

The Prescription Drug Cost Problem

U.S. spending exceeded \$500 billion and is still on the rise. Here's what business leaders and policymakers need to know:

Inside:

Industry experts on:

- How medications became so expensive,
- Why drugs prices matter to your bottom line, and
- How public policy and innovative programming can change the narrative.



ROUNDTABLE PARTICIPANTS

Michigan Association of Health Plans and Crain's Content Studio hosted a virtual roundtable discussion featuring thought leaders from around the country. They explored why prescription drug prices continue to rise, policies being developed to alleviate the problem and why this matters to the business community.



Dr. Charles Bloom
Chief Medical Officer
Health Alliance Plan



Scott Lyon
Senior Vice President
Small Business Association
of Michigan



Dominick Pallone
Executive Director
Michigan Association of
Health Plans



David Worthams
Director of
Employment Policy
Michigan
Manufacturers
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Drew Gattine
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Cheryl Byron
Vice President of
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CVS Health



Brian Musial
Vice President of Pharmacy
McLaren Integrated HMO
Group



Sarah Emond
Executive Vice President and COO
Institute of Clinical &
Economic Review



Prices for 20 of the most commonly prescribed brand-name drugs in the Medicare Part D program rose more than 12 percent a year, from 2012 to 2017, according to a December 2021 report by the U.S. House of Representatives Committee on Oversight and Reform. That's more than 10 times the average annual inflation rate in that period. Photo credit: iStock

The median launch price of a new medication increased more than 750 percent to \$180,000 in 2021, from \$2,100 in 2008, according to Harvard's Brigham and Women's Hospital researchers. And more than 45 percent of prescription drugs cost more than \$150,000 in 2021, up from 9 percent in 2013.

Such dramatic rate hikes have made "prescription drugs increasingly unaffordable for Americans," according to the Congress Committee on Oversight's three-year investigation into the pharmaceutical industry.

Businesses large and small are taking the hit.

"Every time a premium goes up, a small business

owner is making a decision on how to pay for that," said Scott Lyon, senior vice president of the Small Business Association of Michigan. "Does it come out of current wages or wage increases? Have they reached the tipping point to where they can no longer afford insurance for their employees?"

Drew Gattine, a senior policy fellow at the National Academy of State Health Policy, said state legislatures have passed more than 200 bills since 2017 in an attempt to lower drug costs.

"Every single state now has tried to tackle this problem in some way," he said. Many efforts involve patient spending caps and increased regulation of

pharmacy benefit managers (PBMs). However, those often result in cost-shifting rather than lower prices.

Gattine, Lyon and other industry experts recently joined the Michigan Association of Health Plans (MAHP) in a conversation to explore the root cause of exorbitant drug prices, what's being done to control the costs and what needs to happen on legislative levels.

THE ESCALATING COST OF PRESCRIPTION DRUGS

Prescription drug expenditures in the United States surged more than 760 percent — to \$1,309.68 per capita in 2020, from \$171.83 in 1987. That's about 37 percent more than Canada, France, Germany, Italy, Japan and the United Kingdom each pay on pharmaceuticals. As a result, American consumers spend 2.5 times more on brand-name prescriptions than their counterparts.

Yet, prescription drug prices aren't expected to fall anytime soon.

The Centers for Medicare & Medicaid Services estimates pharmaceutical price increases will average 6.3 percent a year through 2026, outpacing growth in all other major health care sectors.

"Already, 23 percent of the overall cost of care is attributed to pharmacy costs, higher than outpatient and inpatient hospital costs," said MAHP Executive Director Dominick Pallone, citing a 2018 study by the American Health Insurance Plans trade group. "I wish we could say the remaining 75 percent has gone down

"Every time a premium goes up, a small business owner is making a decision on how to pay for that."

-Scott Lyon, Senior Vice President, Small Business Association of Michigan

in cost, but that is not the case. The health care pie is getting bigger, and the pharmaceutical sliver of that pie continues to grow and grow.”

THE PRINCIPAL CAUSE

“Science got insane” with cell and gene therapies and other novel and exciting innovations that can benefit patients, said Sarah Emond, executive vice president and COO of the Institute of Clinical & Economic Review, a Boston-based health policy research nonprofit.

Unfortunately, Emond added, the ability for brand-name drug manufacturers to obtain exclusive protections for those therapies and “essentially set their own prices” has become uncontrollable.

