

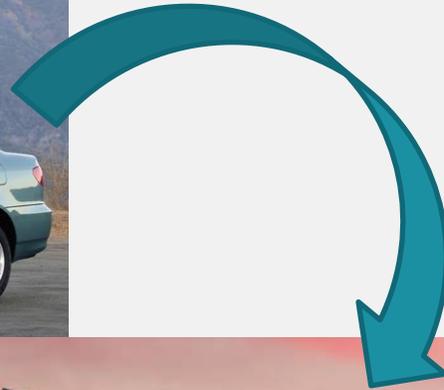
Consumer perspective on prescription drug prices: Recent trends and opportunities for change

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OVERVIEW

- Why are prescription drugs getting so much attention?
- Why is this issue so important to AARP?
- What solutions are on the table?
- What's standing in our way?
- What's next?

Jaw-dropping prices



Trouble ahead



- Specialty drug approvals have exceeded traditional drug approvals since 2010
 - Roughly half of drugs in the late stage of the FDA approval process are expensive specialty drugs
- Increased manufacturer focus on biologic drugs, orphan drugs, personalized medicine
 - Translation: products that can command high prices

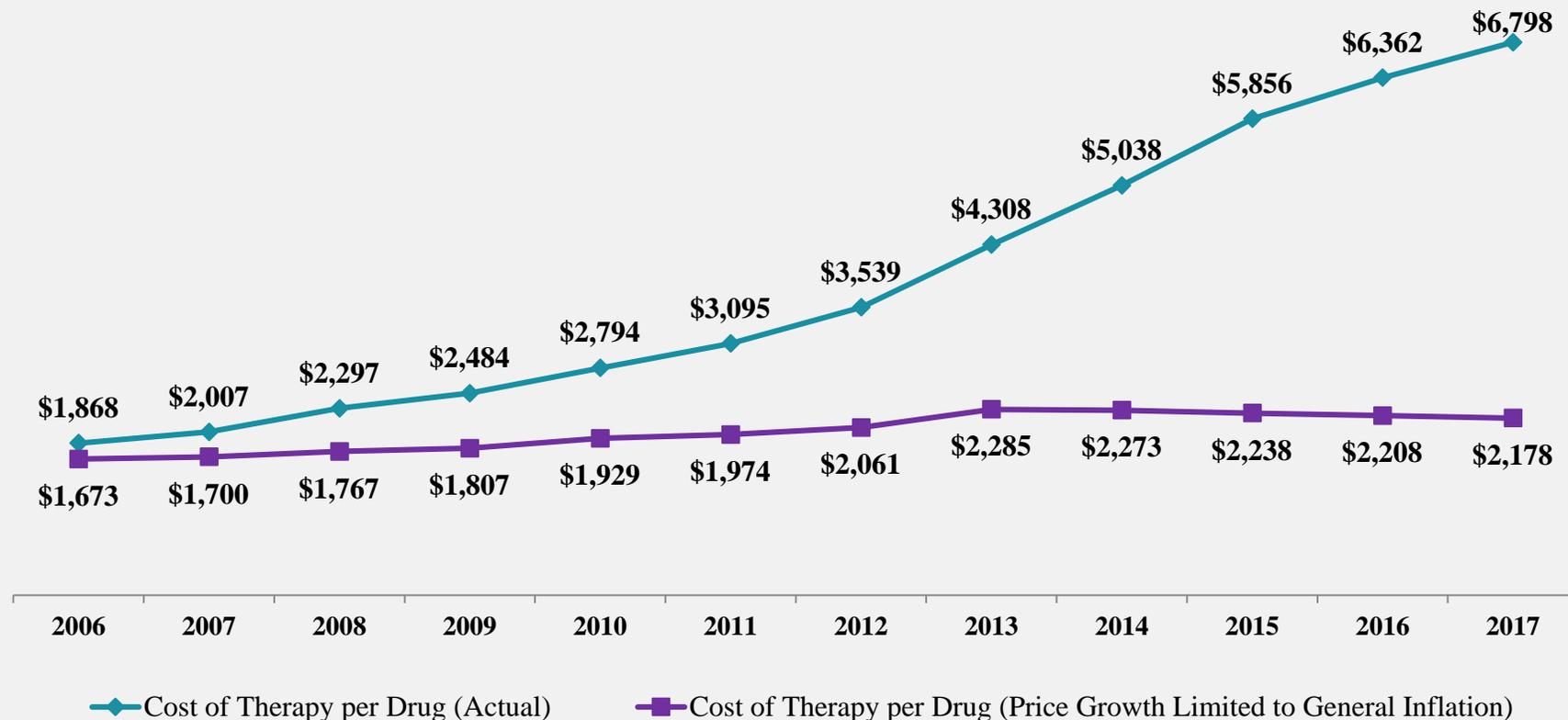
High launch prices are just the beginning...



