



DRUG PRICING REFORM

**Improving Transparency &  
Competition in Drug Pricing:  
Securing Affordable Treatments  
for All Americans**

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## DRUG PRICING REFORM

# Improving Transparency & Competition in Drug Pricing: Securing Affordable Treatments for All Americans

*For years, health care players have skirted around concrete actions to truly impact drug prices, translating to higher costs and cost-shifting rather than real cost-reduction. ACHP recommends a set of pragmatic, progressive reforms to rein in the price of prescription drugs, utilizing the innovation of a competitive free market with appropriate government guardrails.*

### THE ISSUE

Six in ten Americans report taking at least one prescription medication. One in four take four or more medications.<sup>1</sup> And while the economic downturn caused by the COVID-19 pandemic has made it more difficult for many Americans to afford their medications, the drug cost crisis is far from new.



**For years, patients, employers, insurers and taxpayers have experienced too frequent shocks from artificially high and rising costs of prescription drugs.**

### THE RECOMMENDATION

As the nation reemerges from the worst public health crisis in a century, Big Pharma continues to raise prices and block patient access to lower-cost alternative drugs. The social contract that once governed the trade-offs between the need for innovation and access to affordable medicines is fundamentally broken. Government intervention is the last remaining option to combat inexplicably high drug prices and enact the reforms that consumers, employers, taxpayers and many others are desperate for.

In this brief, Alliance of Community Health Plans (ACHP) details actions that will finally bring down out-of-control drug pricing by protecting consumers pocketbooks, empowering the Secretary of Health and Human Services (HHS) to leverage Medicare's market power, dramatically expanding transparency, cracking-down on Big Pharma anticompetitive practices and increasing competition in the marketplace.

<sup>1</sup> Ashley Kirzinger, et al., "KFF Health Tracking Poll – February 2019: Prescription Drugs." KFF, March, 2019. <https://www.kff.org/health-costs/poll-finding/kff-health-tracking-poll-february-2019-prescription-drugs/>

## THE CASE FOR REFORM

Left to their own devices, drug makers have spent decades driving down competition to drive up prices. A recent report from the RAND Corporation found U.S. spending on prescription drugs increased by 76 percent between 2000 and 2017, with costs expected to continue to rise more rapidly than other areas of health care over the next decade.<sup>2</sup> Across industrialized nations, the U.S. accounts for 58 percent of spending, but just 24 percent of drug volume.<sup>3</sup>

While Americans are made to choose between basic necessities and medications, the pharmaceutical industry has unreasonably profited off life-saving treatments. Amid the COVID-19 pandemic, the pharmaceutical industry accounted for nine of the ten biggest profit margins.<sup>4</sup>

A recent poll by the Kaiser Family Foundation found that Americans across the political spectrum think that lowering prescription drug costs should be Congress' top health care priority.<sup>5</sup> Policymakers should embrace this momentum and advance solutions that support a level playing field between pharmaceutical companies and other parts of the U.S. health system, maintain the private sector's ability to innovate and deliver high-quality, high-value care and inject accountability and transparency into the failed market.

**Drug prices are rising at an unsustainable rate. And nearly eight in ten Americans say pharmaceutical company profits are to blame.**

***Out-of-control drug prices impact every person, regardless of whether they take no medication or ten prescriptions.***



**Patients and their families**  
struggle to afford their medications.



**Employers**  
may be forced to make cuts to benefits packages to offset costs.



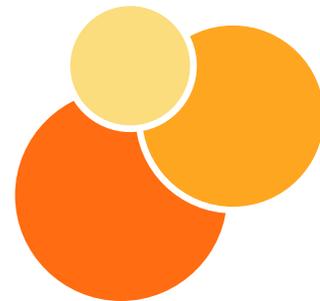
**Health care providers**  
will face more complicated cases as patients skip treatments due to cost.



**Health plans and other payers**  
will struggle to cover the cost of important drugs.



**Federal government**  
which is bearing an ever-growing share of the cost of these drugs, is placing an increasing pressure on taxpayers.



<sup>2,3</sup> Andrew W. Mulcahy, et al., "International Prescription Drug Price Comparisons." RAND Corporation, 2021. [https://www.rand.org/pubs/research\\_reports/RR2956.html](https://www.rand.org/pubs/research_reports/RR2956.html)

<sup>4</sup> Bob Herman, "The Pandemic Hasn't Hampered the Health Care Industry." Axios, August 2020. <https://www.axios.com/health-care-industry-coronavirus-pandemic-second-quarter-78f19a89-e7d8-4c91-927b-e6b49f7ee60a.html>

<sup>5,6</sup> Ashley Kirzinger, et al., "KFF Health Tracking Poll – May 2021: Prescription Drug Prices Top Public's Health Care Priorities." KFF, May 2021. <https://www.kff.org/health-costs/poll-finding/kff-health-tracking-poll-may-2021/>

## ACCOUNTABILITY IN DRUG PRICING

For far too long, drug makers have profited immensely under a system that affords them monopolistic powers to set prices devoid of government or public scrutiny.

