PLANK 1 – COST AND QUALITY TRANSPARENCY

RESOLUTION 1.02:
PROMOTE FAIR MARKET PRICES FOR PRESCRIPTION DRUGS TO ENSURE APPROPRIATE CARE AND PREDICTABLE HEALTH CARE EXPENSES

Insurers, employers and patients all depend upon an affordable health care system in order to cover the cost of the care needed to maintain a healthy workforce. It is common knowledge that America's health care costs are on the rise, with prescription drugs being one of the major contributing factors to annual increases in health care expenditures. The rising cost of drugs affects a company's bottom line, and the unpredictability of drug pricing makes it difficult for employers, particularly those who self-insure, to plan for their health care costs.

Employers are limited in their options to manage rising drug prices, as they want to ensure their employees and dependents have access to crucial medications and don't want to put employees in the position of pricing essential medications out of reach. Additionally, for some conditions, appropriate pharmacotherapy may help avoid more expensive or risky medical interventions.

There are many contributing factors to the increases in drug prices:

» Demand inelasticity. Because drugs can be life-altering or lifesaving, consumers don't have the option to walk away from high prices. Furthermore, Americans are living longer, with more chronic illness, requiring more use of medicine to treat seniors, driving up demand.

» Negotiating power. The federal government, which purchases one third of all prescription drugs sold in the United States through the Medicare and Medicaid programs, does not use this high-volume purchasing power to negotiate lower rates, nor do these programs consistently require members to use generic drugs when they are available.

» Supply chain. Prescription drug supply chains are complex and include the pharmaceutical manufacturer, wholesale distributors, retail stores, mail order distributors and specialty pharmacies. All of these entities take a cut of the drug price, which is passed on to the consumer.

» Extended patents. United States patent law allows manufacturers to block competition for an extended period. The Food and Drug Administration (FDA) typically approves patents on medications for up to seven years for chemical-based medications and even longer for more complex biologic drugs. Once patents expire, manufacturers are able to use litigation or minor changes to a drug's composition to delay competitors' entry into the market. A recent study revealed that exclusive brand name drugs account for 72 percent of drug spending, but only 10 percent of the prescription drugs dispensed.

The Alliance supports the Five Rights framework adopted by the National Alliance of Health Care Purchasing Organizations. Although this framework was designed specifically to address rising specialty drug costs, The Alliance supports these principles across the board in efforts to address rising pharmaceutical costs:

1. Right Drug – prescribing decisions should be guided by the best available evidence on drug safety and efficacy, and testing to assess the best drug for a patient should be covered.
2. Right Price – costs along the pharmacy supply chain should be transparent to purchasers and patients alike.
3. Right Place - there should be parity in charges across settings of care.
4. Right Data – purchasers should be engaged with providers, regulators and drug manufacturers to ensure that purchasing decisions are informed by meaningful data analysis.
5. Right Support – patients should be supported to ensure follow-through with prescription drug therapies.

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Guided by the Five Rights, The Alliance encourages state and federal policymakers to adopt the recommendations of the National Academy of Sciences report, "Making Medicine Affordable: A National Imperative." The report identifies several policies that policymakers can adopt to directly impact this national dilemma, including:

» Use the clout and purchasing power of the government to negotiate lower prices with manufacturers.

» Require greater transparency regarding how drug prices are set.

» Incorporate value-based principles into drug formularies.

» Limit direct marketing of prescription drugs to consumers.

» Limit the total annual out-of-pocket costs paid by Medicare enrollees.

» Evaluate opportunities along the pharmacy supply chain to increase value.

» Share information with consumers regarding pharmaceutical effectiveness and value.

» The Federal Trade Commission (FTC) should use the drug pricing formulas to "identify and act upon any anti-competitive practices."

» Federal and state governments should work to control rising drug prices while at the same time ensuring that any cost savings realized as a result of these actions are not shifted to employers and other private sector health care purchasers.

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