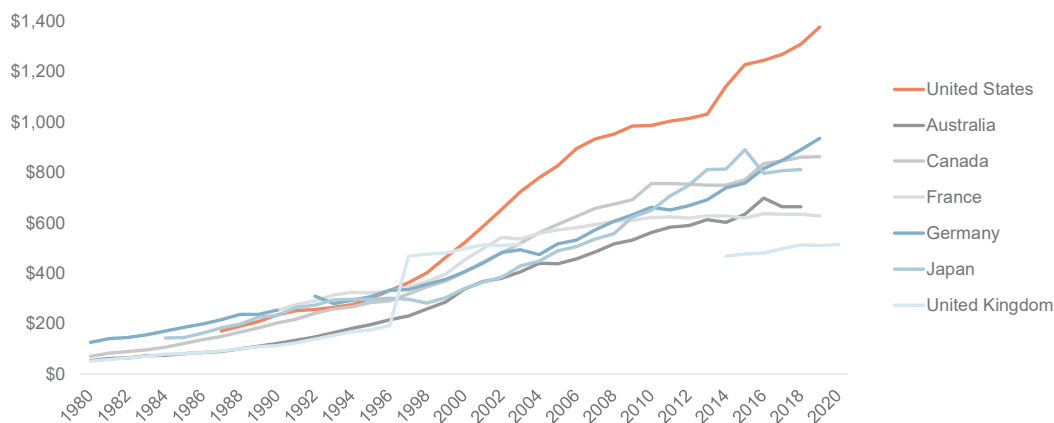
“It’s simply cost shifting. You squeeze the balloon on one end, and the balloon expands on the other.”

-Dominick Pallone,
Executive Director,
Michigan Association
of Health Plans

On top of that, she said, the pharmaceutical industry and its well-funded lobby machine are powerful in preventing negotiations at state and federal levels.

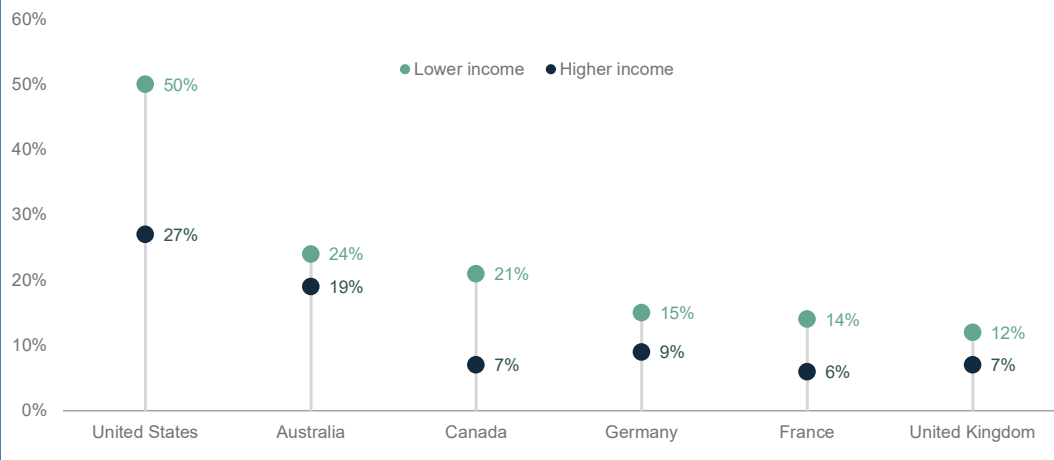
“Right now, the biggest issue for payers is that

PRESCRIPTION DRUG SPENDING IS AT LEAST 30 PERCENT HIGHER IN THE U.S. THAN IN OTHER G7 COUNTRIES (U.S. DOLLARS/CAPITA)



Source: Aimee Cicchiello and Lovisa Gustafsson, “Brand-Name Drug Prices: The Key Driver of High Pharmaceutical Spending in the U.S. — An International Comparison of Prescription Drug Spending and Costs,” chartpack, Commonwealth Fund, Nov. 2021.

THE HIGH COST OF PRESCRIPTION DRUGS CAUSES ADULTS IN THE U.S. TO MAKE DIFFICULT DECISIONS, SUCH AS SKIPPING NECESSARY MEDICAL CARE.