**ACHP member companies have a long history of managing drug costs while ensuring that the millions of patients they serve have access to innovative therapies. However, the ability of health plans to successfully restrain drug spending is limited.**

Short of additional tools to control drug costs, health plans may be forced to increase premiums or reduce access to medications, and patients may forgo necessary care.

## ACHP CALL TO ACTION

The Affordable Care Act imposed requirements on health plans to improve accountability and transparency as a way to ensure that price increases were based on reasonable assumptions and solid evidence. The same rules should apply to drug companies. The reforms recommended by ACHP do just that, centered on three core principles:



### Provide real cost-reduction, not cost-shifting.

Patients, employers, insurers and taxpayers are footing the bill for the high costs of prescription drugs and unending price increases. Policies that simply cost shift do not address the underlying problem.



### Prices are the problem.

Drug prices grew faster than any other medical service or good, increasing by 33 percent between 2014 and 2020.<sup>7</sup> Excessive price increases will never end unless policymakers address the unilateral ability of drug companies to set prices without scrutiny or oversight.



### Allow transparency and market forces to drive down costs.

The pharmaceutical market is broken in large part due to efforts by bad actors to dampen competition and obscure its own pricing practices. Policymakers must insist on greater transparency that exposes egregious pricing practices, adds visibility and accountability and increases competition leading to lower overall costs.

***Congress must enact a package of bipartisan solutions to comprehensively address the exorbitant cost of prescription drugs and bring financial relief to consumers.***

<sup>7</sup> Tori Marsh, "Prices for Prescription Drugs Rise Faster Than Prices for Any Other Medical Good or Service." GoodRx, September 2020. <https://www.goodrx.com/blog/prescription-drugs-rise-faster-than-medical-goods-or-services/>

## Redesign the Medicare Part D Benefit

Seniors in Medicare Part D have no out-of-pocket cap, even in the catastrophic phase — when out-of-pocket spending exceeds \$6,550, not accounting for premiums. Because drug makers have no financial responsibility in the catastrophic phase, Medicare, health plans and seniors are left to bear the burden of sky-high drug prices.

### ***Congress should:***

- Create an out-of-pocket cap for seniors in Part D and eliminate any consumer responsibility in the catastrophic phase.
- Require significant financial liability for drug companies throughout each phase of the Part D benefit.
- Provide health plans additional tools and flexibilities to negotiate lower drug prices, including removal of restrictions on drugs while maintaining robust coverage and offerings of those drugs.



## Allow Direct Government Negotiation on Highest Cost Drugs without Competition

All players in the health sector are subject to price oversight or government negotiation, except for drug companies. Unlike the Veterans Administration and state-run Medicaid programs, the U.S. Department of Health and Human Services is not able to leverage its buying power as the largest national purchaser of prescription drugs. In 2019 Medicare Part D's 250 top-selling prescriptions with just one manufacturer or no generic or biosimilar competition accounted for 60 percent of net total Part D spending.<sup>8</sup>

### ***Congress should:***

- Provide the HHS Secretary limited authority to negotiate prices for the highest cost drugs without competition.
- Extend price negotiation to the commercial market and prohibit drug makers from cost-shifting to non-Medicare consumers.
- Apply an International Pricing Index or reference pricing to set a maximum price no greater than 120 percent of the average international market price of the highest cost drugs without competition.

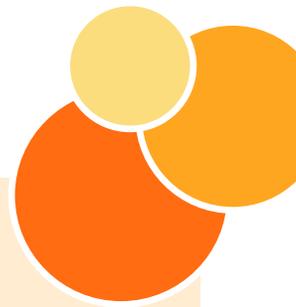
<sup>8</sup> Analysis Finds that a Relatively Small Number of Drugs Account for the Majority of Medicare Prescription Drug Spending. KFF, April 2021 <https://www.kff.org/medicare/press-release/analysis-finds-that-a-relatively-small-number-of-drugs-account-for-the-majority-of-medicare-prescription-drug-spending/>

## Create Inflationary Caps for Drug Price Increases

Most prescription drug prices increase significantly faster than the rate of inflation. In January 2021, the price of 832 drugs jumped, many by as much as 10 percent, without justification.<sup>9</sup>

### ***Congress should:***

- Require drug manufacturers to provide rebates for any price increase above the rate of inflation for Part B and Part D drugs across all insurance markets.



## Increase Competition in the Marketplace

Increasing competition is a proven way to drive down prices. Unbranded generic drugs account for 84 percent of drugs sold in the U.S. by volume but only 12 percent of spending.<sup>10</sup> However, drug makers continue to abuse intellectual property laws to create barriers that keep lower cost therapies out of the hands of consumers. The FDA has approved 29 biosimilar products but less than a dozen are available on the market today.

### ***Congress and the Administration should:***

- Empower the Federal Trade Commission to crack down on anticompetitive tactics that keep biosimilars from coming to the market.
- Incentivize further adoption of biosimilar products through clinician and patient education.
- Increase biosimilar reimbursement to improve utilization.

