Issue: Prescription Drug Pricing

Prescription Drug Pricing Talking Points

Key Players

Pharma Companies

Pharma companies take a big capital risk: only one of 5,000 drugs tested makes it to market. The Wholesale Acquisition Cost of the drug, set by the company, covers the cost of manufacturing as well as research and development for drugs that failed their trials. The FDA's patent office lets companies hold exclusive rights to a drug for a few years before generics enter the market. One way to cut prices would be to adopt regulations limiting drastic price spikes that can occur after generics can compete.

Pharmacy Benefit Managers (PBMs)

PBMs serve as middlemen in the market, negotiating fees, rebates, and formularies (the lists of prescriptions covered by healthcare providers). PBMs charge administrative fees and profit from "spread pricing:" they charge insurers a much higher price than they paid for a prescription, taking the difference as profit. There is little or no transparency about where money goes within the PBMs. Government agencies, including the Department of Veterans Affairs, cut PBMs out of their systems and saved millions of dollars annually. This is also true for state Medicaid systems that cut out PBMs.

Insurance Companies

Insurance companies provide health coverage to people who might otherwise go bankrupt after a medical emergency. This is a vital service for any society. Unfortunately, insurance companies are complicit in setting fixed-cost copays, working with PBMs to raise drug and coverage prices. Increasing transparency across the board would help gain insight into how best to fix these problems.

Pharmacies

Pharmacies receive refunds from PBMs for the cost of the prescriptions they provide to patients. They profit from these refunds but are pushed to be more efficient. This has been putting locally owned pharmacies out of business and encouraging mergers between PBMs and pharmacies. This consolidation decreased the competition that helps to keep prices under control. Increasing consumer protection regulations and merger oversight would help control further consolidation.

Flows

Product

Drugs go from company to wholesaler to pharmacy to patient.

Financial Transactions

Money goes from the pharmacy to the wholesaler to the company to pay for the product. The company may pay the pharmacy for data on prescriptions and for services. Rebates from the company go through the PBM and to the insurance company, with the PBM taking a percentage. The patient's payment is part of their co-pay, which goes to the insurance company. PBMs reimburse the pharmacy for the product the pharmacy provided to the patient. The insurance company refunds the PBM for the refund the PBM gave to the pharmacy.

Contract Relationships

Companies contract with wholesalers to store and distribute a product to a pharmacy. The pharmacy contracts with the wholesaler for delivery. The company also contracts with the PBM to negotiate rebates and formularies for the insurance company, which also contracts with the PBM to negotiate prices. The pharmacy contracts with the PBM to ensure its inclusion in an insurance network.

Solutions

Transparency: Increase transparency within pharma companies, PBMs, and insurance companies to make it clear to the public how best to regulate and control drug pricing.

Regulate Spending: In Virginia's 2019 state legislative session, a bill was introduced to limit the spending of energy companies: prohibiting spending on lobbying, certain kinds of marketing, and salaries exceeding $5 million per year. A similar bill regulating the industries involved in drug pricing could help reduce the lobbying power that limits or blocks proposed industry regulation.

Fixing Medicare Part-D and Medicaid: Medicaid Part-D has huge buying power in the prescription drug market. It could cut PBMs out of the system. Unfortunately, certain state laws require the use of PBMs in state Medicaid programs. Undoing those laws and eliminating PBMs would cut prices for patients, save the state money, and put pressure on the industry to lower drug prices.

The National Academy for State Health Policy (NASHP) identified options for states to help reduce healthcare costs, giving recommendations in a 2016 report. (http://nashp.org/wp-content/uploads/2016/10/Rx-Paper.pdf)

These included:

- Increase price transparency to create public visibility and accountability;
- Create a public utility model to oversee drug prices;
- Purchase in bulk and distribute high-priced, broadly-indicated drugs that protect public health;
- Use state unfair trade and consumer protection laws to address high drug prices;
- Seek the ability to re-import drugs from Canada on a state-by-state basis;
- Pursue Medicaid waivers and legislative changes to promote greater purchasing flexibility;
- Enable states to operate as pharmacy benefit managers to broaden their purchasing and negotiating powers;
- Pursue return on investment pricing and forward financing approaches to allow flexible financing based on long-term, avoided costs;
- Ensure state participation in Medicare Part D through Employer Group Waiver Plans;
- Protect consumers against misleading marketing; and
- Use shareholder activism through state pension funds to influence pharmaceutical company actions.