Source: Aimee Cicchiello and Lovisa Gustafsson, “Brand-Name Drug Prices: The Key Driver of High Pharmaceutical Spending in the U.S. — An International Comparison of Prescription Drug Spending and Costs,” chartpack, Commonwealth Fund, Nov. 2021.

an itty-bitty piece of the drug space — specialty pharmaceuticals and high-cost brand-name drugs — account for 80 percent of the spend but represent less than 15 percent of the prescriptions. That piece of the equation is continuing to grow at a pace that we can't control," said Brian Musial, vice president of pharmacy for McLaren Integrated HMO Group.

Gattine also cited a lack of transparency into drug pricing and the complexity of the pharmaceutical supply chain as significant issues.

"The supply chain is so complicated that it obscures what drugs are actually costing people — with respect to rebates and coupons, patient-assistance programs, drug formularies and government-sponsored programs," Gattine said. "And most people participating in this supply chain have a business interest."

Moreover, the Congress Committee on Oversight released a report in December 2021 stating that because pharmaceutical companies raise prices "relentlessly" and "with abandon" and manipulate laws and the patent system, they essentially delay and hinder their competition from producing lower-priced generic drugs.

THE PRINCIPAL EFFECT

Employer health insurance contributions grew more than 47 percent, from \$9,860 in 2009 to \$14,560

in 2019, due primarily to rising pharmaceutical costs, reports the Kaiser Family Foundation. The average worker-paid premium rose 71 percent in that same period, from \$3,515 to \$6,015.

Charles Bloom, chief medical officer for Health Alliance Plan, said low-income people, older Americans and people of color already at greater risk for health inequities are particularly vulnerable to the negative consequences of drug price increases. Consequently, they're forced to make tough financial decisions.

"If I have to make a choice between paying my heating bill or affording my



In February 2022, Gov. Gretchen Whitmer said she signed House Bills 4348, 4351 and 4352 to lower drug costs, make treatment options more transparent and hold pharmacy benefit managers accountable. Photo credit: Michigan.gov

Employers face tough calls too.

"There's very little that a business, especially a small business, can

PICKING AT THE PROBLEM

Prescription drug spending in the U.S. exceeded half a trillion dollars in 2020, and well-intentioned attempts at lowering costs have not only "nibbled at the edges" of the problem but also exacerbated the issue, Bloom said.

Mandated prescription coverage and consumer-based spending caps, for example, do little to address the overall cost of a drug and actually fuel higher health care premiums, Pallone said.

"It's simply cost shifting. You squeeze the balloon on one end, and the balloon expands on the other," he said.

In addition, about 125 of the more than 200 state drug pricing laws, along with recent federal initiatives, concern pharmacy benefit managers (PBMs) working on behalf of health plans and large employers.

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-Dominick Pallone, Executive Director, MAHP

insulin, what am I going to choose?" he asked.

Most likely, he said, they will skip or ration doses or not fill costly prescriptions at all.

"When I was teaching residents, I asked them to consider how to treat our patients like they're our most cherished family member," Bloom said. "Unfortunately, this is more difficult now because physicians don't have the tools and resources to do this."

do to control its drug costs," Lyon said. "It's not controlling utilization. It's not negotiating over the cost of a drug. It's buying insurance from an insurance carrier, an HMO or a PPO. So, it's one step removed from this process all the time."

As a result, small businesses with five or fewer employees are leaving the insurance market, with only three out of 10 offering health coverage, he added.

Cheryl Byron, vice president of the Government Business Unit at CVS Health, said regulations on PBMs, which include new licensing, registration and transparency, have a stifling effect on an employer's ability to control costs.

David Worthams, director of Employment Policy for the Michigan Manufacturers Association, added that by "attacking some of the PBMs and attacking some of the flexibilities that employers may have in designing their own plans, they are actually harming our ability to contain whatever cost we can." PBM-focused transparency is

shortsighted. "Transparency in one area does not solve the lack of transparency in other areas that are still playing into the root cause of these very costly drugs going up," Byron said.

What is needed is transparency across the supply chain, including how drug makers set launch prices and determine when and how to increase prices.

APPLYING MORE PRESSURE

While federal changes granted states more ability to control prescription pricing through manufacturer

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regulation, Pallone said most resist targeting pharmaceutical makers.

