or otherwise in need of prescription drugs face a much more difficult situation, even if their incomes are growing as fast as the CPI.
- For seniors with fixed incomes and substantial drug costs, something has to give.

The prices of the prescription drugs most commonly used by older Americans have risen nearly twice as fast as the prices of other basic necessities.

Percent change, January 1994 to January 2000.



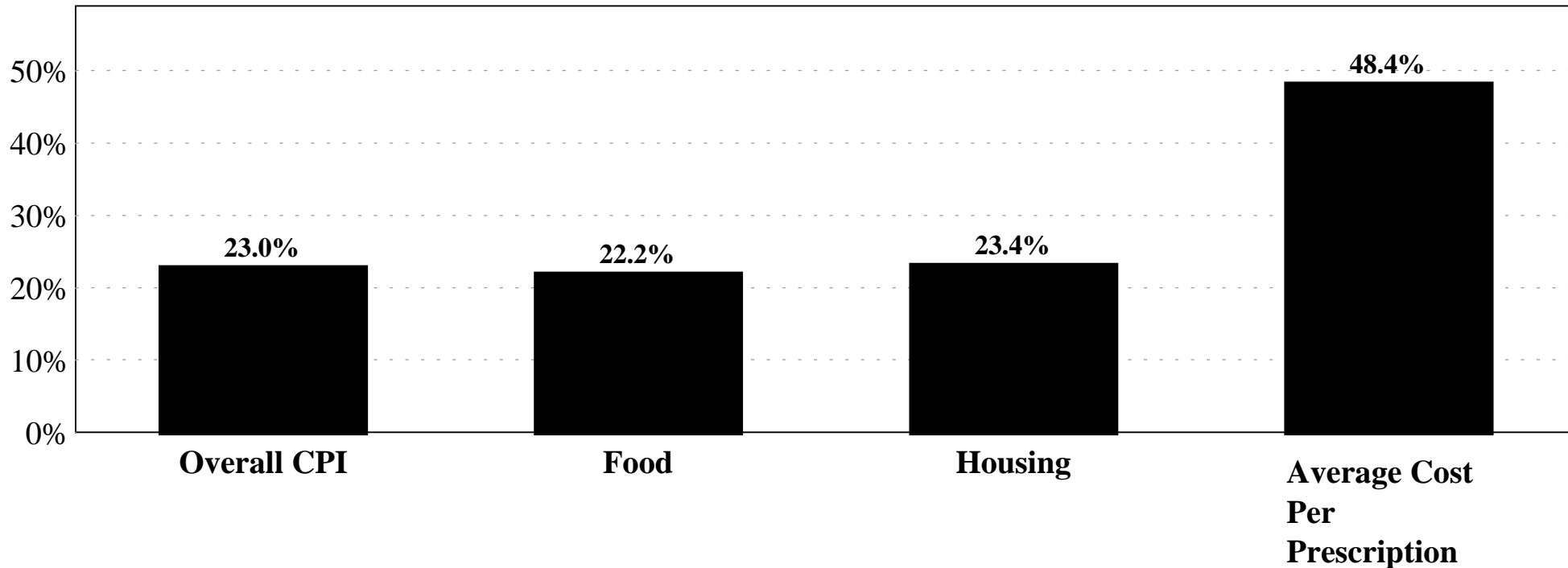
Sources: Weighted average change in the price of the prescription drugs most commonly used by seniors (average weighted by sales) from "Still Rising: Drug Price Increases for Seniors 1999-2000," Families USA, April 2000. Change in the Consumer Price Indices from the U.S. Bureau of Labor Statistics.

The average cost per prescription for seniors has also increased much faster than the prices of other necessities.

- Between 1992 and 2000, the overall Consumer Price Index increased by 23.0%.
- During this same period, the average cost per prescription increased by 48.4% — more than double the increase in overall prices.
- No other basic necessity (food, housing, apparel, transportation) increased as much as the increase in the average cost of prescriptions for seniors.

The average cost per prescription for senior citizens has risen much faster than the prices of other basic necessities.

Percent change, 1992 to 2000.



Sources: Change in the cost per prescription from "Cost Overdose: Growth in Drug Spending for the Elderly, 1992-2010," Families USA, July 2000. Change in the Consumer Price Index from the U.S. Bureau of Labor Statistics.

Section III: The Impact on Household Incomes

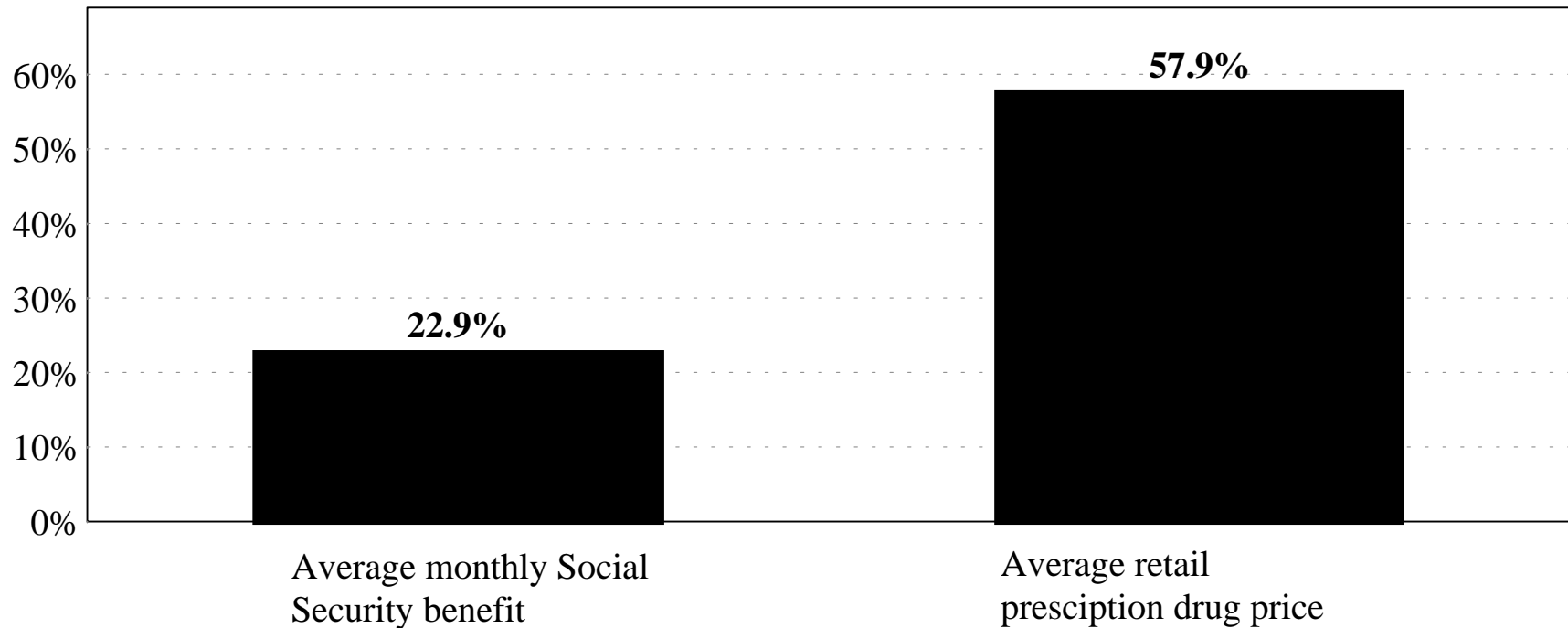
How do the increases in prescription drug prices compare to the increases in Social Security benefits and the overall incomes of the elderly?