- For over a decade, brand name drug price increases have exceeded inflation by 2-fold to more than 100-fold
- While individual drug prices and price increases can generate outrage, much less attention is paid to how they add up over time

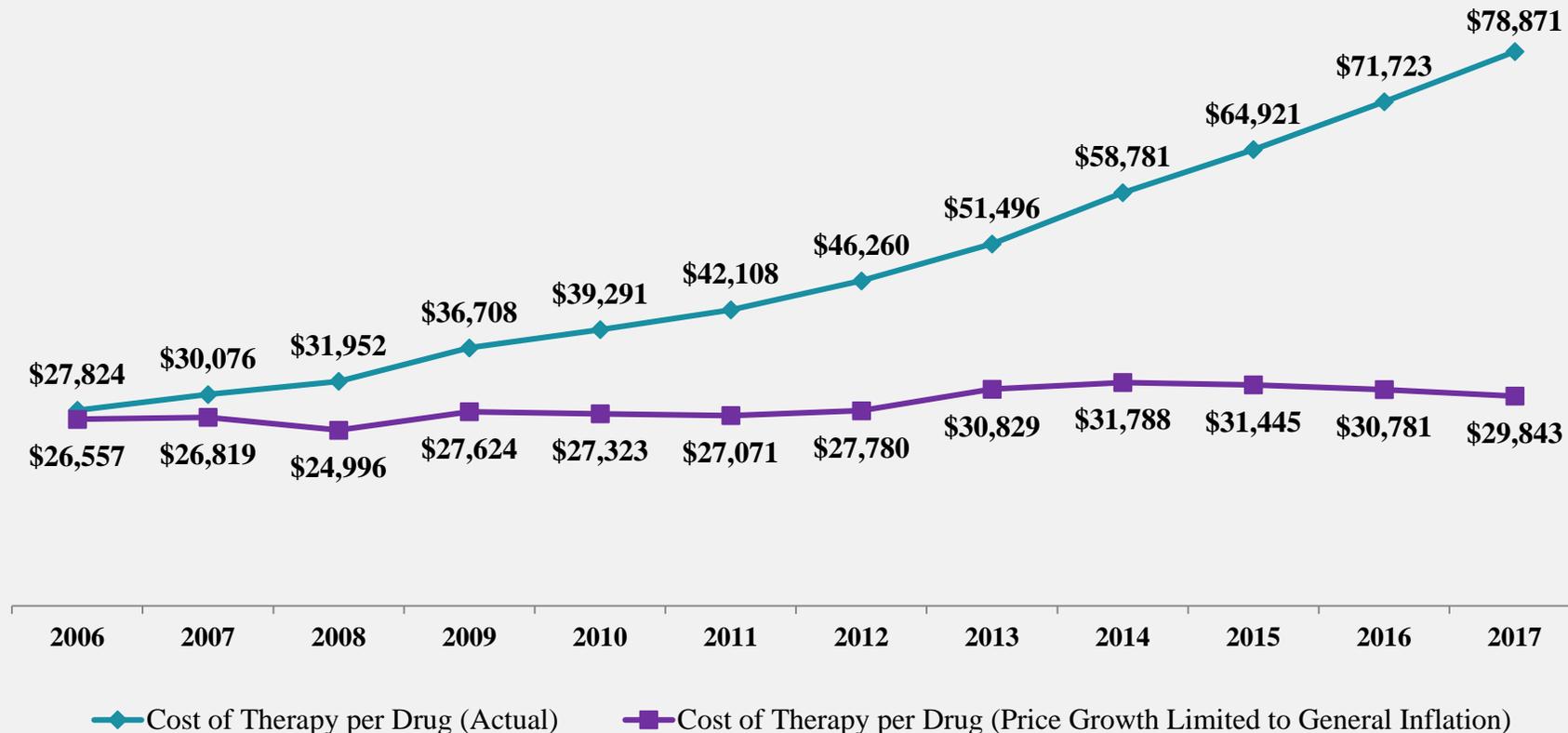
If drug price changes had been limited to inflation between 2006 and 2017...

