



Drug Pricing 101

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I have no conflicts of
interest to disclose.

Prescription drugs in U.S. health spending

- Retail drug spending accounts for 8.9 percent of health spending (KFF 2023)
- Affordability is a barrier to medication:
 - 1 out of every 3 U.S. adults is unable to take their medication as prescribed due to cost (KFF 2023)
 - 82 percent say the cost of drugs is “unreasonable” (KFF 2023)
- Incentives are misaligned: industry tends to invest in the diseases it anticipates being the most profitable – to the detriment of less-profitable conditions like uterine fibroids or endometriosis



The United States pays

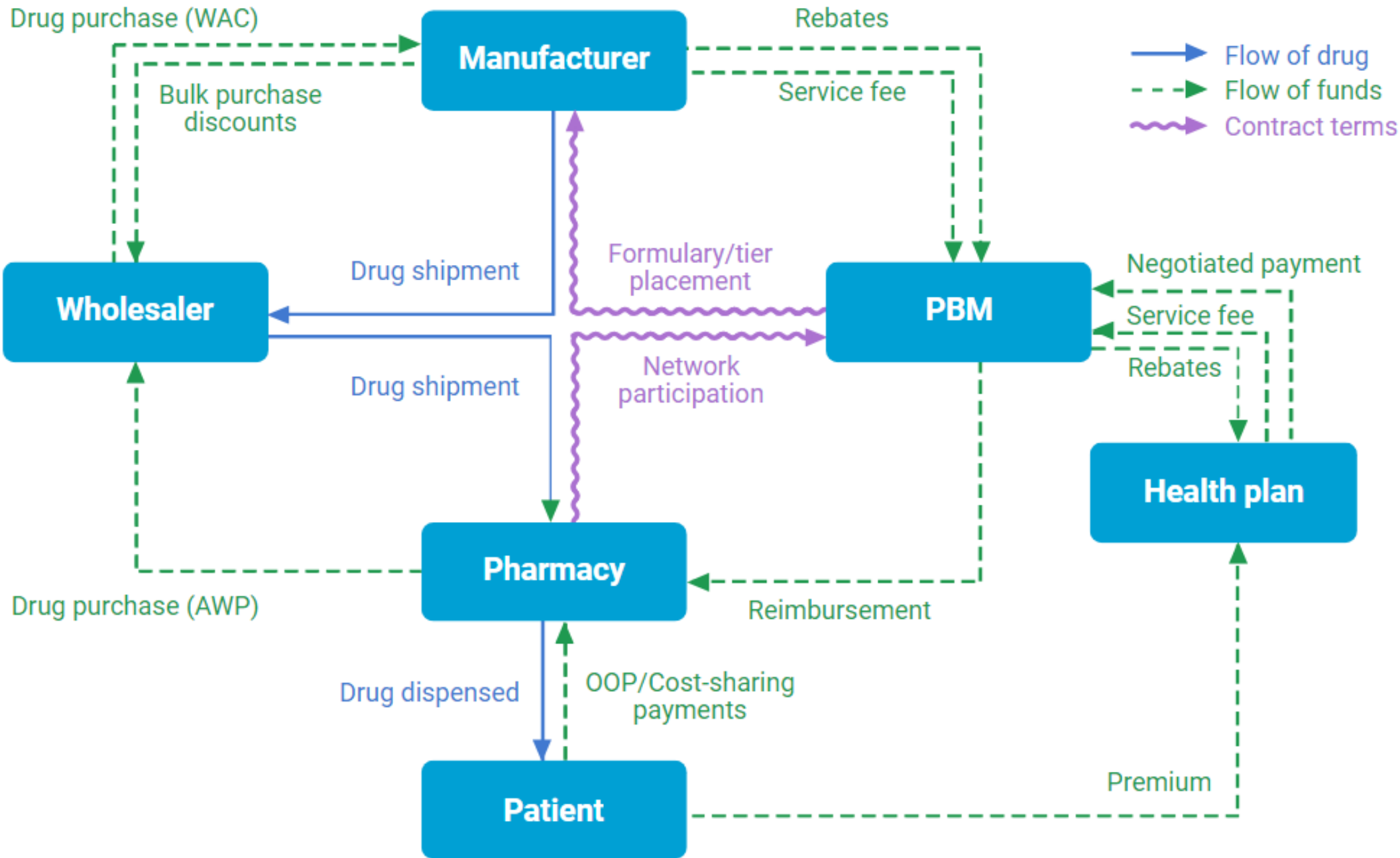
2.78

times what our peer nations do
for prescription drugs.

HHS 2024



A Complex Web of Relationships



Source: Alavere, "Follow the Pill: Understanding the Prescription Drug Supply Chain," (Washington, DC: 2020), available at <https://avalere.com/insights/follow-the-pill-understanding-the-prescription-drug-supply-chain>.

Sam Hughes and Nicole Rapfogel, "Following the Money: Untangling U.S. Prescription Drug Financing," Center for American Progress, October 12, 2023.



Challenges for Drug Affordability and Availability



Abuse of the patent system.

The patent system and FDA grant exclusivity, but brand manufactures often abuse the system to extend the life of their patents.



Patient choice is limited.

Patients cannot be expected to be able to comparison shop, and options are limited by plan design and formularies.



Market power keeps prices high.

This is the case not only among branded drug makers but also other places in the financing chain (PBMs, insurers) and for generic drugs.