Prescription drug costs represent an increasing share of older American's incomes.

- Social Security has an annual Cost of Living Adjustment (COLA) but average prescription drug costs represent an increasing portion of seniors' Social Security benefits.
- Average prescription drug spending for elderly couples as a percent of average Social Security benefits for elderly couples increased from 8.4% in 1992 to 13.5% in 1999.
- This is significant since for most retired Americans, Social Security is the only part of their incomes that is automatically adjusted for inflation.
- From 1991 to 1998, the average Social Security benefit of elderly couples increased by 22.9%. Over the same period, the average retail prescription drug price increased by 57.9%.
- For elderly widows, the situation was very similar with Social Security benefits increasing by 28.3 % in the face of that same 57.9% increase in prescription drug prices.

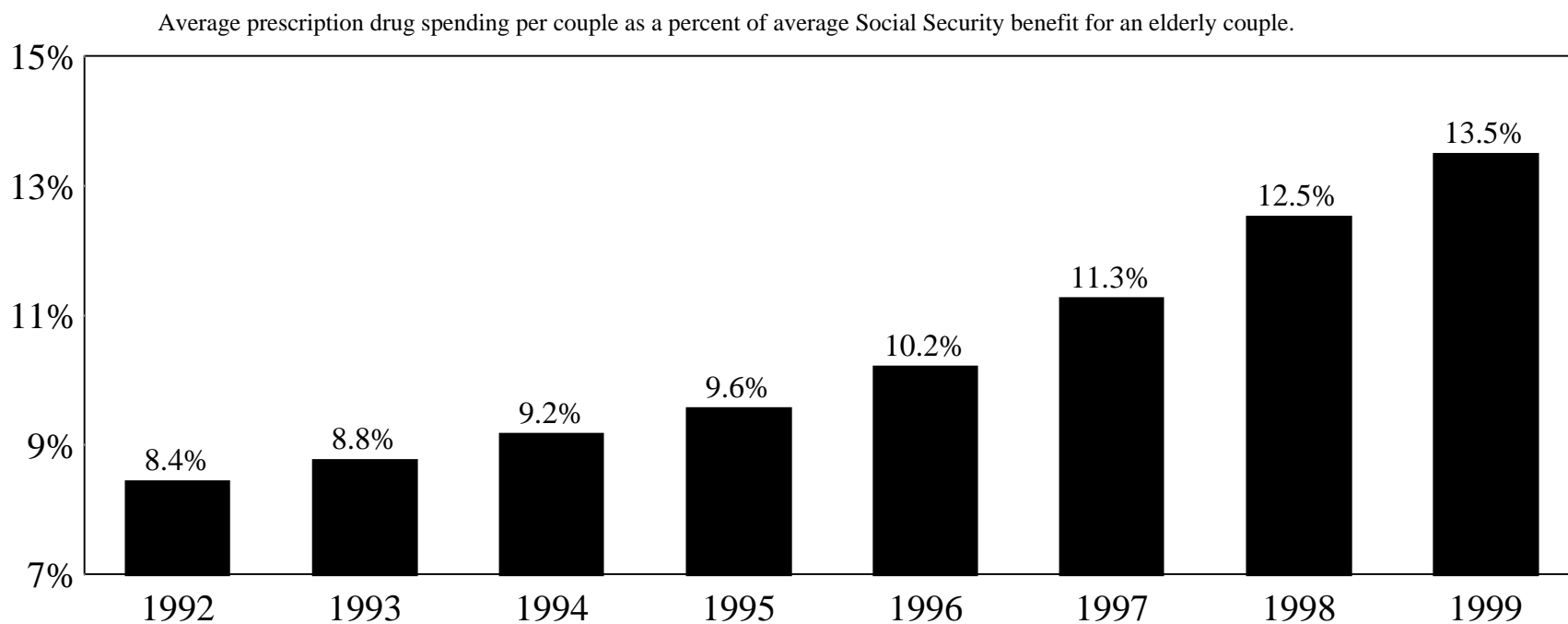
Since 1991, average retail prices for prescription drugs have grown more than twice as fast as average monthly Social Security benefits for elderly couples.

Percent change, 1991 to 1998.



Sources: Prescription Drug Trends: A Chartbook, The Henry J. Kaiser Family Foundation, July 2000 and Office of the Actuary, Social Security Administration

