

PRESCRIPTION DRUG COSTS

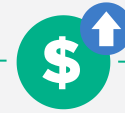
BACKGROUND

For years, policymakers have attempted to control prescription drug costs by imposing customer cost-sharing caps, reducing utilization controls, and mandating coverage of certain prescription drugs on health plans. These efforts have done nothing to stop the ongoing skyrocketing costs of prescription drugs. Instead, these changes have increased the premiums that customers and employers pay for healthcare.

According to the US Department of Health and Human Services, Americans pay higher prices for prescription drugs than in any other country. Prescription drugs are more than 2.5 times higher than in other similar high-income nations. This spending is driven by high-cost brand-name drugs, for which manufacturers freely set prices.

The Centers for Medicare and Medicaid Services (CMS) has reported that prescription drug spending is projected to outpace growth in all other major healthcare sectors, averaging 6.1 percent annually through 2027. Insulin & Epilepsy drugs have increased by staggering margins over the past few years, forcing the Michigan Attorney General to take action against unsubstantiated insulin drug prices.

The trend in drug prices for new drugs outpaces growth in prices for all other healthcare services. According to research conducted by a national healthcare association, nearly a quarter of every premium dollar goes to pay for prescription drugs – an amount higher than any other spending category, more elevated than outpatient and inpatient hospital costs.



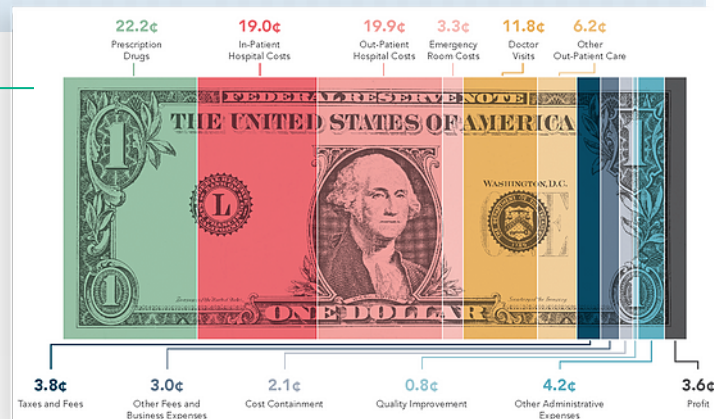
The median launch price of a new drug in the United States increased from **\$2,115 in 2008** to **\$180,007 in 2021** — a **20% annual increase** each year.



Researchers report that the percentage of drugs that cost more than **\$150,000** a year increased by **9% in 2008-2013** and then **47% in 2020-2021**.

WHERE DOES YOUR HEALTH CARE DOLLAR GO?

The Michigan Department of Financial & Insurance Services (DIFS) noted the increase in prescription drug costs that health plans experienced during their most recent rate filings. According to DIFS, **health plans are witnessing higher cost increases in prescription drugs than any other medical service covered under a benefit plan.**



According to the Centers for Medicare and Medicaid Services (CMS), prescription drug spending is projected to outpace growth in all other major healthcare sectors, averaging 6.3 percent annually through 2026.

POLICYMAKERS ARE MISSING THE MARK

Unlike other countries, the United States does not regulate or negotiate the price of prescription drugs. Drug manufacturers freely set drug pricing without government price control or regulation.

To combat the high costs of prescription drugs, policymakers have advanced reforms against health plans and pharmacy benefit managers (PBM). Reforms like cost-sharing caps on certain medications such as insulin, mandatory drug coverages like oral chemotherapy, and elimination of utilization controls like prior authorization and step therapy exacerbate prescription drug costs. Drug manufacturers support these reforms and other state insurance mandates because they make prescription drugs easier to access at a higher price.

Drug companies have successfully worked with prescribing physician groups to scale back utilization controls put in place by health plans to control healthcare costs. Recently, drug manufacturers have begun leading the charge for additional regulations and rules on PBMs' to divert attention from themselves. Meanwhile, these policy changes are raising healthcare costs and impacting employers and workers.

DRUG MANUFACTURER REFORMS ARE NEEDED

In recent years, the federal government has opened doors to allowing states to control drug pricing by regulating drug manufacturers. The FDA recently permitted states to create importation programs to help health plans access lower prescription drugs. Previous legal arguments made by drug manufacturers on why they can't be regulated at the state level are finally being called into question. **If policymakers in Michigan want to lower prescription drug costs, advancing the following reforms would help.**



IMPORTATION

Allow for the importing of prescription drugs at a lower cost and cast a light on why other countries that better regulate drug manufacturers have lower prescription drug costs.



TRANSPARENCY

Force drug manufacturers to provide transparency reports on drug pricing in Michigan.



COMPETITION

Allow the state of Michigan to manufacture and compete against other higher-cost insulin drug manufacturers.



INFLATIONARY CAPS ON DRUG PRICES

Limit specific drug prices to no greater than inflationary increases.



EARLY WARNING

Require drug manufacturers to provide an early warning of price increases on prescription drugs. Doing so would allow health plans, employers, and the state to factor in and prepare for those increases.



RATE APPROVAL & AFFORDABILITY REVIEW

Health plans must file and seek approval for their premium rates with state and federal regulatory entities each year; why not drug manufacturers? The creation of a state affordability review board would allow states to review and set rates for certain high-cost prescription drugs.



INTERNATIONAL REFERENCE RATES

Allow state regulators to establish international reference rates for the 250 most costly drugs in the state and prohibit state entities, health plans, or employers from purchasing referenced drugs for a cost higher than the referenced rate.



LIMIT MONOPOLY STATUS OF NEW DRUGS

Call on Congress to change federal prescription drug patent timeframes. New drugs in the U.S. are typically granted monopoly periods that usually last 12 to 17 years. During this period, drug companies tend to raise list prices each year, which can lead to higher out-of-pocket patient costs.

