Addressing High-Priced Drugs

Utilize PBMs and value-based pricing more widely in Government-sponsored programs

A key driver of increased health care costs – both for the system and for individuals – is prescription drugs. The rising costs of prescription drugs accounts for nearly 17% of health care spending and drug prices are expected to increase by 4% to 7% annually over the next five years. Specialty drugs cost approximately 50 times more than traditional drugs, with an average cost of $43,000 per drug, per year. Some drugs cost more than $100,000 per year, and U.S. spending on specialty drugs has increased more than 50% in recent years.

Pharmacy Benefit Managers Are a Tool to Improve Affordability

Pharmacy Benefit Managers (PBMs) are a solution to reduce the overall cost of health care, while improving quality and outcomes. PBMs administer prescription drug plans for more than 266 million Americans who have health insurance from a variety of sponsors including: commercial health plans, self-insured employer plans, union plans, Medicare Part D plans, the Federal Employees Health Benefits Program (FEHBP), State government employee plans, managed Medicaid plans, and others.

PBMs reduce drug costs by:

- Offering medication home delivery and creating high quality networks of affordable pharmacies;
- Enabling the use of low-cost alternatives, including generics, biosimilars, and affordable brand medications;
- Negotiating discounts from drug manufacturers and drugstores;
- Managing high-cost specialty medications;
- Reducing waste and improving adherence; and
- Implementing value-based pricing.

Utilize Proven Pharmacy Management Tools in Medicare and Medicaid

Using PBMs more broadly in Medicare and in Medicaid could lead to significant savings. PBM negotiated rebates have resulted in $35 billion in Part D beneficiary premium savings between 2014 and 2018. PBMs are projected to save States more than $100 billion over the next decade. These savings represent only a portion of the potential savings achievable if Medicare and Medicaid fully utilize PBM tools and capabilities. Specific PBM solutions include:

- Expanding the use of pharmacy management tools, including step therapy and prior authorization.
- Enabling PBMs to drive the use of the highest quality, lowest-cost drugs, including generics and biosimilars, as appropriate.
- Enabling Medicare and Medicaid to utilize real-time benefits tools at the point-of-prescribing to allow beneficiaries to have meaningful and actionable information about out-of-pocket drug costs.
- Allowing Medicare and Medicaid the ability to negotiate value-based contracts with PBMs and drug companies.
- Allowing State Medicaid Plans the ability to choose how to best utilize PBM services based on their budget and unique populations.
- Optimizing how to best deliver prescription drugs for beneficiaries, including home delivery, specialty pharmacy, and mail order.

For every $1 spent

on PBM services, PBMs reduce costs by $6

PBMs are projected to

save employers, unions, government programs, and consumers $654 billion on drug benefit costs over the next decade

Implement Value-Based Pricing for Drugs to Improve Affordability

Policy-makers should implement solutions that reduce the total cost of drugs by driving quality, improving value, and slowing the growth of prescription drug costs. Reducing the total cost of care starts with paying for drugs based on the results a drug delivers for individuals, thereby replacing today's drug pricing model which is transactional and volume-based.

In order to impact the price of prescription drugs for consumers, pricing should evolve to a value-based model that considers drug pricing within the context of both pharmacy and medical costs, is based on quality, and results in more affordable drug alternatives for consumers. To enable value-based pricing, the Federal Government and States should:

- Update Federal Program Drug Coverage Requirements, including two drugs per class, six protected classes, and formulary tiering, to enable health plans to design formularies that utilize value-based contracts.
- Enable Medicare Coverage Design Flexibility to allow health plans to implement beneficiary cost-sharing, including a reduction in deductible or changes in cost sharing in an actuarial equivalent manner based on value-based pricing.
- Identify new quality measures that reflect the results measured in a value-based pricing model.
- Allow States to pursue Centers for Medicare and Medicaid Services waivers to amend Medicaid Best Price reporting requirements, enabling pharmaceutical pricing based on drug effectiveness and real-world results.
- Clarify Drug Manufacturer Government Price Reporting requirements, e.g., Medicaid Best Price and Average Sales Price to encourage greater use of value-based pricing.
- Establish new consumer and payer financing models for high-cost gene and curative therapies, including carve outs, annuity-based payment models, and new coverage models.

To further enable value-based payment for prescription drugs, it is also necessary to modernize the Anti-Kickback Statue, developed in 1965 to protect against overutilization the Medicare Fee-for-Service program by prohibiting the payment of rewards and rebates to induce the referral of health care services paid under Federal programs. Building on the Department of Health and Human Services' efforts to modernize the Anti-Kickback Statue that will shift to value-based payment of prescription drugs, specific changes include:

- Creating a value-based services safe harbor that would allow for price adjustments, and for health care services to be bundled with a prescription drug, such as digital health products, transportation for care visits, and waived or decreased out-of-pocket costs.
- Codifying the expansion of the value-based warranty safe harbor for prescription drugs and health care to enable drug pricing tied to the performance of a drug in a value-based pricing model.
- Expanding the generic drug waiver safe harbor beyond Part D, generic drugs, and first fills to enable plan sponsors to encourage medication adherence, leading to lower total cost of care and improved health outcomes.