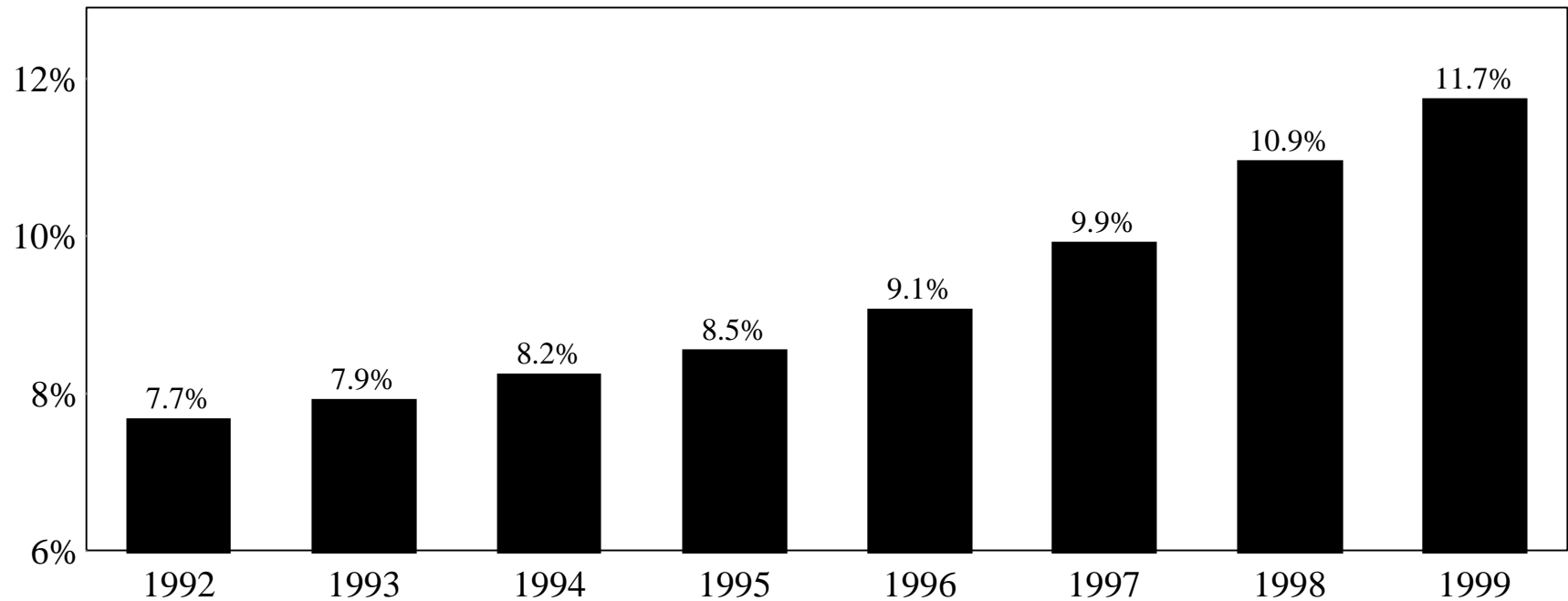
For elderly couples, the percent of the average Social Security benefit consumed by prescription drug spending has increased dramatically.



Sources: Office of the Actuary, Social Security Administration and Families USA.

The same has been true for widows.

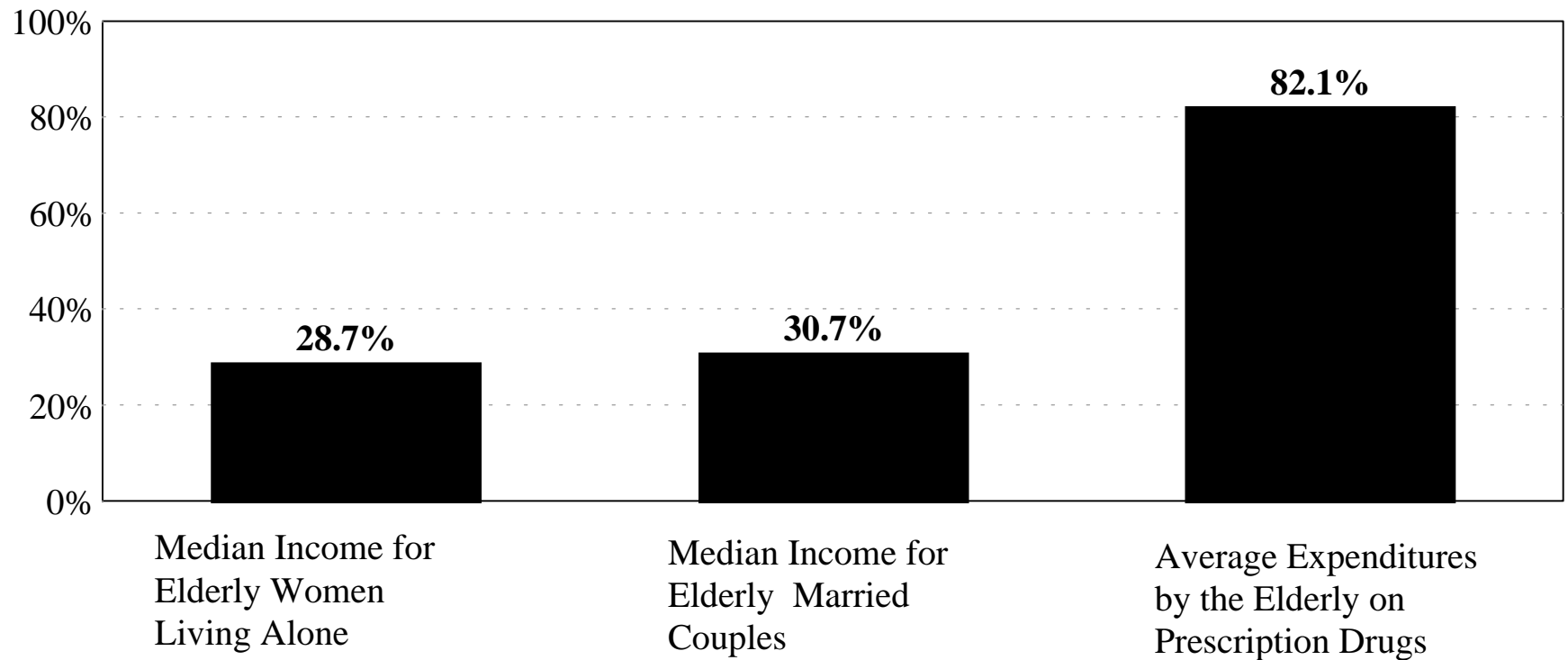
Average prescription drug spending per senior as a percent of average Social Security benefit for a widow.



Sources: Office of the Actuary, Social Security Administration and Families USA.

