

Lowering Drug Prices in 3 Easy Pieces



By *Chuck Dinerstein* — October 29, 2018



Courtesy of Rhoda Baer [1]

The Trump administration made three proposals last week to influence drug prices, the good, the bad and the ugly. Ending a gag rule on pharmacists is good, the plan to put the “list” price of drugs on those direct to consumer (DTC) pharmaceutical ads is bad, and the consideration of basing US drug prices on global prices, well that battle will be ugly.

The good

The President signed a bill allowing a pharmacist to discuss with patient’s lower cost drug options, and as I understand it, they will also be able to discover the difference in price between their insurance co-payment and the drug’s cash price. I have written about drug co-payments [previously](#) [2], and the dirty little secret is that in about 6% of cases for brand-name drugs and almost 28% of generic drugs, your co-payment covers not only the cost of the drug but includes a little “something extra” for the insurance company or pharmacy benefits manager (PBM) of your plan. So it should be no surprise that insurance companies and those PBMs have a “gag” rule in their pharmacy contracts prohibiting discussions about pricing. So overall, it is a win for consumers being more informed.

The bad

The President wants those DTC pharmaceutical ads to include the wholesale acquisition cost (WAC) that a manufacturer lists for any specific drug. Again, if you're going to take a deeper dive, you can read these articles [here](#) [3] and [here](#) [4]. Think of it like a car's sticker price, it puts you in the ballpark, but often has a tenuous relationship to reality. In this case, the administration wants the price for the course of treatment or a month's supply in the case of medication taken chronically to be listed. Fair enough. Let's take the idea out for a test drive. [1]

For a 24-week course of Harvoni, will very effectively treat Hepatitis C, the WAC is \$189,000. So expect to see that number on those DTC ads. Was it helpful? Probably not, because when you test drive a car at least, you have driven or be driven in other cars, you have something to compare your test drive with your expectation. Could you meaningfully choose this drug over say, Sovaldi? Not likely, because as a patient you may not be as aware of the pharmaceutical alternatives as you are about your car choices. Perhaps you could use an app, like TrueCar, where they gather the prices together and let you compare. While the app is not yet created, I will give you the Solvaldi price comparison, \$168,000. Now, of course, that is only the products made by one manufacturer, if we use another manufacturer Harvoni is \$85,500 and Solvaldi \$49,900. Surely now you can make an informed choice.

But if you can make that informed choice, it is in part because I told you that the drug was very effective.

When you buy a drug or a car, you want value for your money. What is the sense of spending 25% less for a drug that works half as well? Once again, we all have sufficient experience to form a reasonable opinion about the value of a car. But the value of a drug, is it based on its efficacy or its side effects, or how it is administered? If both drugs work equally well and one has more side effects or takes 2 hours to administer intravenously rather than taken as a pill, which has more value?

And none of this gets to the real question we ask as consumers, what is my out-of-pocket cost? So, what we have here is a Kabuki dance. The President is cracking down on evil Big Pharma; Big Pharma has already said that this was not a good proposal, and the two sides will settle on some number to give us, allowing for both the Art of the Deal and the magnanimous largesse of Big Pharma in sharing a scrap of data with those pesky patients.

The Ugly

The most dramatic of the new proposals is to set the price Medicare will pay for a drug based on some calculation that takes into account what other industrialized nations are paying; a reasonable consideration given that Medicare which is by and away the largest single purchaser of drugs in the US is explicitly forbidden from negotiating drug prices. As a result of that decision, which was made, by the way, by the Federal government, the US supports the cost of drugs globally by our higher prices. What Big Pharma cannot charge in the EU because of their price regulations is deftly passed onto us. So, for a President determined to put America First and not let us subsidize everyone, everywhere, the idea is a no-brainer. But again, the devil will be in the details.

The proposal is to use an International Pricing Index based upon sixteen countries [2], weighing their "costs" by the amount of medication prescribed. Sound good, what could be more scientific

and accurate than an indexing formula? But the prices in the index are those wacky WACs, not reflecting the real price a country pays after discounts and rebates and perhaps a country-specific coupon. It leaves a lot of room for deception when you base your formula on WACs, not real prices. It is the same shell game already being used in the US, but it will be globalized. To be fair, using an index will lower drug prices, but I am willing to bet that those prices could be made even lower if the biggest purchaser had a seat at the negotiating table and was not subject to a manipulatable “formula.” Unlike putting list prices in DTC ads, this proposal might actually hurt Big Pharma’s profits. Maybe, Big Pharma can give in gracefully on the list price idea in ads and get this proposal sent out for more research, say for another election cycle or two.

[1] Number reflect costs of 2015 and were collected by America’s Insurance Health Plans. The material comes from actual Federal pricing, found in the Federal Supply Service and from the RedBook, a pharmaceutical clearinghouse of wholesale acquisition pricing.

[2] Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Greece, Ireland, Italy, Japan, Portugal, Slovakia, Spain, Sweden, and the United Kingdom

Source: [Regulation to Require Drug Pricing Transparency](#) [5]

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Links

[1] https://upload.wikimedia.org/wikipedia/commons/3/31/Woman_consults_with_pharmacist.jpg

[2] <https://www.acsh.org/news/2018/06/14/are-you-woke-about-drug-co-payments-13079>

[3] <https://www.acsh.org/news/2017/06/01/spread-%E2%80%93-exploring-reason-high-cost-pharmaceuticals-11339>

[4] <https://www.acsh.org/news/2017/06/02/spread-%E2%80%93-exploring-reason-high-cost-pharmaceuticals-part-2-11340>

[5] <https://s3.amazonaws.com/public-inspection.federalregister.gov/2018-22698.pdf>