- The average annual cost for one brand name drug would have been more than \$5,000 lower in 2017



If drug price changes had been limited to inflation between 2006 and 2017...

- The average annual cost for one specialty drug would have been almost \$50,000 lower in 2017



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Older adults are particularly vulnerable to high drug prices

- High Rx utilization
 - Average of 4.5 prescriptions/month
 - High prevalence of chronic illnesses
- Modest incomes
 - Median income is ~\$26,000
 - 1/4 have incomes below ~\$15,000
- Limited savings
 - 1/4 have less than ~\$15,000 in savings



Taxpayer-funded programs are under increasing pressure

- Medicare Part B prescription drug spending more than doubled from \$13 billion to \$32 billion between 2005 and 2017
 - Beneficiaries are responsible for 20 percent of their costs
- Total Medicare Part D spending is approaching \$150 billion
 - Increased use of coinsurance
 - Enrollees have out-of-pocket limit but...
- Medicaid program is also under considerable stress, which isn't helping state budgets



Private insurance is also affected

- An increasing number of employer-sponsored plans have a fourth or even higher tier of drug cost sharing
 - Average copayment for a fourth-tier drug is \$123 and the average coinsurance is 29%
- High deductibles can create financial hardship
- Enrollees benefit from out-of-pocket maximums (\$8,150/single, \$16,300/family) but...

The problem is the



- High cost-sharing is obviously problematic but it is not the root of the problem
 - Efforts to limit cost-sharing without addressing drug prices is simply cost-shifting and will lead to higher premiums and costs down the road



- If the idea of asking someone to pay a relatively small percentage of the drug price is too much, what are you saying about the overall price?

Drug manufacturer programs are not a cure-all



- While helpful, patient assistance programs typically have strict eligibility criteria
- Each pharmaceutical company has its own qualifications, forms, processes for refills, and rules for re-qualifying
- Copay coupons seem helpful but ultimately lead to higher premiums
- Manufacturers tout increased spending on these programs but begs the question—why not just drop the price??