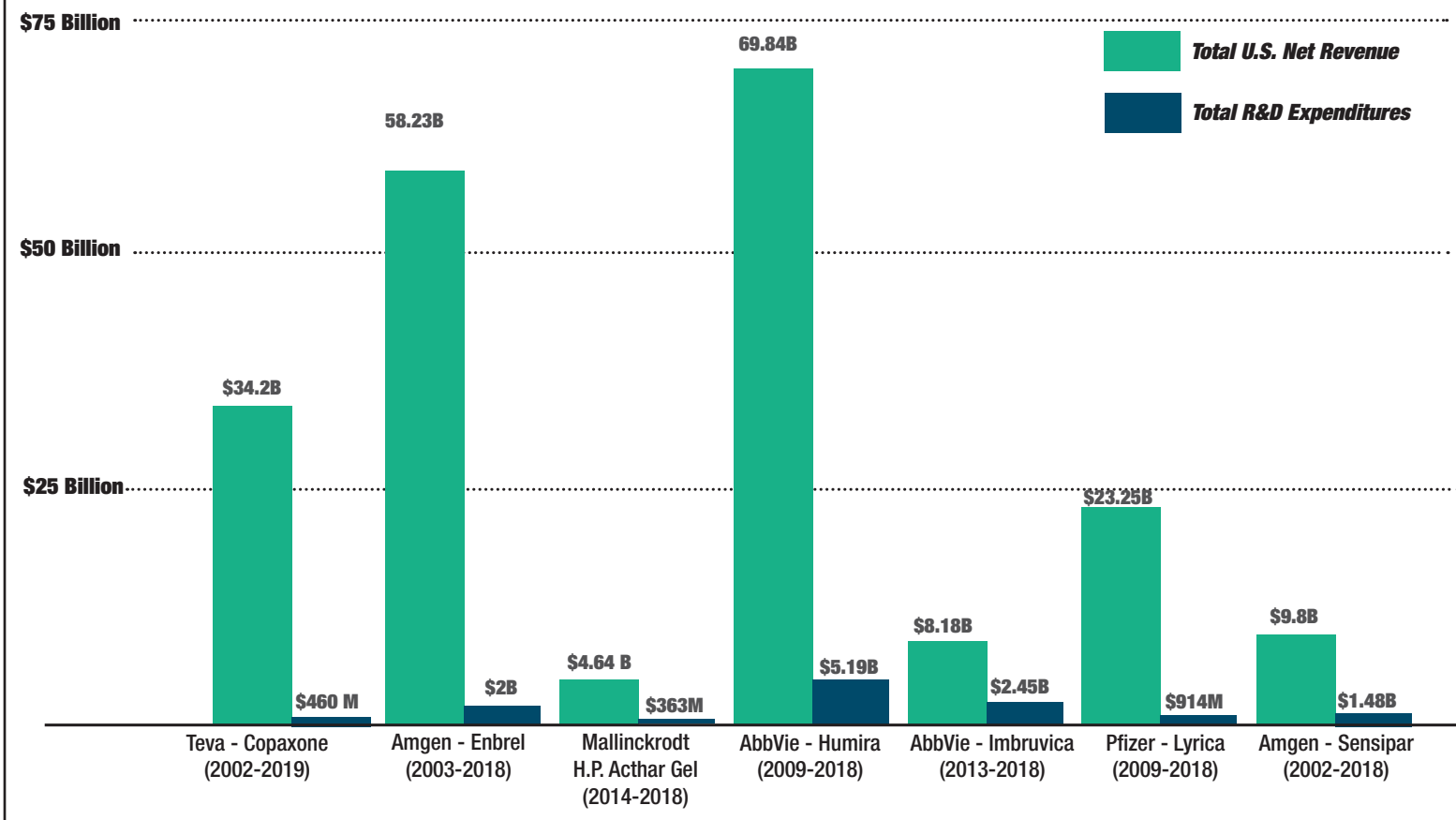
That may finally be changing.

Regionally, Michigan is among more than two dozen states that have enacted or are considering enacting drug pricing transparency bills at the manufacturer level.

House Bill 4347, sponsored by State Representative Angela Whitmer, would force drug manufacturers to provide pricing reports to state regulators. The bill passed the House in March 2021.

Gattine said Maine, Oregon and Washington already passed similar bills and are learning what's driving

NET REVENUE VS R&D SPENDING FOR SEVEN BRAND-NAME DRUGS



Source: "Drug Pricing Investigation: Majority Staff Report," U.S. House of Representatives Committee on Oversight and Reform, December 2021.