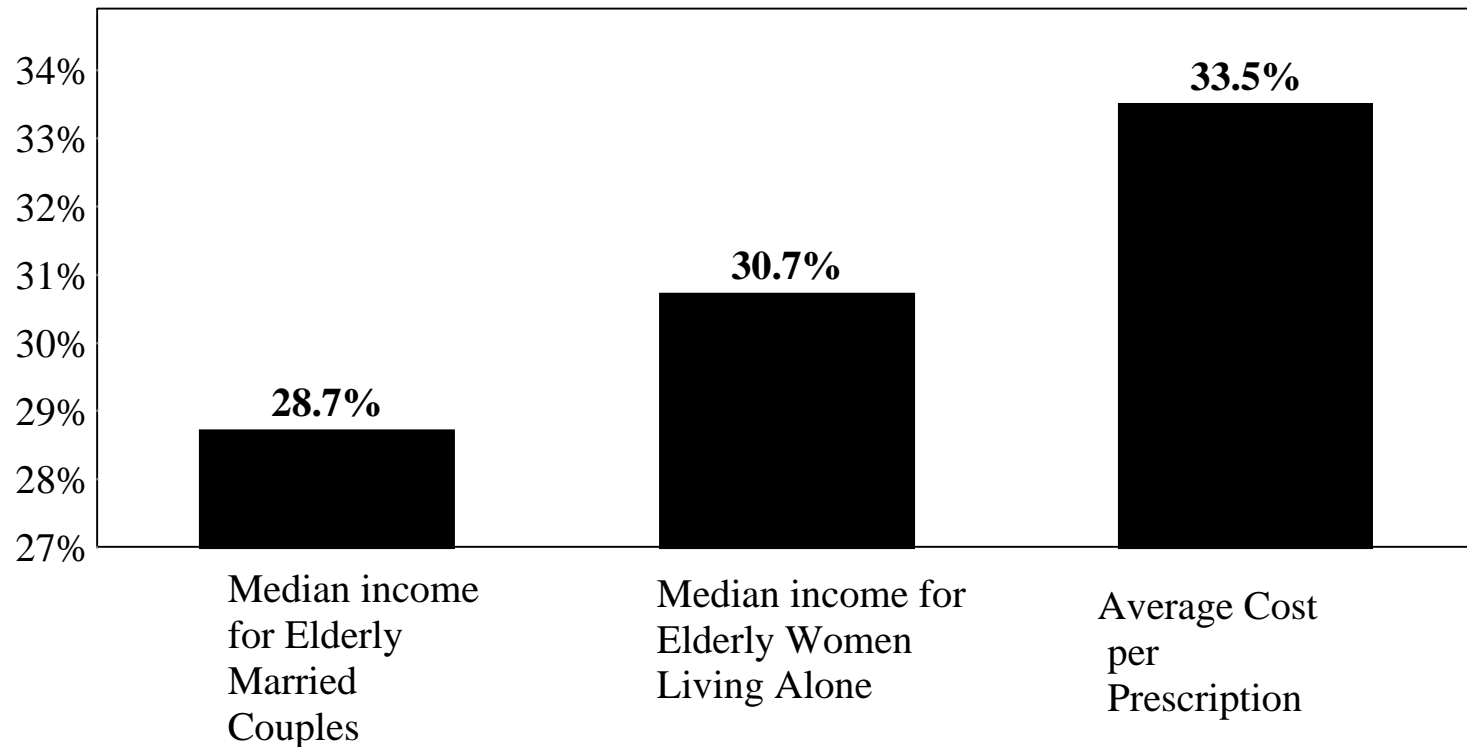
Average expenditures on drugs have grown much faster than the median income of older Americans.

Percent change, 1993 to 1999

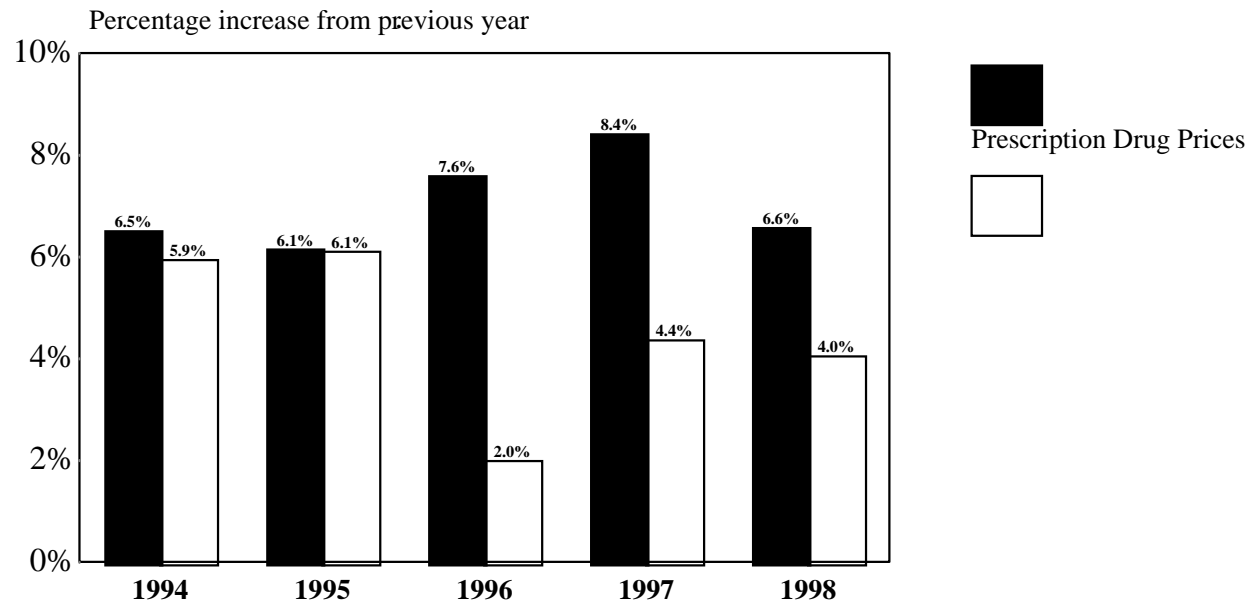


The average cost per prescription has also grown faster than seniors' incomes.

Percent change, 1993 to 1999.