Pricing is disconnected from value.

Prices do not reflect comparative effectiveness relative to other treatments or other drugs. This also has consequences for R&D investment.

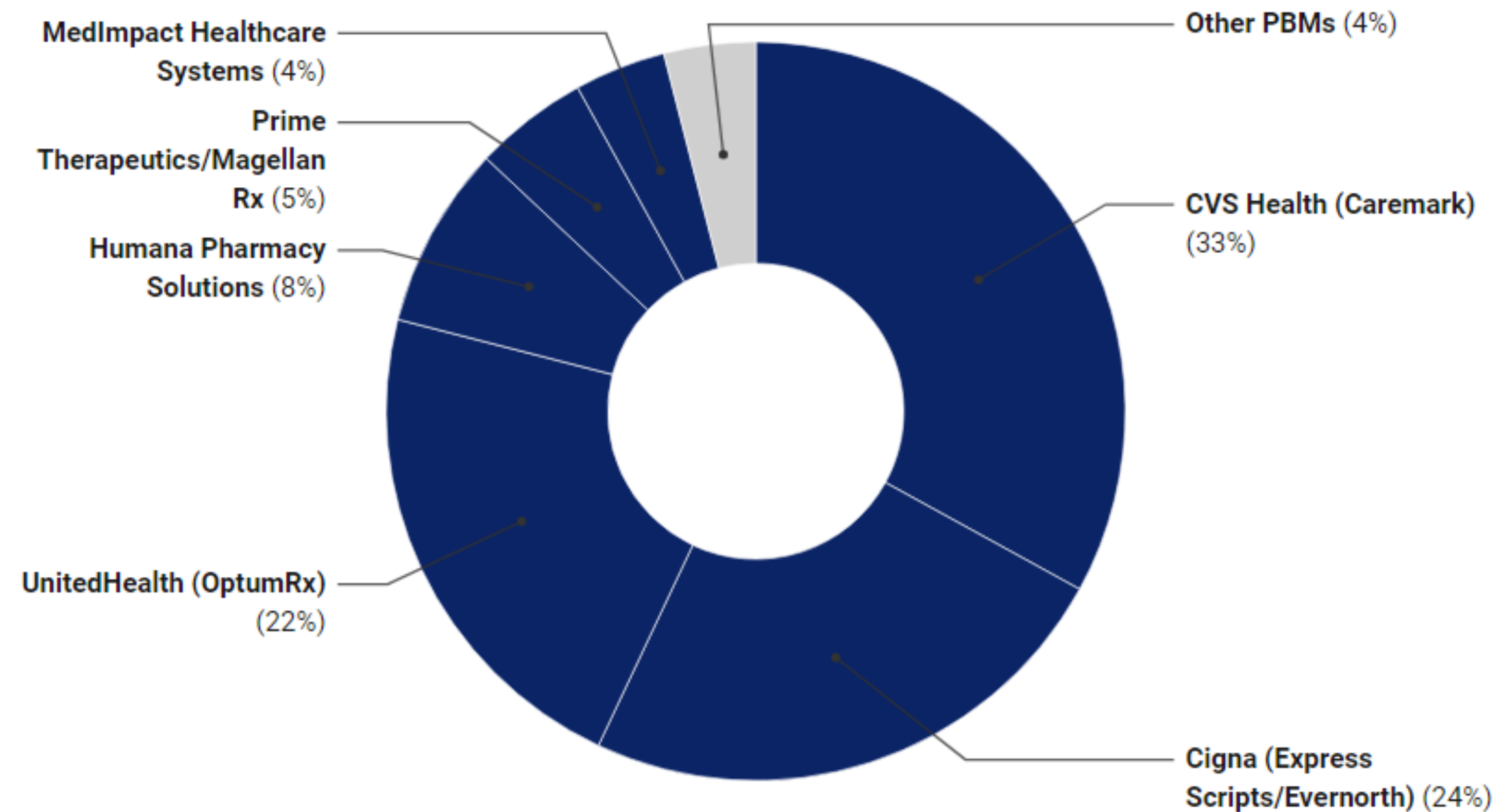
Don't Rely on Markets to Rein in Drug Costs

- The market is highly concentrated throughout the supply chain:
 - 40 percent of generic drugs have only one producer
 - In 2022, 6 companies made up 96 percent of the PBM market, and the top three PBMs accounted for nearly 80 percent.
- What's the problem?
 - Market power leads to higher prices, less transparency.
 - Concentration exacerbates supply chain vulnerability.
- Vertical consolidation heightens conflicts of interest: each of the five largest PBMs are consolidated with at least one other actor in the supply chain.

Ex. Horizontal and Vertical Consolidation among PBMs

6 pharmacy benefit managers (PBMs) make up nearly the entire market

Market share of PBMs, 2022



Pathways for Policy Change

Patent and FDA approval reform

- Stopping patent thickets, product hopping, pay-for-delay

PBM transparency and oversight

- passing through rebates; charging clear, flat fees; and disclosing pricing data to other entities

Reduce out-of-pocket costs

- Zero or lower cost-sharing for high value drugs (e.g., contraception, insulin)

Price regulation and expanding negotiation

- Expand Inflation Reduction Act reforms to the commercial market

Policymakers interested in meaningfully reducing drug costs must take a comprehensive approach to reform through out the drug financing chain.

