

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

**Leigh Purvis, Director, Health Care Costs & Access**  
*AARP Public Policy Institute*

# 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

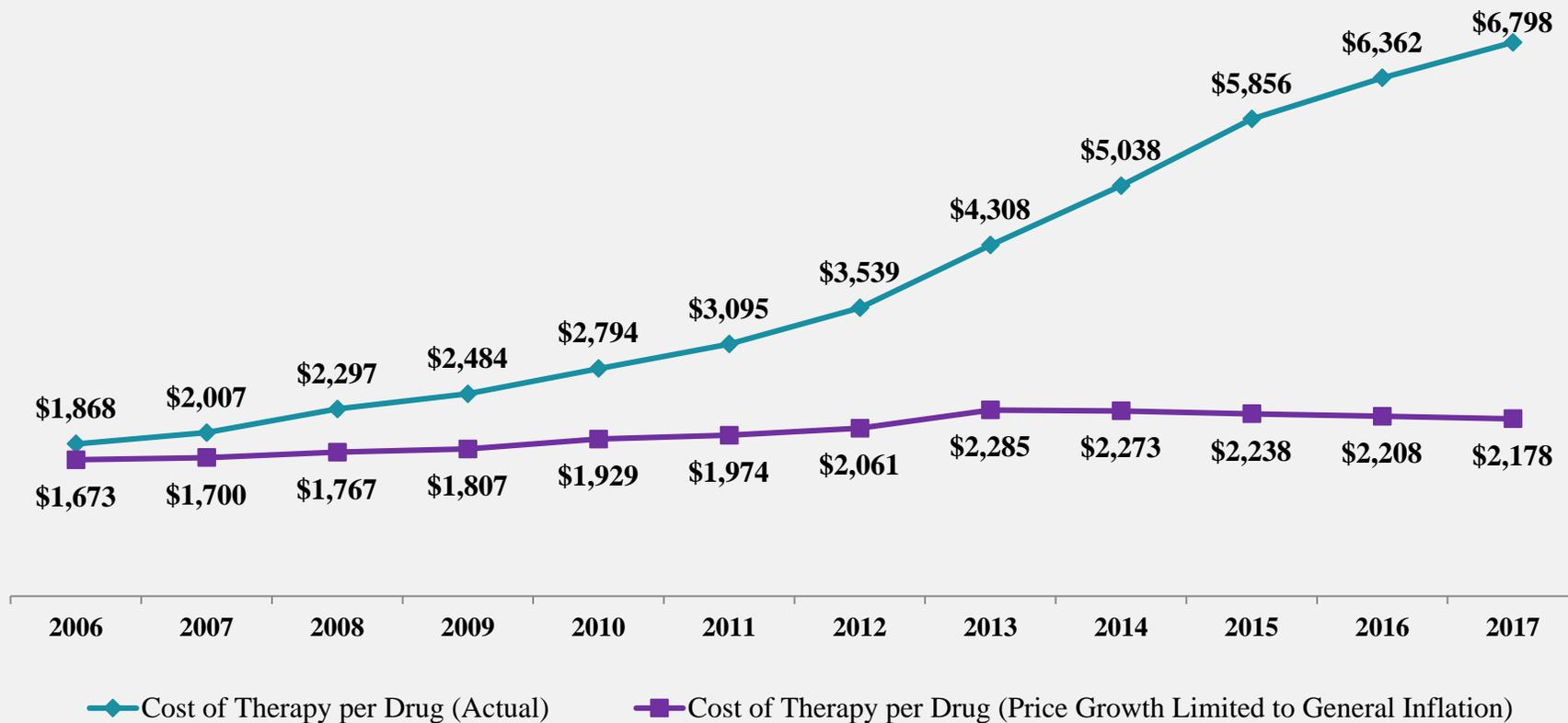
# High launch prices are just the beginning...



