**Why Are Drug Prices So High? Let Us Count the Ways¹**

Some blame PBMs, others fault drug manufacturers

- by Joyce Frieden, News Editor, MedPage Today December 14, 2017

WASHINGTON -- There was one thing several witnesses at a House hearing on the drug supply chain and high drug prices had in common: the ability to point fingers.

“Three PBMs [pharmacy benefit management firms] buy on behalf of over 70% of the prescriptions in this country ... They exert significant cost pressure to keep spending and prices in check,” Lori Reilly, executive vice president for policy, research and membership at the Pharmaceutical Research and Manufacturers of America, said during Wednesday’s House Energy & Commerce Health Subcommittee hearing. “One of the ways they do that is to extract significant discounts and rebates from pharmaceutical manufacturers ... They now total over $100 billion a year. Unfortunately, many times those discounts and rebates are captured by intermediaries and don’t make their way back to patients.”

That’s not really how it works, according to Mark Merritt, president and CEO of the Pharmaceutical Care Management Association, a trade group for PBMs. “As always, pricing decisions in any industry are driven by supply and demand and competition, not supply chains,” he said. “Prices are set exclusively by drug companies with zero input from anybody else in the supply chain, including PBMs ... Some drugmakers have tried to blame their own pricing decisions on the supply chain, but this makes little sense.”

Matt Eyles, chief operating officers of America’s Health Insurance Plans, a trade group for health insurers, also pointed to drugmakers. “Any discussion of drug prices in the supply chain must start with the list price, which is set solely by drug companies and which acts as a starting point for plans and PBMs to negotiate lower prices for consumers. Out-of-control prices are the result of drug companies taking advantage of a market skewed in their favor.”

Gerald Harmon, MD, chairman of the American Medical Association Board of Trustees, highlighted the problems caused by health insurance companies. “The goal is to ensure that patients have access to the right medication at the right time,” he said. “Affordability and price can be a major barrier, but so are the hoops we have to jump through -- prior authorization, change drug formularies, step [regimens] -- all put in by insurers to manage costs.”

¹ Source: [https://www.medpagetoday.com/publichealthpolicy/fdageneral/69913](https://www.medpagetoday.com/publichealthpolicy/fdageneral/69913)
Like Reilly, Douglas Hoey, CEO of the National Community Pharmacists Association, a trade group for independent pharmacies, also blamed PBMs. “PBM middlemen are increasing pricing complexity and contributing to higher prescription drug costs,” he said. “Opaque PBM practices include PBM-retained rebates and spread pricing, generic drug reimbursement schemes, and Direct or Indirect Remuneration (DIR) fees assessed on pharmacies months after a prescription is filled.”

Subcommittee members had different responses to the blame game. “There’s more than enough blame to go around for what we see transpiring in the marketplace,” said Rep. Marsha Blackburn (R-Tenn.). “This is an issue that we need to address, and we need your best efforts in solving this.”

Rep. Kurt Schrader, DVM (D-Ore.) tried to stay above the fray. “I don’t blame the pharmaceutical industry or the supply chain for the problem,” he said. “It’s just the outgrowth of industry developments and the innovation that’s out there.” He noted that the drug industry has a 90% failure rate when it comes to getting its products on the market, adding, “That’s not generally a good business model, but these guys do it because they care about the marketplace and hopefully there is a profit to be made at some point in time.”

At some points during the hearing, witnesses sparred with one another. For example, in response to a question about why the price of certain types of insulin has risen from $90 to $400 in 10 years, Reilly said it was because “the list price is not set in a vacuum; our companies have to engage with PBMs and insurance companies every day in determining the list price, and their preferences matter significantly. If they want a high list price and a high rebate ... and they’re buying on behalf of 100 million Americans, the leverage they exert is significant.”

But Merritt said no such negotiations are taking place because “it would be an antitrust violation for those discussions to happen. Manufacturers set the price according to however they want to move the product; PBMs have zero input into that, and health plans have zero input.”

Witnesses offered various solutions to the pricing problem, although some fell along similar lines. “Reward value, not volume; inject more competition; and empower patients,” said Tom DiLenge, president for advocacy, law, and public policy at the Biotechnology Innovation Organization, a trade group for biotechnology companies.

“Deliver real competition through generics and biosimilars, ensure open and honest prices to give greater transparency to how prices are set, and link prices to clinical value and outcomes,” said Eyles.

“We should allow Medicare to negotiate prices for patients,” said David Mitchell, founder of Patients for Affordable Drugs, a consumer group. In addition, “copay coupons and pharmacy assistance programs are designed to keep prices high; they’re not charities. We should lower drug prices and make copay coupons unnecessary. Make
sure patients pay on rebated, not list, prices, and that patients with insurance don’t pay more than they would if they paid cash.”

Several subcommittee members suggested that the subcommittee form a working group to discuss the supply chain issues further, but Rep. Greg Walden (R-Ore.) who chairs the Energy & Commerce Committee, was having none of it. “Consider yourself on [the working group] if you’re on the healthcare subcommittee,” he said. “This is where we’re going to do regular order on the health subcommittee to look at issues [that the witnesses] are helping us to get a better handle on ... The notion that we’re going to have a splinter group do something -- put a nail in that one because this is the splinter group.”