High drug prices affect everyone



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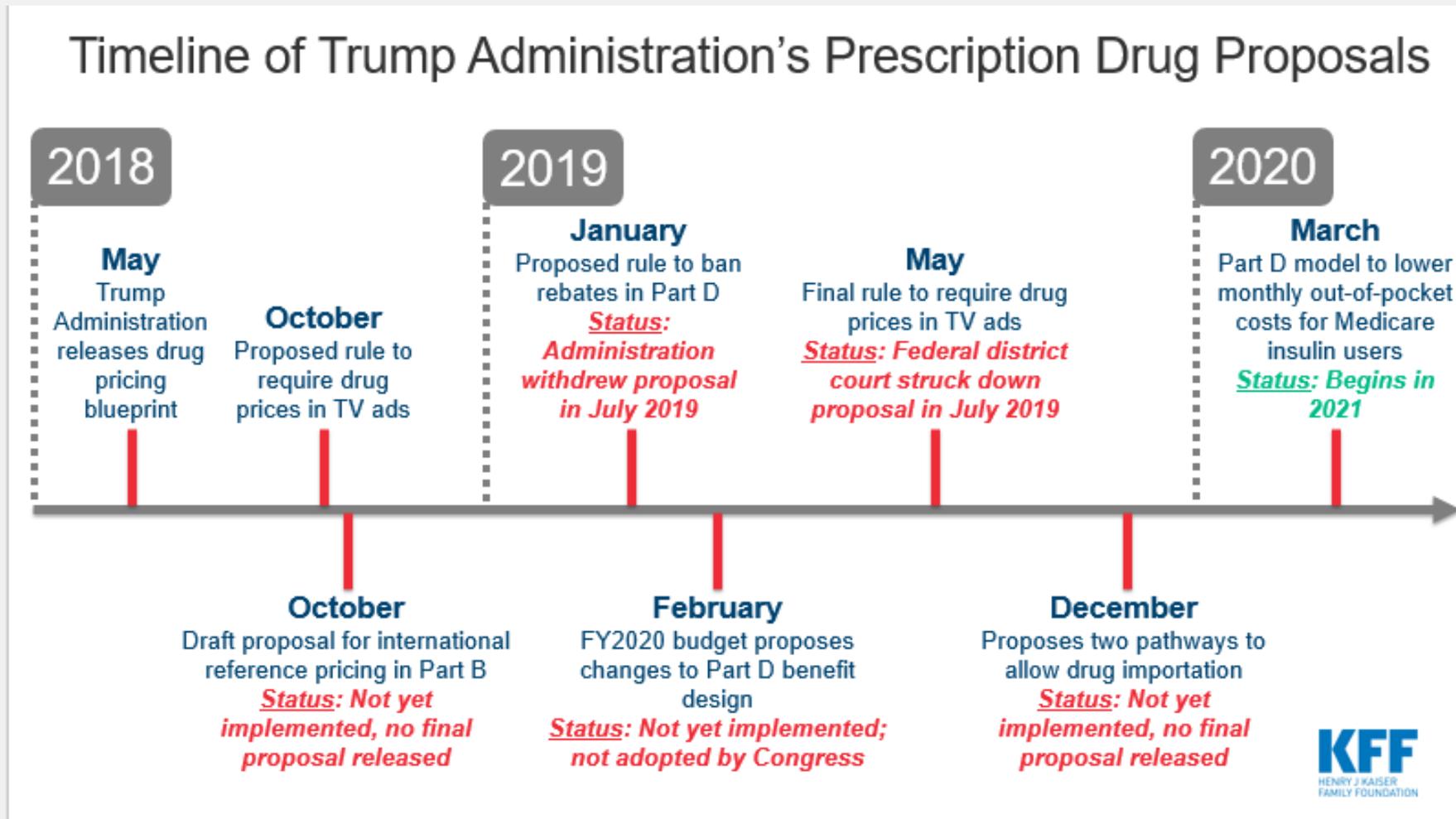
Consumers support a wide variety of solutions

- Multiple surveys show extremely strong, bipartisan support for reducing prescription drug prices

Percent who favor each of the following actions that would keep prescription drug costs down:



Administration has been very active...



“The rebate rule”

Meet the Rebate, the New Villain of High Drug Prices

A growing chorus, including the Trump administration, is calling for a rethinking of after-the-fact drug discounts that some say contribute to rising prices.

- Proposed effectively eliminating rebates under Medicare Part D but would have allowed discounts that flowed directly to patients at the pharmacy counter
 1. Estimated to increase federal spending by ~\$200 billion
 2. Premiums would increase for all enrollees
 3. Unclear how many enrollees would see a meaningful reduction in out-of-pocket costs
 - 89% of Part D scripts do not have a rebate
 - 27% of brand name drugs have rebates >12% of gross drug cost
 4. *Drug prices would not change*
- Proposal was ultimately withdrawn but it's clear this is far from over

Strong signs of life in Congress pre-Covid



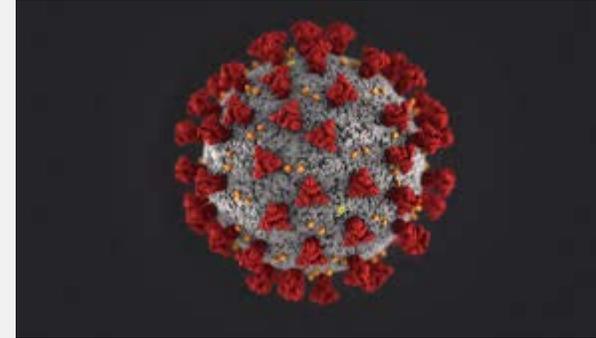
- LOTS of hearings
- LOTS of prescription drug-related legislation
 - REMS abuses
 - Pay-for-delay
 - Price transparency
 - Reduced market exclusivity for biologics
 - Patent reforms

Still in play...



