

Drug Price “Transparency”

Issue Background

State and federal policymakers continue to explore legislative steps intended to make prescription drugs more affordable. One approach receiving greater attention in recent years involves drug pricing “transparency.” These proposals are usually drafted differently, but most proposals are similar in important ways. For example, some proposals would require drugmakers to report when the price of a medicine increases by a certain amount over a certain period of time (e.g. 15 percent or more in one year). This information would be reported to state regulators and insurance companies before the change in price takes effect. Additionally, some drug pricing proposals would require drugmakers to disclose to state regulators confidential business information to justify a change in the price of a medicine. This information would include the research and development costs for the drug, how the drugmaker intends to market the drug to patients, and how many individuals are expected to be prescribed the drug. Such proposals fail to quantify other factors that affect the price of a drug, including significant investment in research and risks associated in developing new cures.

Meaningful transparency would help patients get the information they need to make informed choices. It would help patients understand what medicines are covered by their health plans and what kind of cost-sharing is required, such as copays, deductibles and coinsurance. Real transparency would shine light on the role of insurers and pharmacy benefit managers who ultimately decide what patients pay out of pocket for prescription drugs.

Policy Position

Patients need more transparency in how their health care dollars are being spent, but most proposals being considered would provide transparency in name only. These misleading proposals do not provide transparency into the decisions of insurers and drug cost middlemen who ultimately decide how much patients pay out of pocket for their medicines. They also do not provide any transparency over how much hospitals charge patients for prescription medicines or hospital stays. If policymakers want to shine a light on health care costs, then they need to pursue a holistic approach that includes all the actors in our health care system. Anything less would be misleading and do little to help patients afford the medicines they need.

Key Points

- ✓ IMS Quintiles estimates that discounts, rebates and other concessions reduced list prices on branded drugs by **approximately \$127 billion**.
- ✓ Insurers require patients to pay **4.5 times more out of pocket** for prescription drugs than for hospital services, based on an analysis of CMS data.
- ✓ A Moran Company analysis found that hospitals, on average, markup the price of medicines by nearly **500 percent**. After price negotiations, hospitals receive roughly **250 percent** more than what they paid to acquire the drugs.
- ✓ U.S. biopharmaceutical companies reinvest **20 cents of every dollar** into the research and development of new cures treatments—more than any other American industry.
- ✓ The Centers for Medicare & Medicaid Services (CMS), spending on retail drugs increased by **1.3 percent** in 2016, and the Altarum Institute reports that drug list prices rose just **1 percent** over the year (and that’s before factoring in substantial rebates and discounts provided by drugmakers).