- 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

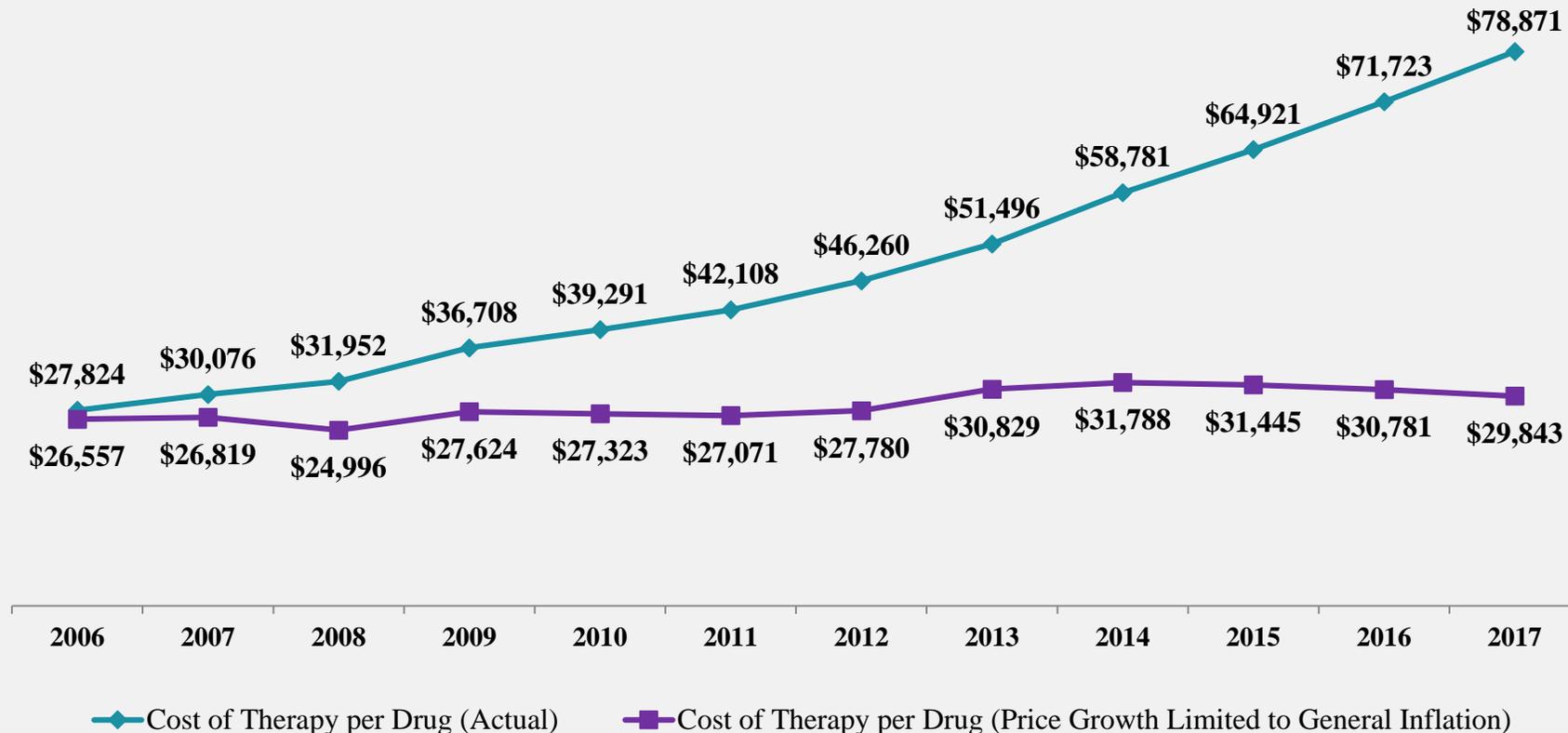
# If drug price changes had been limited to inflation between 2006 and 2017...