- The Lower Drug Costs Now Act (H.R. 3) would:
 - Allow Medicare to negotiate the price of prescription drugs
 - Modify the Part D structure and cap out-of-pocket costs at \$2,000
 - Penalize drug companies that increase their prices faster than inflation
- The Prescription Drug Pricing Reduction Act (S. 2543; also known as Grassley-Wyden) would:
 - Modify the Part D structure and cap out-of-pocket at \$3,100
 - Penalize drug companies that increase their prices faster than inflation

Also some Covid-related legislative action



- Strong interest in ensuring access and affordability for Covid-related treatments and vaccines
 - Advocates are highlighting taxpayer investments in products under development
 - Also trying to highlight misplaced incentives that led drug companies to focus on products that maximize profit over public health needs
- Legislation that focuses on access/affordability/transparency for Covid products could ultimately become a precedent for all drugs

States have been extremely busy

- In the absence of federal legislation, states will likely continue the trend of going it alone
 - Price gouging
 - Importation
 - Bulk purchasing
 - Affordability review boards/price transparency
 - **LOTS** of pharmacy benefit manager (PBM) bills



Price transparency/affordability review boards



- Originated from drug industry arguments that high prices and price increases were needed because (unverifiable reasons)
- Reality is we have no way of knowing how companies set launch prices or decide to make subsequent price increases
- Now seeing states take the natural next step by using what they learn to evaluate whether a drug price is justified and/or manage spending

Lots of interest in drug importation



- ~75% support the idea of allowing Americans to buy drugs imported from Canada
- Fits with larger narratives of “free-riding” and “fairness”
- Five states have passed legislation that would allow for drug importation; several more are actively pursuing the idea
- Administration has released proposed rule that creates a process for approving state-sponsored importation plans

Restricting mid-year formulary changes



- Midyear formulary changes can trap consumers in a plan that—while suitable at the beginning of the year—is no longer a good fit
- Some changes are positive (e.g., addition of new generics) but others can reduce access and affordability
- Efforts to restrict formulary changes must be balanced
 - While appearing consumer-friendly, freezing formularies indefinitely can actually lead to higher prescription drug prices and costs

Cost-sharing caps



- High level of interest, particularly for insulin
- Understandably popular with patients facing high prescription drug costs
- However, have to be mindful that remaining cost will come back in form of higher premiums and cost-sharing down the road
- Also preserve status quo for drug companies that could reduce incentives for them to change their behavior

Drug companies have ideas, too

- REBATES!! ❤️
- Value-based purchasing: idea of paying for drugs based on how well they work rather than what the market will bear
 - However, there is no universal definition of value and developing one will not be easy
 - Limited to only a few drugs at this point
- Expand use of biosimilars
- Blame everyone else (see: PBMs)



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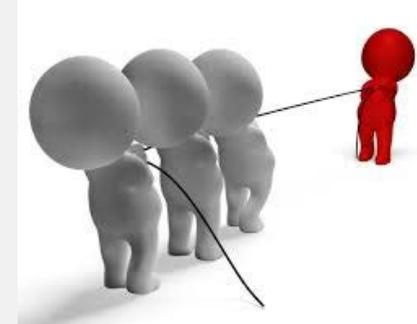
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Current system is incredibly complicated



- Manufacturers hold a lot of power (“what the market will bear”)
- Very fragmented system makes it extremely difficult to negotiate
 - “Squeezing the balloon”
- FDA’s role is safety and efficacy—price is not a concern
 - Also does not compare drugs to existing therapies

Drug industry is an incredibly worthy adversary



- Drug lobby is well-funded and very effective
 - See: recent diversion of attention to pharmacy benefit managers... and insurers...and hospitals...and...
- Industry funding can make it difficult to figure out who's on “our side”
- Innovation/R&D and “it'd be a real shame...” messaging can be very effective with consumers and policy makers

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What does the future hold?



- Really just a matter of waiting for the next source of outrage—and there will always be a next one
 - Hard to overstate how much is riding on drug company behavior over the next year or two
- High and growing drug prices will continue to draw attention as more people struggle to afford their medications

What's needed?

- Long-term, multi-pronged strategy
- Multi-stakeholder agreement on proposed solutions
 - Avoid “squeezing the balloon”
- Avoid creating “strange bedfellows”



What if nothing changes?

- The costs associated with prescription drugs are not sustainable for patients or payers
 - Reminder: this is an issue that consumers feel directly
- Efforts to reduce costs could save taxpayer-funded programs like Medicare and Medicaid billions of dollars
- Many patients will be unable to afford their prescription drugs if they do not receive some level of price relief

****Innovation is meaningless if no one can afford to use it****

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