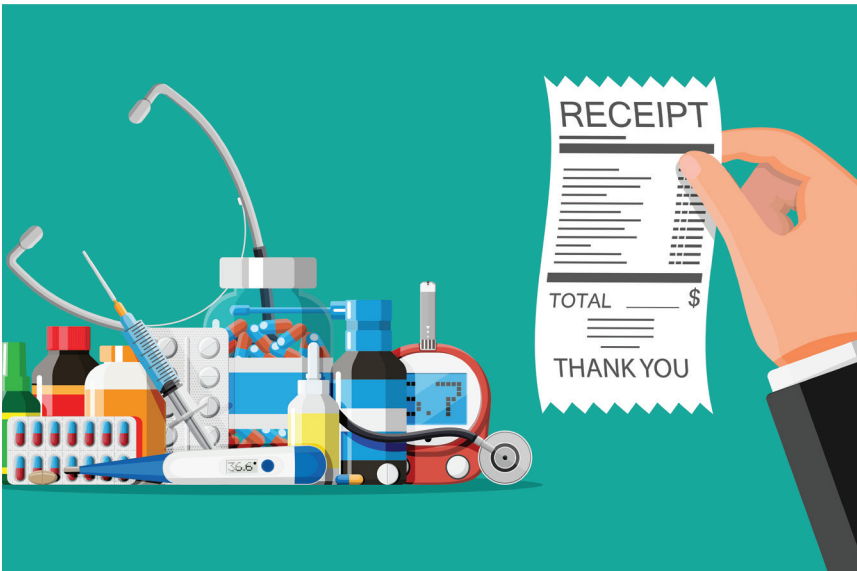


Photo credit: iStock

drug prices and how best to contain them.

Robust pricing transparency would help physicians and physician groups create better outcome-based reimbursement models and empower physicians to have more informed treatment discussions with patients, Bloom said.

“If we don’t know what a drug costs, we don’t know what a model of care costs. And that’s a challenge for the health insurance industry,” he said.

Still, Worthams cautioned that “a patchwork” approach to transparency could weaken drug patents or put trade secrets at risk. “Having talked to some with

some individual members within PhRMA,” he said, “I think there can be a middle ground with respect to transparency into what it costs to make a drug.”

Legislation is also addressing importation and supply reforms. In June 2021, Michigan State Senator Ruth Johnson introduced SB 583, which would permit the state to import prescription drugs at a lower cost.

Pallone said the measure would put pressure on drug makers by showing why other countries with more industry regulation have lower prescription costs. In addition, “Senator VanderWall, who is the Senate Health Policy Chair

in our state, has been very aggressive in trying to find a solution around insulin that isn’t just cost shifting,” Pallone said.

The average price of insulin roughly doubled to \$450 a month in 2016 from \$234 a month in 2012, according to the Health Care Cost Institute. Today, newer versions of insulin can retail for over \$300 a vial. People with diabetes typically use two or more vials a month.

VanderWall is exploring how the state could establish an FDA-approved insulin operation, likely in partnership with a manufacturer or a state university.

“We’re not seeing a lot of competition or choice in that marketplace,” Pallone said. “We’re not seeing the availability for the importation of Canadian insulin, for example, or another insulin that may be cheaper and equally effective. So, we are excited about disruptive ideas like Senator VanderWall’s.”

He added that the state should look at opportunities, especially with Medicaid, in how they set their prescription drug formulary. This would include evaluating how it chooses which drugs are on the formulary and whether adding expensive branded prescriptions

over less costly generics or biosimilars has been a positive outcome for taxpayers and the health of the population.

On a federal level, the U.S. Senate recently passed the so-called Climate, Tax and Health Care package, allowing Medicare to negotiate the price of 10 drugs starting in 2026. It would also cap annual pharmaceutical costs to seniors at \$2,000 a year.

Still, controlling prescription prices will likely be a fight for some time. Gattine warned “pharma will fight tooth and nail” against varying efforts.

There may not be a perfect solution, Pallone said, but progress will come if we all focus on improving the situation.

“The leadership has to come from the purchaser community,” Emond said. “It’s your money; you have the right to know how every single dollar is spent.”

Discussions surrounding prescription drug prices are essential to purchasers, individual consumers, policymakers and employers alike, particularly throughout the remainder of this legislative session.

“These issues are not going away, and the intensity around them will only heat up,” Pallone said. “It’s essential that all stakeholders remain focused on how they can help make prescriptions more affordable.” ■

“The supply chain... obscures what drugs are actually costing people.”

-Drew Gattine, Senior Policy Fellow, National Academy of State Health Policy



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