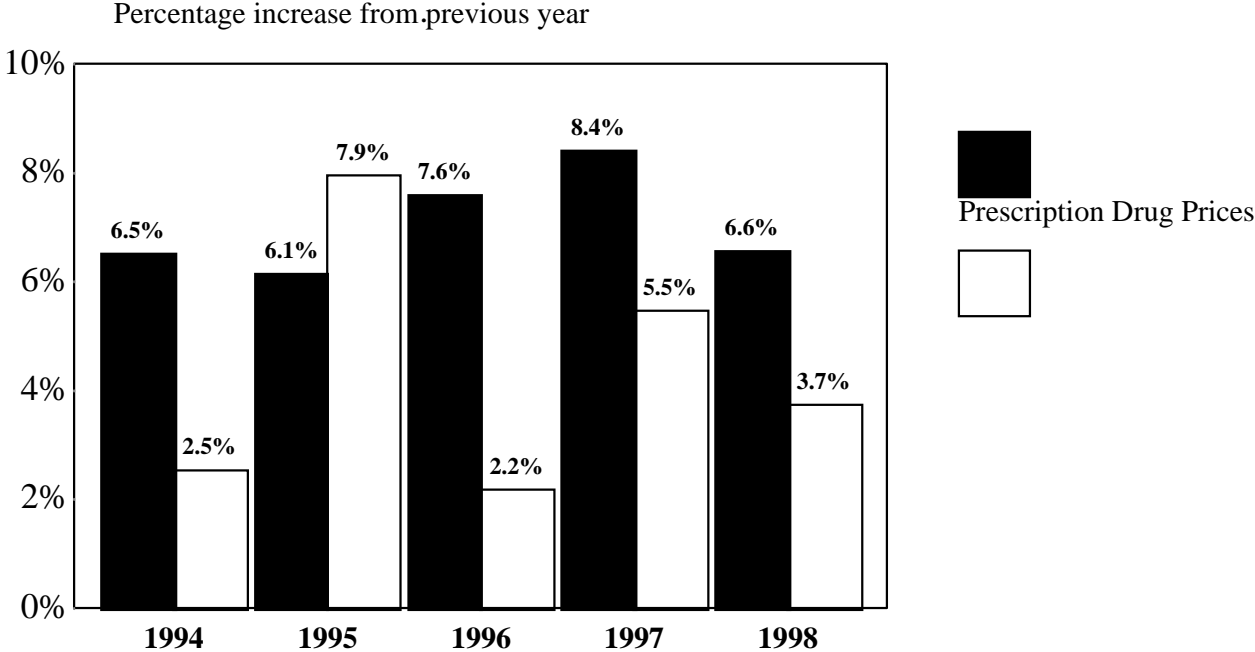


In recent years, the annual increases in retail prescription prices have exceeded the increases in the median income of women living alone.



Sources: Prescription Drug Trends: A Chartbook, The Henry J. Kaiser Family Foundation, July 2000 and U.S. Census Bureau.

In four out of the five years between 1994 and 1998, the a retail prescription drug prices have exceeded the increase elderly married couples.



Sources: Prescription Drug Trends: A Chartbook, The Henry J. Kaiser Family Foundation, July 2000 and U.S. Census Bureau.

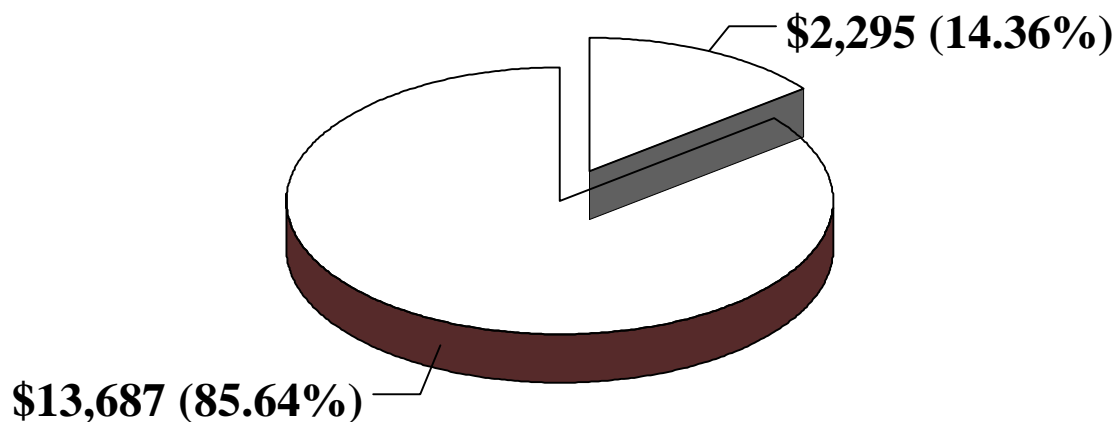
Section IV: The Impossible Choices

What do the combinations of increasing drug prices and relatively stagnant incomes mean for some typical elderly households and for some real ones?

Elderly women, even those who are not considered poor, are particularly burdened by high prescription drug costs.

- Elderly women tend to have very low incomes
 - In 1999, 20 percent of elderly women living alone had incomes below the federal poverty threshold of \$7,991.
 - Almost two-thirds — 62.2% — had incomes below 200% of the federal poverty threshold or \$15,982.
- Even with an income at 200% of the poverty threshold, an elderly woman with just three prescriptions can have prescription drug costs consume up to 14% of income.

A widow living on \$15,982 per year (200% of the poverty level) could easily spend 14% of her income on prescription drugs.

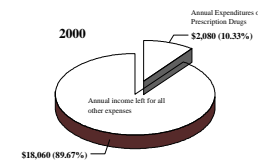
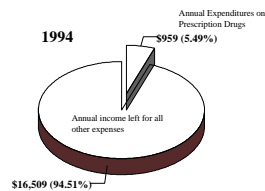


	Annual Cost
Glucophage 500 mg (diabetes)	\$ 708
Procardia XL 30/60 mg (hypertension)	\$ 821/901
Lipitor 10 mg (cholesterol)	\$ 686
Total	\$1,915/2,295

The high cost of prescription drugs also puts increasing pressure on the budgets of many elderly couples.

- Although elderly couples have a relatively low official poverty rate, many have incomes just above the poverty threshold of \$10,070. In 1999, almost one fourth of the elderly individuals living in married couple families had family incomes less than \$20,140 or 200% of the federal poverty threshold and more than 40% had incomes less than 300% of the threshold.
- An elderly couple using five prescription drugs (lorazepam, Klor-Con 10, Imdur, Premarin and Atrovent) with an income at 200% of the poverty threshold in 1994 spent about 5.5% of its income on prescription drugs in 1994.
- An elderly couple with an income at 200% of the poverty line today would need to spend over 10% of its income to purchase the same bundle of prescription drugs.

Prescription drug costs represent a substantially greater burden on the incomes of many elderly households today than just six years ago.

