



# Fact Sheet

Senator Jay Rockefeller, West Virginia

April 11, 2013

## Medicare Drug Savings and Pharmaceutical Research & Development (R & D)

*In its opposition to the Medicare Drug Savings Act, the pharmaceutical industry has employed scare tactics and made unsubstantiated comments. Chief among these is the industry's suggestion that restoring negotiated prices to dual eligibles and other low-income Medicare beneficiaries will reduce funding for R & D, causing patients to suffer.*

### **A loss of pharmaceutical profits will not result in a reduction of research and development in the United States.**

Numerous independent analyses have indicated that Part D rebates would not be a deciding factor in drug companies' R & D budgets. Drug companies provided these rebates to dual eligibles when they received their drug coverage through Medicaid. The Medicare Drug Savings Act simply requires pharmaceutical companies to revert back to the same pricing structure in place before dual eligibles gained coverage through the Medicare prescription drug benefit. Evidence suggests that prior to 2006, when the rebates were in effect, R & D was not impacted by the lower drug prices for dual eligibles.

Additionally, the U.S. continues to provide a very profitable environment for the pharmaceutical industry. Federally funded research, tax breaks and favorable trends in patent legislation all contribute to an environment of innovation.<sup>1</sup> The current "patent cliff," which has resulted in generic versions of some of the most profitable brand-name drugs hitting the market, is generally seen as a bigger financial problem for the brand pharmaceutical industry than the rebate bill. Notably, since the "patent cliff" began, there has been a nine percent average annual increase, not a decrease, in research and development investment.

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<sup>1</sup> The London School of Economics and Political Science 1745-8552 BioSocieties 1-17 [www.palgrave-journals.com/biosoc/](http://www.palgrave-journals.com/biosoc/)

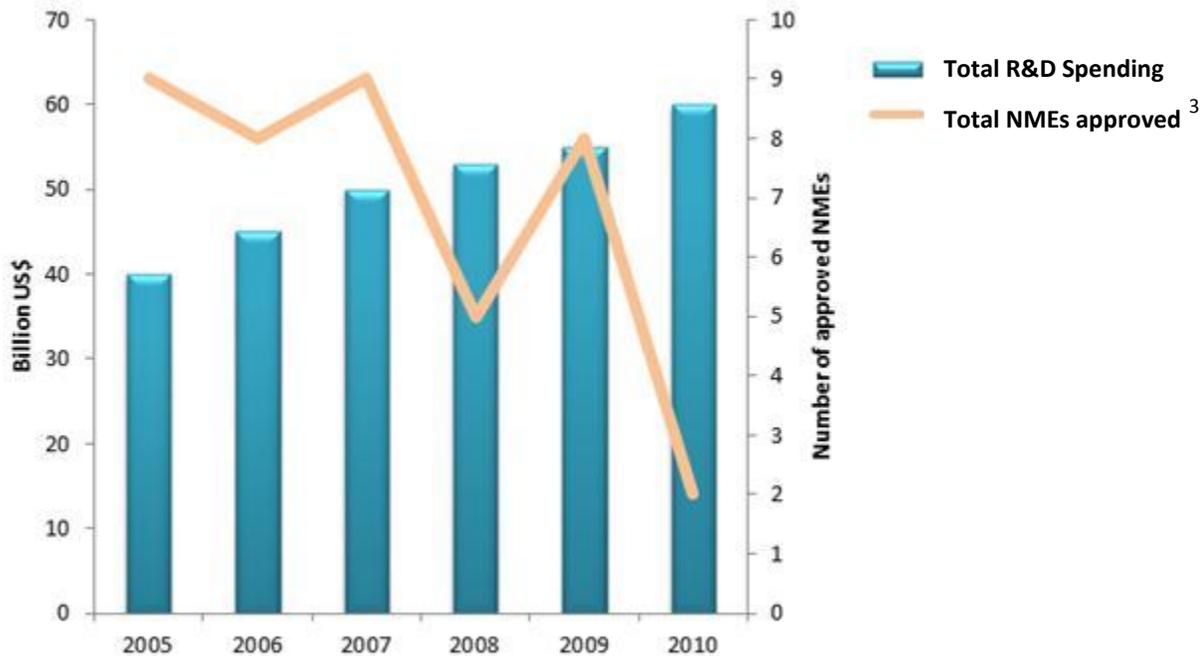
## Research & Development is Not the Primary Use of Industry Profits

Research and development is essential to the development of new, groundbreaking products. For this reason, the government supports research and development with research funding and tax breaks. Also, once new products are developed, they are protected by robust intellectual property laws.

