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7 Ways Drug Pricing Legislative Proposals Would Lower Costs for Consumers and Businesses

By Nicole Rapfogel, Maura Calsyn, and Colin Seeberger July 26, 2021

High prescription drug prices are taking both a financial and health toll on the American people, and the public is eager for reform. About 80 percent of American adults believe prescription drugs are unreasonably expensive, and 3 in 10 have not taken their prescriptions as prescribed due to cost,[1] sometimes with fatal consequences.[2] Almost 90 percent of adults in the United States support government drug price negotiation, and more than 75 percent are in favor of the government setting inflation caps on rising drug prices.[3] To bring down prescription drug prices, foster more equitable access to treatments, and pass these savings on to consumers, drug pricing reform is urgently needed.[4]

Fortunately, several key proposals are gaining momentum at the federal level.[5] For instance, the Elijah E. Cummings Lower Drug Costs Now Act of 2019, or H.R. 3, would allow the U.S. Department of Health and Human Services to negotiate drug prices directly with pharmaceutical companies for Medicare beneficiaries and privately insured individuals.[6] Several other legislative proposals would prevent drug companies from raising their prices at a rate faster than inflation and cap out-of-pocket payments for prescription drugs for Medicare beneficiaries. With 1 in 2 Americans taking prescription drugs, these reforms would provide substantial and critical relief to millions of people,[7] yielding thousands of dollars in estimated monthly savings for some drugs.[8]

This issue brief outlines just some of the ways that drug pricing reform would help consumers and businesses.

1. Seniors would have lower out-of-pocket prescription drug costs

Nearly 90 percent of older adults take prescription medication, with more than half of older adults taking four or more prescription drugs.[9] While Medicare Part D beneficiaries are not responsible for the full cost of their prescription medications at the pharmacy, lower drug prices—even without additional reforms—would result in lower Part D premiums and cost sharing.

Additional legislative proposals that set an out-of-pocket limit for Medicare beneficiaries' prescription drugs would further save seniors money. There is currently no out-of-pocket limit in the Medicare Part D program: Beneficiaries begin the plan year with standard coverage that includes a deductible, monthly premiums, and copayments or coinsurance—all of which vary by plan. In 2021, once the beneficiary and plan spend $4,130 on drugs, the beneficiary falls into a coverage gap, during which they pay up to 25 percent of the cost for prescription drugs.[10] And once a beneficiary spends $6,550 on Part D drugs, they qualify for catastrophic coverage and are responsible for 5 percent coinsurance on drug costs. With skyrocketing drug prices, this seemingly harmless 5 percent coinsurance could total upward of $10,000—nearly 40 percent of the median annual income for Medicare beneficiaries.[11]

Fortunately, a number of legislative proposals would place a limit on beneficiaries' out-of-pocket spending; H.R. 3, for example, would limit out-of-pocket spending on Part D drugs to $2,000. Reforms that address excessive price increases are also critical. Between 2018 and 2019, 1 in 2 drugs faced price increases greater than the rate of inflation, and 14 percent of all drug prices increased by 10 percent or more. These price increases pose serious threats to consumers who are already on a stable course of treatment as well as those with chronic conditions. For example, the price of Humira—an immunosuppressant drug used to treat diseases including arthritis and Crohn's disease—has increased by 470 percent since the drug came to market in 2002.[12] In 2015, AbbVie, the maker of Humira, increased prices twice—first by nearly 10 percent, followed by another near 8 percent price hike just four months later.[13] Humira prices continue to rise, as AbbVie increased the price by 7.4 percent in January 2021.[14]

2. Americans with private insurance would have lower premiums and out-of-pocket costs

Private insurers would also have access to these negotiated drug prices. While each private insurance plan constructs its pharmacy benefit differently, consumers who have not yet met their deductibles or pay coinsurance for prescription drugs would pay lower prices at the pharmacy.[15] Furthermore, inflation cap reforms would apply to the private market, preventing exorbitant drug price increases.[16] Research from GoodRx shows that 95 percent of all list price increases have downstream effects leading to cash price increases for consumers.[17]

According to the Congressional Budget Office (CBO), lower drug prices would also decrease insurance plans' drug spending, resulting in lower premiums for consumers.[18] West Health Policy Center estimates that employees would save more than $60 billion on premiums and cost sharing on their employer-sponsored plans from 2023 to 2029,[19] and consumers who purchase their coverage on the Affordable Care Act marketplaces would save $35 billion during that time frame.[20]

3. Businesses would benefit from lower drug costs

Drug price negotiation would also help businesses by reducing prescription drug spending in employer-sponsored plans. As drug prices have risen, employers' prescription drug spending has also surged. In fact, prescription drug spending by employer plans was nearly 30 percent higher in 2018 than it was in 2014.[21]

Inflation caps are another means to control drug spending by limiting price increases and making drug costs more predictable when designing plans. The CBO estimates that health insurance costs for employers would decline under H.R. 3 as drug costs for employees decline.[22] Likewise, West Health Policy Center estimates that employers who provide employee health coverage would save nearly $200 billion between 2023 and 2029.[23] These savings could improve businesses' vitality, increase workers' wages, and spur economic growth.

