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Pharmaceutical Pricing: The Hidden Impact of Distribution Markups and Taxes on Affordability and Patient Access

Pedersen & Partners recently hosted a discussion on **Medicines Affordability & Adherence**, featuring **Giovanny Leon**, Founder and Executive Director of the **Medicines Affordability & Adherence Alliance**, and former Novartis executive. The event was organized by **Lydia van der Meulen**, Client Partner and Country Manager for the Netherlands at Pedersen & Partners, and joined by **Michael Ade**, Client Partner and member of the firm's Life Sciences and Healthcare Practice Group.

The discussion focused on how **distribution markups and government-imposed taxes** significantly increase medicine prices, creating barriers to patient access and adherence. Giovanny provided insights into the financial challenges patients face and the broader implications for healthcare systems worldwide.

The True Cost of Medicines: Beyond the Ex-Factory Price

Pharmaceutical companies typically determine medicine costs based on the **ex-factory price**, which reflects the price at which products leave the manufacturer. However, Giovanny highlighted that patients ultimately pay much more due to a series of **wholesaler markups, pharmacy margins, and taxes**, which in some cases can increase the final price by over **187%**, especially for lower-cost essential medicines.

"Many pharmaceutical companies are unaware of the final price patients face," Giovanny noted. **"They focus on the ex-factory price, but additional markups and taxes often go unnoticed within the industry."**

Michael Ade reflected on the findings, stating, **"I'm personally impressed and also partly shocked about the differences that exist in pricing across countries. It's clear that regulation—or the lack of it—plays a huge role in medicine affordability."**

Global Disparities in Pricing: The Markup Challenge

Research conducted across **35 countries** revealed substantial variations in medicine pricing policies. Giovanni presented key findings, including:

- In **Belgium**, a medicine with an ex-factory price of \$100 costs patients **\$165** due to added markups and taxes.
- In **Switzerland**, prices can increase significantly despite regulatory efforts to control markups.
- In **unregulated markets**, such as Chile and parts of Africa, medicine prices can reach up to **240%** of their original cost, placing a heavy financial burden on patients.

When asked whether unregulated markets could result in lower costs, Giovanni responded, "**There isn't a single example where an unregulated market leads to lower prices. On the contrary, we see significant price inflation in such cases.**"

Affordability and Adherence: The Domino Effect

The affordability of medicines directly impacts patient adherence. Giovanni highlighted how financial barriers force patients to delay or discontinue treatments, resulting in serious health risks and increased healthcare costs.

Key statistics shared during the session included:

- In the **U.S.**, **1 in 5 patients abandon prescriptions** due to high costs.
- In **Europe**, **9% of the population**—comparable to the entire population of France—**cannot afford their prescribed medications.**
- In **China**, the average out-of-pocket cost for cancer treatment equates to **two years of income**, making access nearly impossible for many patients.
- In **Japan**, over **50% of doctors report their patients struggle with cost-related medication non-adherence.**

"Cost-related medication non-adherence isn't just a problem in developing countries; it's an issue everywhere, even in high-income regions," Giovanni emphasized.

Reflecting on these challenges, **Lydia van der Meulen** added, "**This discussion is a stark reminder that we are just a small component in a much bigger healthcare ecosystem. Ensuring affordability requires collaboration across the entire value chain.**"

Out-of-Pocket Payments: The Silent Healthcare Crisis

A major factor contributing to affordability challenges is the increasing burden of **out-of-pocket payments**, such as co-payments and deductibles. Giovanni shared data from WHO studies showing that in several European countries, **2 in 10 households** experience catastrophic health spending, where more than **10% of their income** is dedicated to healthcare.

"Higher out-of-pocket costs directly correlate with lower adherence rates," Giovanni stated. **"When faced with a \$500 co-payment, around 60% of patients abandon their prescriptions."**

The Policy Dilemma: Regulation vs. Free Market

The discussion addressed the question of whether pharmaceutical markups should be regulated or left to market forces. Giovanni emphasized that in countries without regulation, excessive markups and a lack of transparency result in significantly higher patient costs.

"Countries with no regulation see extreme price disparities, often within the same market," Giovanni explained. **"Pharmacies and distributors benefit from a lack of oversight, while patients bear the burden."**

Michael Ade added, **"Regulated markets tend to have more predictable pricing, but it's also about striking a balance between fair profit and affordability."**

Recommendations for a More Sustainable Healthcare System

To address these challenges, Giovanni outlined three key recommendations for policymakers and industry stakeholders:

Regulating Distribution Markups

- Governments should introduce transparent and fair pricing regulations to prevent excessive profits by wholesalers and pharmacies while ensuring sustainable operations.

Reducing or Eliminating Taxes on Medicines

- Aligning with WHO guidelines, countries should minimize or eliminate taxes on essential medicines to ease the financial burden on patients.

Minimizing Out-of-Pocket Payments

- Healthcare systems should reduce reliance on patient-paid co-payments and deductibles, which disproportionately affect low-income populations and lead to increased long-term healthcare costs.

"We need policies that prioritize the patient perspective, not just cost containment," Giovanni stated.

Bridging the Gap: Advancing Solutions for Affordable Medicines

As the discussion concluded, it was clear that medicine affordability and adherence remain pressing global challenges.

Lydia van der Meulen summarized the discussion by saying, **"There's a lot of food for thought here. The challenge is figuring out how to keep healthcare affordable while ensuring sustainability."**

Pedersen & Partners is committed to facilitating further discussions and supporting healthcare organizations in developing leadership strategies to address these challenges effectively.