While the industry would like people to think that its primary focus is on research and development, this is simply not true. To the contrary, the industry spends anywhere from two to nineteen times as much on marketing its products than it does on R&D.<sup>2</sup>

## The current state of drug innovation

**Most Big R&D Spenders are Not Really Seeking Innovations.** They are spending money on historical programs, following historical patterns and trying to defend and extend the historical business. In other words, they are spending vast sums attempting to sustain (or recapture) historical success.

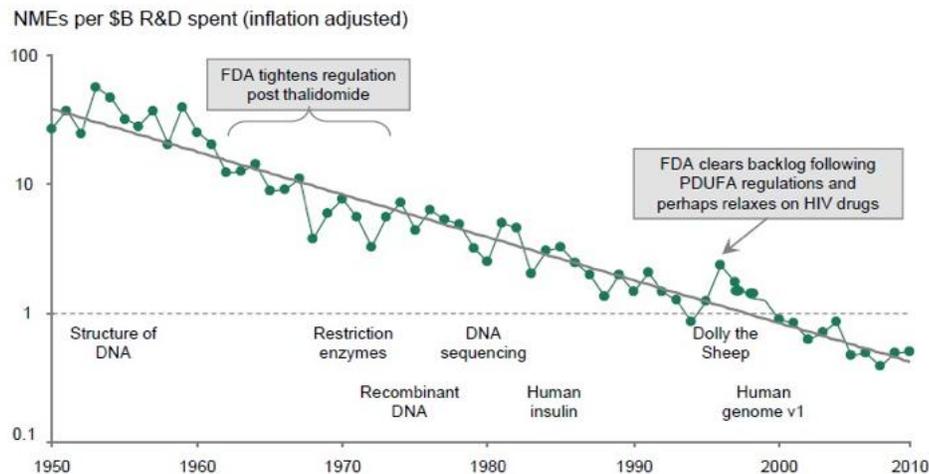


## Pharmaceutical Companies are No Longer the Innovators They Once Were.

<sup>2</sup> York University. "Big Pharma Spends More On Advertising Than Research And Development, Study Finds." *ScienceDaily*, 7 Jan. 2008. Web. 12 Apr. 2013; Pharmaceutical research and development: what do we get for all that money?, *BMJ* 2012; 345 doi: <http://dx.doi.org/10.1136/bmj.e4348> (Published 7 August 2012).

Pharmaceutical companies spend a cumulative \$54 billion in R&D each year. Yet, they have all failed to give the world any incredible new drugs, and the industry is rife with discussions about weak product pipelines. The future of modern medicine is increasingly shifting to genetic solutions, biologics, and more specific alternatives to the historical drug regimes from these aging pharmaceutical R&D programs.

## R&D productivity is on the decline



Note: R&D costs are estimated from PhRMA annual survey 2009; NMEs are the total number of small molecule and biologic approvals by the FDA  
 Source: Bernstein Research "The Long View - R&D Productivity" (September 30, 2010)  
 Life sciences R&D: Changing the innovation equation in India

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## Who is spending on R&D?

Biomedical research in the United States is a \$100 billion enterprise, with approximately 65 percent supported by industry, 30 percent by government (predominately the NIH), and 5 percent by charities, foundations, or individual donors. Although R&D tripled between the mid-1990s and mid-2000s, the rate of increase has fallen since 2003 and has further declined since 2007. The number of new drugs entering human trials has also fallen during the past two decades.<sup>3</sup>

<sup>3</sup> Hamilton Moses, Joseph B. Martin, N Engl J Med 2011; 364:567-571, [February 10, 2011](#)

## Drug Companies

<b>Life Science</b>	<b>2010</b>	<b>2011</b>	<b>Q1-Q3 2012</b>
Top U.S. R&D Expenditures	Millions, U.S. \$		
Pfizer	9,392	9,112	5,734
Merck & Co.	11,111	8,467	5,945
Johnson & Johnson	6,844	7,548	5,334
Lilly (Eli) & Co.	4,884	5,021	3,815
Abbott Laboratories	3,724	4,129	3,181
Bristol-Myers Squibb Co.	3,566	3,839	2,822
Amgen	2,894	3,167	2,411
Celgene	1,129	1,600	1,251
Medtronic (e)	1,464	1,482	1,167
Monsanto	1,241	1,435	1,166

Source: Battelle/*R&D Magazine* and Current Company Information; (e) = estimated

## Conclusion

The pharmaceutical industry achieved windfall profits when low income Medicare beneficiaries were moved away from Medicaid and into Medicare Part D for their drug benefit. Unfortunately, since that time, industry's innovation has been more in the area of mergers and acquisitions or marketing than in traditional R&D. While there is the promise of extraordinary breakthrough treatments on the horizon, these treatments will come at an enormous cost. It is more essential now than ever before to return low-income Medicare beneficiaries to the sort of negotiated rebate pricing that was done before.