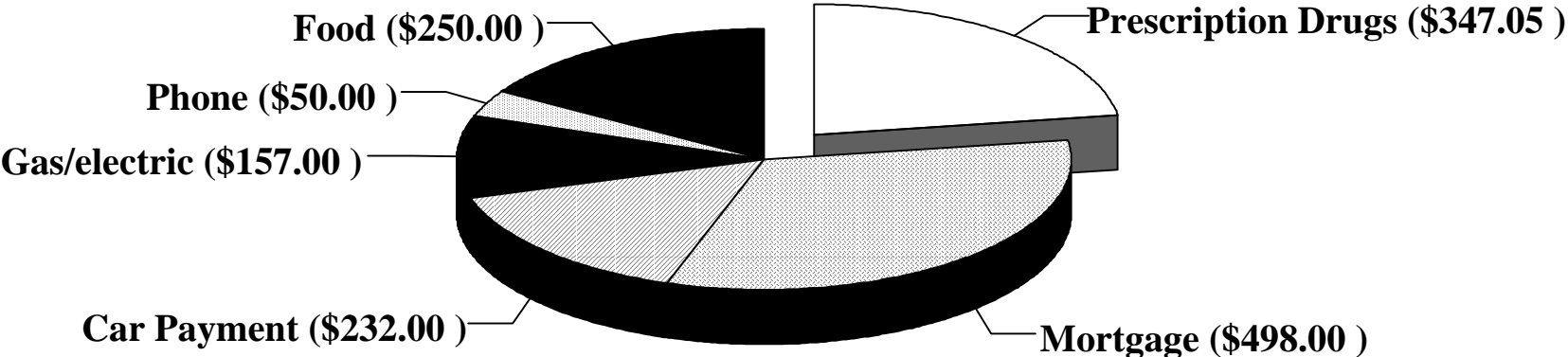


Prescription Drug	Annual Cost: 1994	Annual Cost: 2000
Iorazepam	\$ 97	\$ 493
Klor-Con 10	\$ 108	\$ 286
Imdur	\$ 237	\$ 525
Premarin	\$ 135	\$ 208
Atrovent	\$ 382	\$ 568
TOTAL	\$ 959	\$ 2,080
200% of FEDERAL POVERTY THRESHOLD	\$17,468	\$20,140

In Binghamton, New York, the Gourleys spend more on prescription drugs than they do on food each month.

<u>Prescriptions</u>	<u>Monthly Cost</u>	<u>Other Necessities</u>	<u>Monthly Cost</u>
Tenormin	\$34.49	Food	\$250.00
Xanax	\$66.89	Mortgage	\$498.00
Zoloft	\$72.19	Car Payment	\$232.00
Zocor	\$137.99	Gas/electric	\$157.00
Prempro	\$35.49	Phone	\$50.00
Total	\$347.05	Total	\$1,187.00

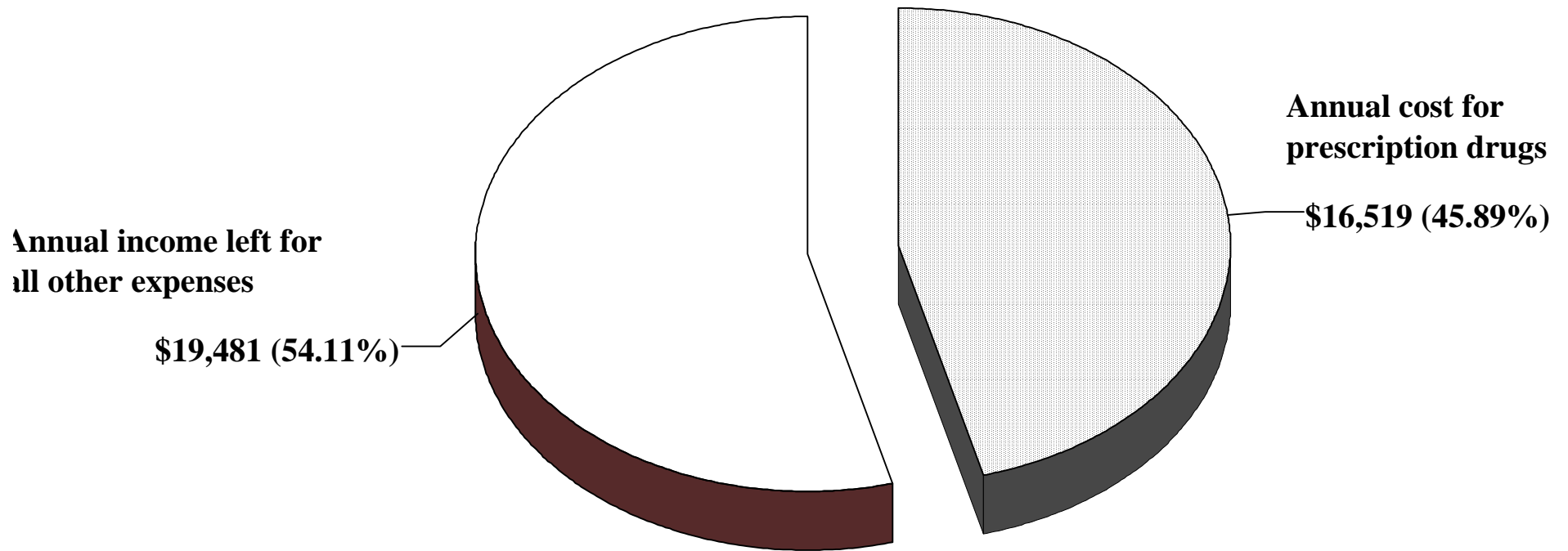
For the Gourleys, prescription drugs are the second largest expense each month in their household budget.



The McHughs of Narberth, Pennsylvania spend over \$16,000 per year on prescription drugs. This is more than 45% of their annual income.

		<u>Required Prescriptions</u>	<u>Annual Cost</u>
	Catherine	Sporanox	\$9,000.00
		Prednisone	\$11.88
		MagOx	\$55.80
		Fosamax	\$637.68
		Oscal	\$65.48
		Betapace	\$1,482.48
		Paxil	\$759.84
		Temazepam	\$102.96
		Prograf	\$1,800.00
	William	Lipitor	\$928.80
		Proscar	\$723.60
		Hytrin	\$583.20
		Vasotec	\$367.20
	TOTAL		\$16,518.92