## Improve Transparency in Pricing

Drug companies are not required to justify product pricing, disclose planned increases or provide research and development costs. While health plans and providers are subject to federal transparency requirements, the same standards do not apply to drug makers.

### ***Congress should:***

- Enact drug pricing transparency rules that require drug manufacturers to report and justify price increases, including the FAIR Drug Pricing Act.

<sup>9</sup> Tori Marsh, "800+ Drugs Became More Expensive this January- The Largest Number of Increases in Years." GoodRx, February 2021 <https://www.goodrx.com/blog/january-2021-drug-increases-recap/>

<sup>10</sup> Andrew W. Mulcahy, "Prescription Drug Prices in the United States Are 2.56 Times Those in Other Countries." RAND Corporation, January 2021. <https://www.rand.org/news/press/2021/01/28.html>

## Broaden Use of Transparent, Fee-Based Pharmacy Benefit Managers

Transparent, fee-based pharmacy benefit managers (PBMs) pass on 100 percent of rebates and discounts from drug makers to health plans and their consumers. Unlike traditional PBMs, the revenue source of these innovative transparent PBMs is a flat, administrative fee, eliminating any incentive to artificially jack up prices.

### *Congress should:*

- Encourage and incentivize the adoption of transparent, fee-based PBMs.

## Expand Outcomes-Based Contracting

Outcomes-based contracts can inject value into the prescription drug market and help manage costs for consumers. Unlike traditional contract arrangements, consumers and health plans in outcome-based contracts only pay for drugs that perform as promised. These arrangements lower spending by holding drug makers accountable; if the therapies do not work, drug makers do not get paid.

### *Congress and the Administration should:*

- Support outcomes-based drug contracting with meaningful measurement and shared risk.
- Commission independent research on drug efficacy and success following release.

## CLOSING THOUGHT

Recommending these reforms is not something we take lightly. Patients and their families are desperate for relief. Congress must step in where the market has failed and exert some control over the runaway cost of prescription drugs. Failing to do so will continue to cost all the rest of us.

## ABOUT ACHP

The Alliance of Community Health Plans (ACHP) represents the nation's top-performing nonprofit health plans to improve affordability and outcomes in the health care system. ACHP member companies are provider-aligned health organizations that provide high-quality coverage and care to tens of millions of Americans.

They are leading the industry in practical, proven reforms around primary care delivery, value-based payment and data-driven systems improvement.

### Want to know more?

Please reach out to Matt DoBias, Associate Director of External Affairs at [mdobias@achp.org](mailto:mdobias@achp.org).

## THE NARRATIVE

### Reducing Drug Costs in the Real World

By implementing innovative approaches such as partnering with transparent Pharmacy Benefit Managers (PBMs) and encouraging wider use of biosimilar drugs, ACHP members are helping lower prescription drug costs without sacrificing quality of coverage and care.

### The Power of Transparent PBMs

Traditional PBMs have come under fire for business practices that some say encourage higher, not lower, drug prices. But the rise of transparent, fee-based models provides an alternative approach.

**Navitus**—a transparent PBM launched by Dean Health Plan of Wisconsin—has championed lower drug costs.

In 2020, clients that switched to Navitus from another PBM saw their drug spend drop by 18 percent on average; and, over five years, the PBM has saved consumers 12 to 15 percent more than the industry average.

Overall, in 2020, the average cost for consumers who were enrolled in a drug plan negotiated by Navitus was 12 percent lower than those on other drug plans.

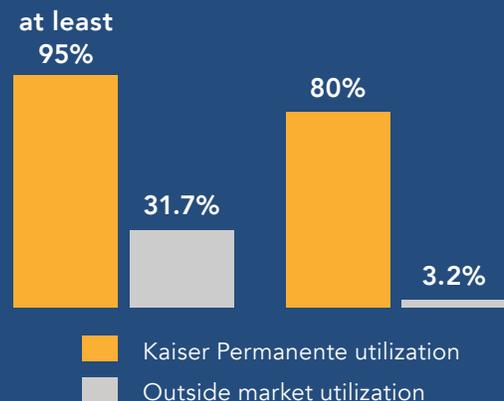
### Encouraging Use of Biosimilars

Biosimilars are a lower-cost treatment option that can provide relief for patients with chronic or life-threatening conditions. These copycat drugs also help drive down the cost of the original biologic by creating much needed competition in the marketplace.

To encourage adoption of biosimilars by both providers and patients, Kaiser Permanente rolled out an unbiased and evidence-based education program focused on the safety of biosimilar treatments. The efforts helped educate clinicians and support treatment decisions, leading to a surge in the use of the lower-cost alternative.

The widespread adoption of biosimilars has helped increase affordability and lower drug spending by millions at Kaiser Permanente.

The biosimilars Zarxio and Inflectra over their respective reference biologics far exceeds market utilization.



SOURCE: <https://www.kpihp.org/issue-areas/biosimilars-at-kaiser-permanente/>