
Drug Pricing Policy Solutions



Drug Pricing Transparency



Missouri Foundation
for Health

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February 2023

Drug Pricing Policy Solutions: Drug Pricing Transparency

Lack of Transparency Around Drug Pricing

In 2021, the United States spent \$576.9 billion on prescription drugs.¹ Most drug prices increase every year, and in January 2022, the average price increase across nearly 3,000 medications was almost \$150 per drug.² The complex system of transactions that take place in the prescription drug supply chain contributes to increased drug costs and the general lack of transparency around this system makes it difficult to determine what areas should be targeted by policy solutions aimed at reducing drug costs.

In a typical pharmaceutical supply chain, the pharmaceutical manufacturers create the initial list price for the drug. Then, wholesalers transport the drugs and sell them to pharmacies, which then sell them to patients. For patients with insurance, the pharmacies bill insurers for a portion of the cost of the drug, while the patient pays a copay at the pharmacy counter. To add another layer of complexity, pharmacy benefit managers (PBM) negotiate with pharmaceutical companies for rebates to reduce the cost of drugs for their clients, which often include government agencies, large employers, and insurers. The PBMs keep a portion of the rebate and provide the rest to the client. In exchange for the rebate, the PBM moves the drug to a higher tier in insurance plan formularies. The highest tier in the formulary translates to the lowest out-of-pocket cost for patients, and because patients tend to purchase the drugs that are least expensive for them, the drugs on the highest tier tend to be the most profitable for drug companies. However, drug companies often cite increasing rebates as the reason they increase list prices.³



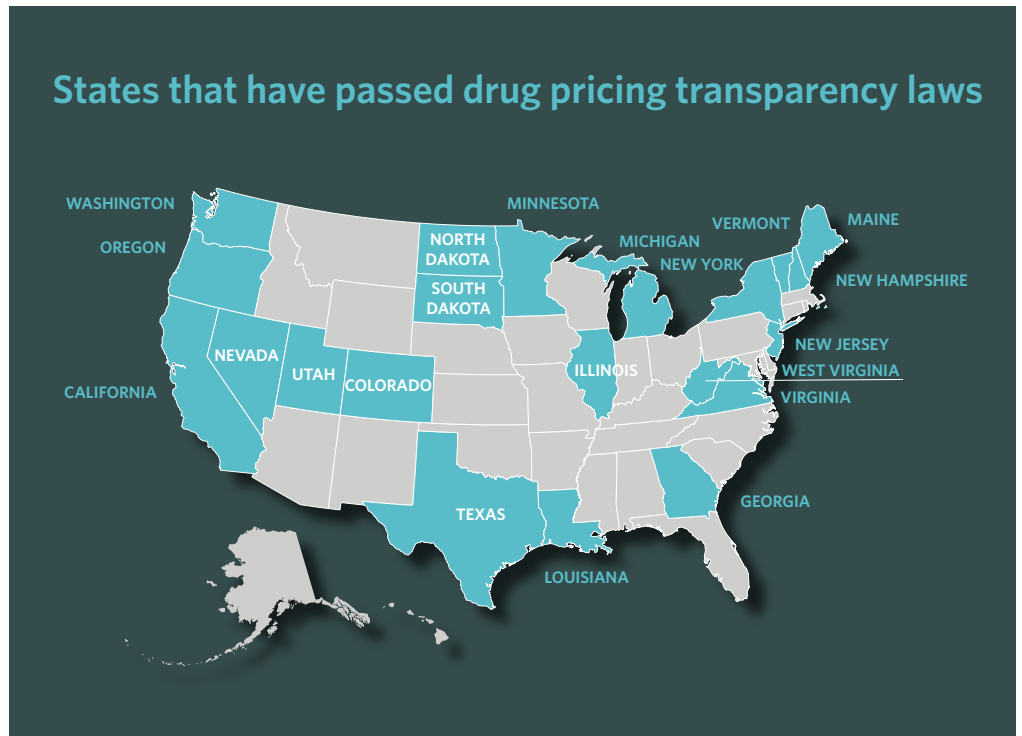
Adapted from video **How Drug Prices Work | WSJ**
https://www.youtube.com/watch?v=aeG2lWxYO_Y

Rebate data is considered proprietary by pharmaceutical companies and PBMs and is not released to the public. As a result of this system, different patients and insurance companies pay different prices for the same drugs. Increased transparency around drug pricing practices can allow for accountability and inform state policy development to reduce drug prices.

Transparency Policies

Since 2017, twenty-one states have passed laws to address drug pricing transparency. In general, these laws require one of the entities along the pharmaceutical supply chain to provide information related to drug pricing to another entity along the supply chain, the state government, or consumers themselves. For example, Nevada passed a series of drug pricing transparency laws between 2017 and 2021 that would require manufacturers, wholesalers, and PBMs to provide reports regarding drug pricing to the Nevada Department of Health and Human Services. Texas passed

transparency laws in 2019 and 2021 that require manufacturers to provide pricing data for drugs that have passed a threshold wholesale acquisition cost (WAC) of \$100 per 30-day supply and when the WAC for any drug increased by at least 40% within the last three years or 15% within the last year. Utah passed a similar law in 2020.⁴ Although the details vary, the overall goal of these laws is the same: to improve the availability of drug pricing information within and outside of the pharmaceutical supply chain. These laws can also promote accountability by requiring manufacturers to report on price increases or high list prices. Moreover, transparency laws can yield pricing data that is informative and foundational to the development and implementation of other types of drug pricing policy solutions.



Certain states that passed drug pricing transparency laws have found these laws to be effective in achieving these policy goals. For example, since transparency laws were passed in Vermont and Oregon, these states have reported a substantial reduction in the number of drugs reaching the price increase threshold that would trigger manufacturer reporting of pricing data. This indicates that manufacturers may be curbing excessive price increases for certain drugs. Additionally, some states have found their drug pricing transparency laws to be helpful building blocks for additional policy development to reduce drug pricing. Oregon, for example, passed a law establishing a prescription drug affordability board that will review high-cost drugs and make policy recommendations. Because Oregon already had a transparency law in place, its affordability board was well-positioned to identify high-cost drugs that should be reviewed.⁵

Drug Pricing Transparency Policy Can Help Lower Drug Pricing in Missouri

Transparency legislation that sheds light on drug pricing practices can make an impact in Missouri. As seen in other states, these policies can help identify drivers of high drug costs in the state, hold manufacturers accountable for excessive price increases, and serve as a first step toward future drug pricing policies.

[Endnotes](#)