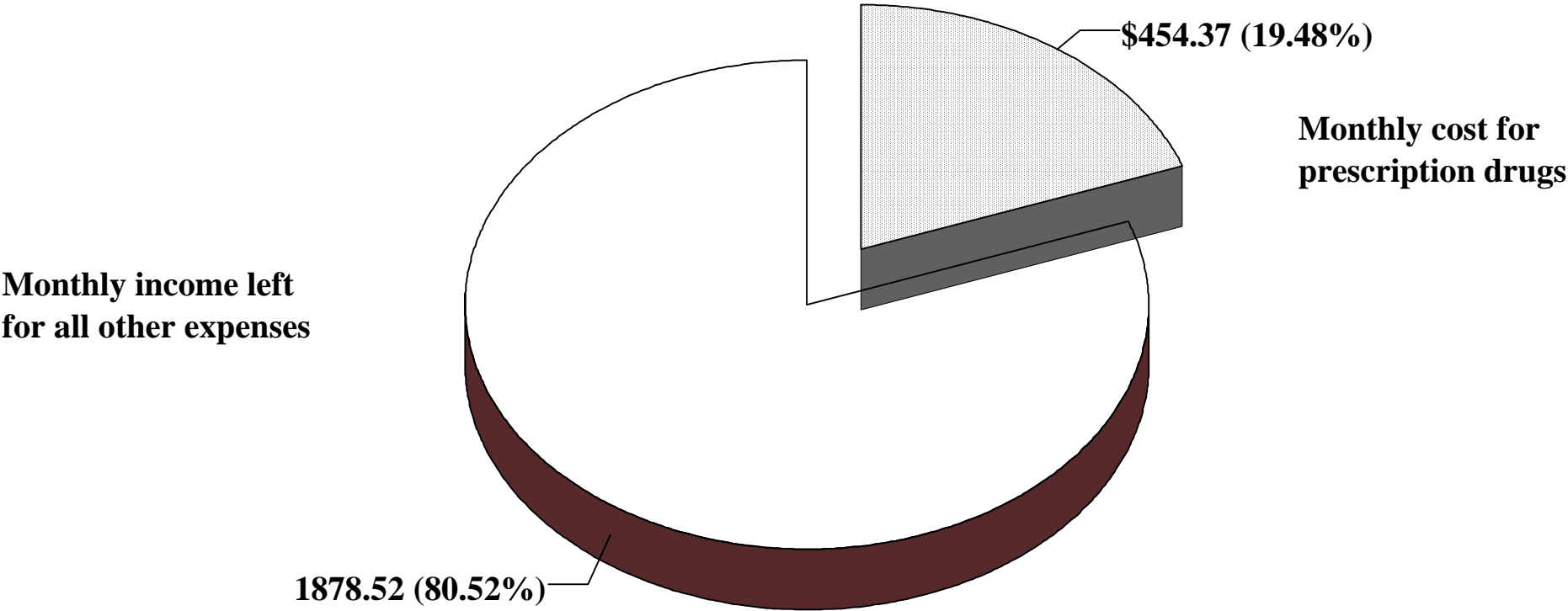
The McHughs spend 45% of their annual income on prescription drugs.



Joseph and Ruth Podraza of Waukegan, Illinois spend \$454.37 per month for Ruth's prescriptions drugs.

<u>Prescription</u>	<u>Monthly Cost</u>
Aricept	\$58.21
Colchicine	\$9.66
Cozar	\$36.93
Digoxin	\$2.59
Effexor	\$153.28
Hydrochlorat	\$1.50
Probenecid	\$33.36
Verapamil	\$12.84
Wellbutrin	\$43.89
Doxepin	\$20.39
Zocor	\$53.39
Fiorinal	\$18.34
Nitrostat	\$9.99
Monthly Total	\$454.37

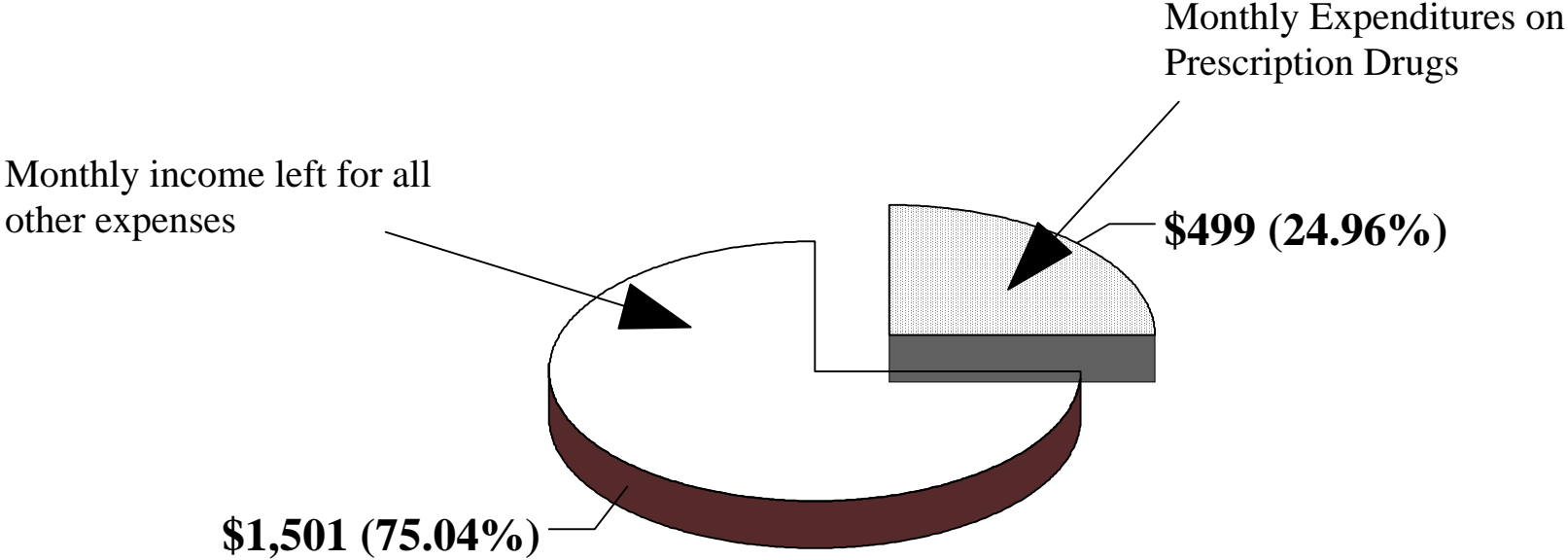
Joseph and Ruth Podraza spend almost 20% of their monthly income on prescription drugs.



Richard and Nelda Hart in Erie, Pennsylvania spend almost \$500 per month on prescription drugs.

Prescription	Monthly Cost
Tomoxifen	\$80
Plavix	\$90
Provocal	\$99
Miacalcin	\$58
Synthroid (generic)	\$15
Acupril	\$30
Lopresser	\$10
Lipitor	\$97
Others	\$20
Total	\$499

The Harts, an elderly couple living in Erie, Pennsylvania, spend one quarter of their monthly income on prescription drugs.