- 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



# 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?

# 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



# 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?**

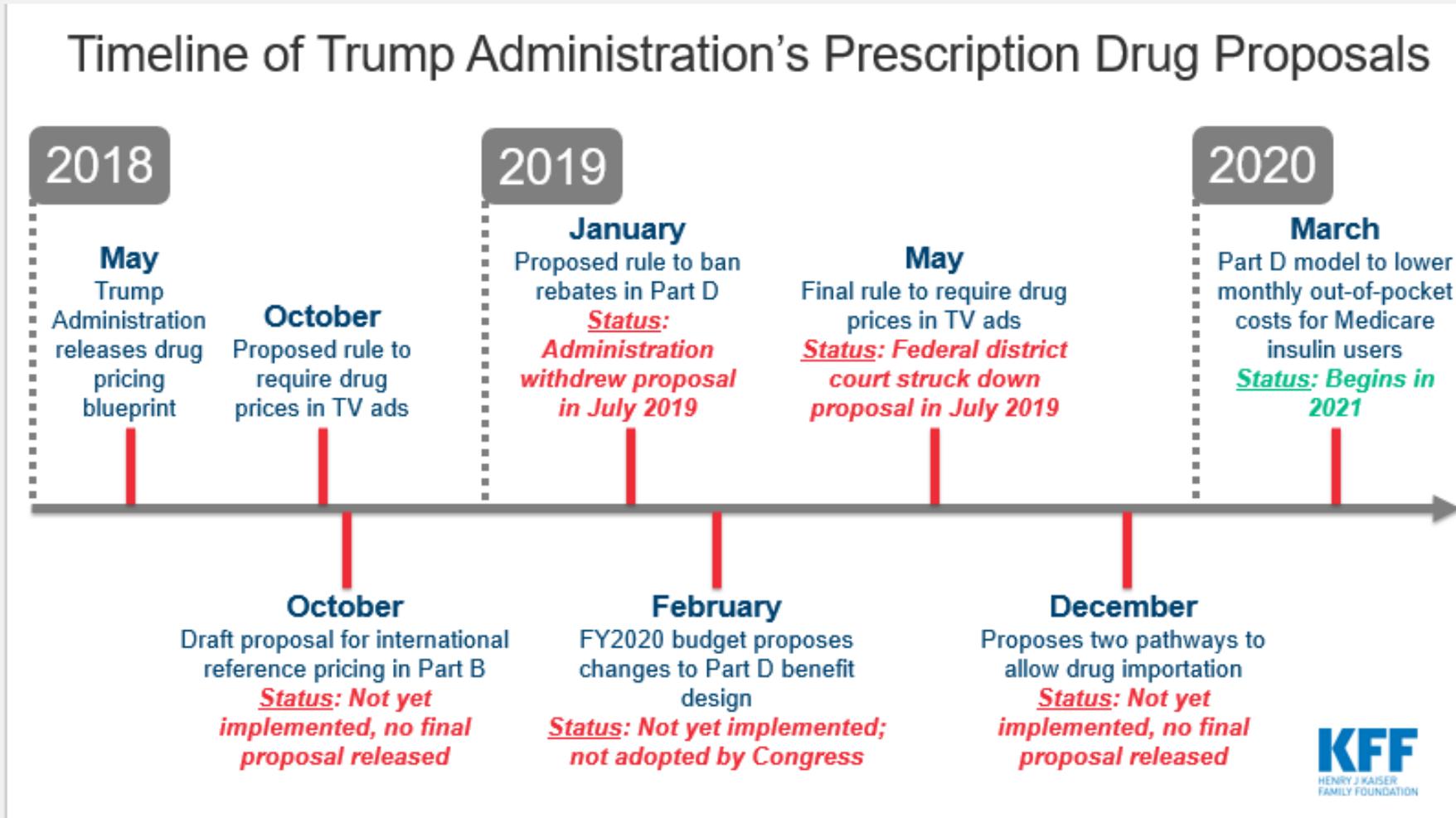
# Consumers support a wide variety of solutions

- 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



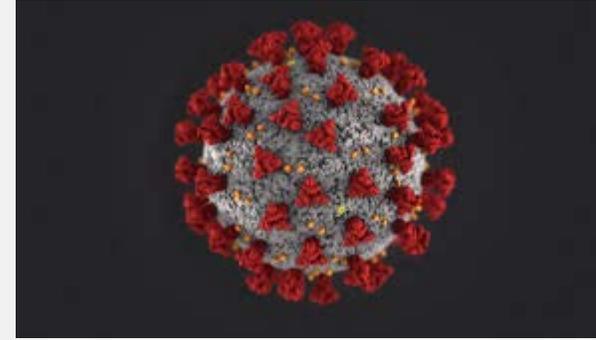
- LOTS of hearings
- LOTS of prescription drug-related legislation
  - REMS abuses
  - Pay-for-delay
  - Price transparency
  - Reduced market exclusivity for biologics
  - Patent reforms

# 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)



# OVERVIEW

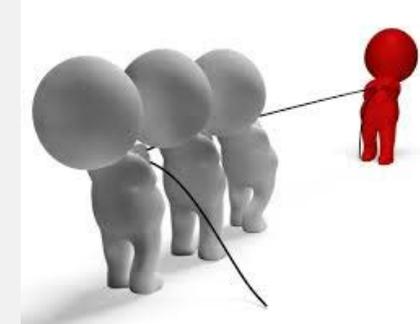
- Why are prescription drugs getting so much attention?
- Why is this issue so important to AARP?
- What solutions are on the table?
- What's standing in our way?
- What's next?

# 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

# 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?**

# 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\*\***

Leigh Purvis  
Director, Health Care Costs & Access  
lpurvis@aarp.org

AARP Public Policy Institute  
[www.aarp.org/ppi](http://www.aarp.org/ppi)

Twitter: @leighdrugwonk  
[www.Facebook.com/AARPPolicy](http://www.Facebook.com/AARPPolicy)  
Blog: [www.aarp.org/policyblog](http://www.aarp.org/policyblog)