4. People living with diabetes would have access to affordable insulin

If the U.S. Department of Health and Human Services were empowered to negotiate prices for insulin products, the 7.4 million Americans with diabetes who depend on insulin would save money and be able to more easily afford this lifesaving treatment.[24] Insulin has made headlines in recent years for its soaring prices, which have tripled in the past decade.[25] Despite the fact that insulin remains remarkably similar to the original drug, which was discovered a century ago, some brand-name insulin manufacturers have increased their prices to unconscionable levels. For example, the price of Eli Lilly's Humalog rose 1,200 percent between 1996 and 2019.[26] Facing such high costs, 1 in 4 people with diabetes have resorted to insulin rationing—an extremely dangerous tactic that can result in death.[27]

The Center for American Progress estimates that H.R. 3 could save a person living with diabetes nearly $700 for an annual supply of Lantus, an insulin product made by Sanofi.[28]

5. Disabled people would see lower costs for critical treatments

Disabled people of all ages who are covered by Medicare would benefit from lower premiums and out-of-pocket costs, as would privately insured beneficiaries with disabilities. Many of the prescription drugs with the highest Medicare spending are treatments for chronic conditions, including cancer, autoimmune disorders, and respiratory ailments.[29] But under H.R. 3's drug price negotiation, a person with multiple sclerosis, for example, could save nearly $100,000 per month on their Acthar treatment, according to a recent CAP analysis.[30]

People with physical disabilities—who are disproportionately Black, Latino, and Indigenous due to systemic racism[31]—are also 85 percent more likely to have unmet prescription drug needs than people without physical disabilities.[32] They may, for example, have complex medical needs that require prescription drug treatment.[33] Yet it is often difficult for people with disabilities to receive treatment since they disproportionately have low incomes, less than a high school education, and difficulties securing jobs,[34] especially those that provide a living wage.[35]

Workers with disabilities earn just 66 cents for every dollar earned by their non-disabled peers.[36] And adults living in poverty are more likely to have a disability, making disabled people disproportionately vulnerable to rising drug prices.[37] A 2021 study found that raising the out-of-pocket price of a drug by $10 decreased medication adherence by 23 percent and increased the likelihood of mortality by 33 percent for Medicare beneficiaries. Subsequently, disabled people may face poorer health outcomes and greater complications with drug price increases that have become increasingly routine.

6. People of color could see more equitable health outcomes

High drug costs further compound existing racial health inequities that result in poorer health outcomes for Black, Hispanic or Latino, Native Hawaiian or other Pacific Islander, and American Indian or Alaska Native people.[38] With large racial wealth and income gaps, seemingly small changes in prices can have a disproportionate impact on people of color. In particular, Black and Hispanic/Latino Americans face income gaps of $30,000 and $20,000, respectively, compared with their non-Hispanic white peers.[39]

Inequitable access and prohibitive costs have significant clinical implications, as Black and Hispanic Americans use fewer prescription drugs and face more severe chronic illnesses than white Americans.[40] For example, Black Americans are more likely to die from high blood pressure, diabetes, HIV, and COVID-19 than white Americans.[41] Moreover, they are disproportionately likely to have sickle cell disease, which can cost more than $3,000 per month to treat; notably, 80 percent of sickle cell patients do not receive adequate care and treatment.[42]

Drug pricing reform that lowers out-of-pocket costs could therefore significantly reduce the burden of disease, improve disparate health outcomes, and fight the pervasive health inequities facing these communities.

7. Women would benefit from lower prices on some of the most expensive drugs

Women are more likely to use prescription drugs and be unable to afford prescribed medication than men.[43] Due to the gender wage gap, women—especially women of color—face a disproportionate impact from soaring drug prices. Women are also less likely to adhere to medication as prescribed due to cost, which can result in poorer health outcomes and additional complications.[44] Moreover, women are more likely to bear the responsibility of their dependents' drug costs, adding to their financial burden.[45] Policies that limit drug price increases to the rate of inflation would therefore confer significant benefits for women; for example, Millicent's Femring, a contraceptive, and Teva's Prefest, a drug to treat symptoms associated with menopause, were among the drugs with the highest price hikes in January 2021, at 9.4 percent.[46]

In addition, many of the drugs with the highest Medicare spending—and thus most likely to meet the criteria for negotiation—treat conditions that disproportionately affect women, including breast cancer, arthritis, and other autoimmune disorders.[47] According to a CAP analysis, H.R. 3's drug price negotiation could save breast cancer patients nearly $6,700 per month on Ibrance, an oncology drug made by Pfizer.[48]

Conclusion

Drug price negotiation and limits on excessive price increases would help consumers in clear and tangible ways. Furthermore, these reforms would begin to address longstanding health inequities, such as the increased likelihood of complex medical needs and disparate access to medication for women, people of color, and disabled people. The American people would see the impact of lower drug costs at the pharmacy, in their premiums and out-of-pocket payments, and, ultimately, in their health and well-being.

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