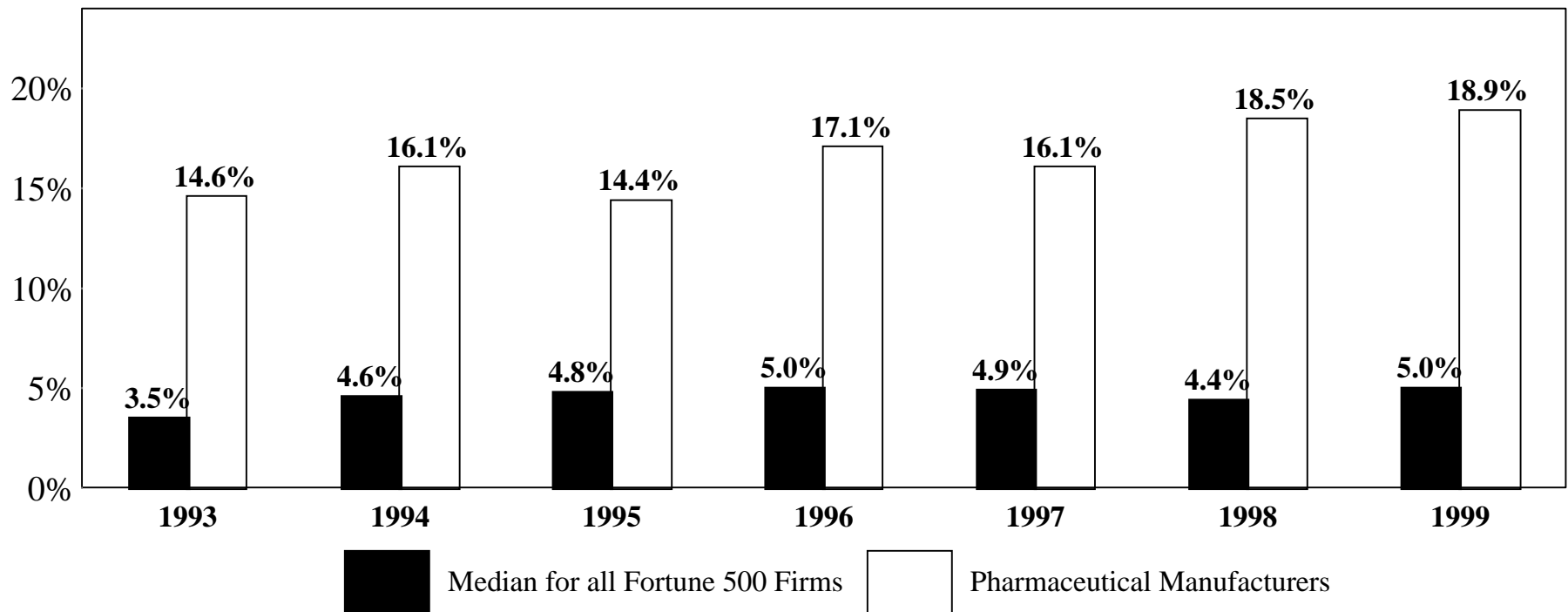
"I think seniors have legitimate complaints. My wife and I pay \$1,200 a month for nine prescriptions. If we don't have the money, we have to scrimp and save and see if we have it next month. " *John Dellaria, Elk Grove Village, Illinois*

Appendix A

Pharmaceutical Industry Profits

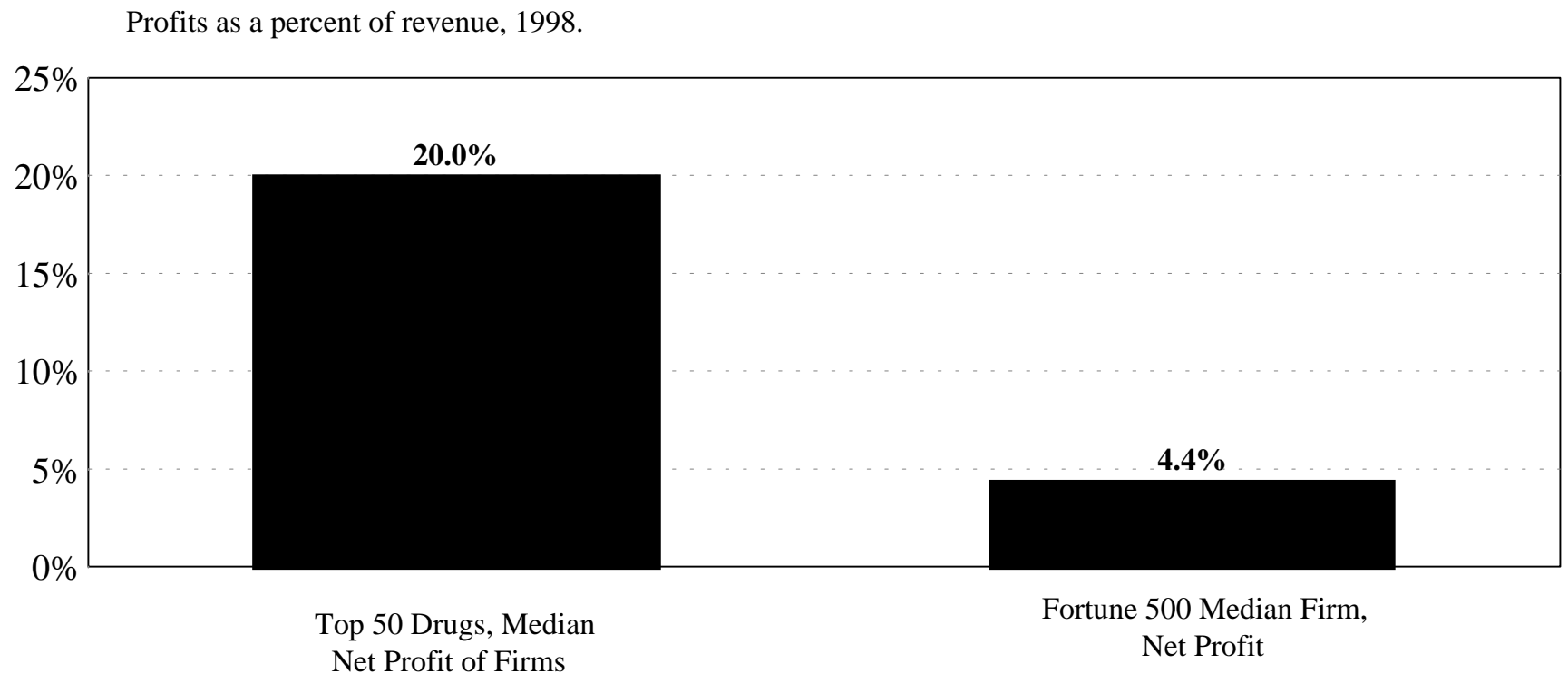
Pharmaceutical manufacturers have ranked first in profitability among all industries.

Median percent net profit after taxes as a percent of firm revenues for all firms in the industry.



Source: Prescription Drug Trends: A Chartbook, The Henry J. Kaiser Family Foundation, July 2000.

The manufacturers of the top 50 drugs used by the elderly were almost five times more profitable than the median Fortune 500 firm.



Source: "Hard to Swallow: Rising Drug Prices for America's Seniors," Families USA, November