

# **Health Systems & Policy | Professor Huett**

## PLSC 4153 Final Policy Proposal

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# Addressing High Prescription Drug Costs through Policy Reforms

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# Overview of Prescription Drug Costs

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## High Prescription Drug Costs

- Critical public issue in the United States
- Affects millions of Americans
- Urgent for vulnerable groups like seniors, low-income families, and individuals with chronic conditions

## Consequences of High Costs

- Aggravates health inequities
- Reduces medication adherence
- Strains the healthcare system

## Proposed Solutions

- Government price negotiation for Medicare
- Value-based drug pricing

# Problem Statement

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## High Prescription Drug Costs

- Affects millions of Americans
  - Particularly urgent for vulnerable groups
  - Includes seniors, low-income families, and individuals with chronic conditions
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## ACA's Approach

- Increasing competition in the pharmaceutical industry
  - Closing the Medicare 'donut hole' or coverage gap
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## Consequences of High Costs

- Aggravates health inequities
  - Reduces medication adherence
  - Strains the healthcare system
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# Proposed Policy Approach

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## **Government Price Negotiation for Medicare**

- Directly addresses high drug prices
- Promotes efficiency and equitable access

## **Value-Based Drug Pricing**

- Balances fiscal sustainability with health outcomes
- Reduces unnecessary spending

## **Expanded Access to Generic Medications**

- Ensures fair pricing for patients
- Fosters innovation

## **Building on the Affordable Care Act (ACA)**

- Creates a more accessible healthcare system
- Benefits all Americans



# Defining the Problem

- ACA aimed to tackle skyrocketing prescription drug prices
- Prices driven by companies with complete control over drugs
- Lack of price transparency exacerbates the issue

## Comparison with Other Countries

- U.S. drug price regulation weaker than in Canada and Germany
- Other countries negotiate directly with pharmaceutical companies

## Problem Identification

- Rising drug costs and lack of affordable access were critical issues before ACA
- One in four Americans struggle to afford prescription drugs
- High drug prices, minimal regulation, and limited generic access are key causes
- Elderly patients particularly impacted by rising costs

# Alternative Views and Counter Arguments

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## Alternative View on Drug Pricing

- Regulatory restrictions curtail innovation
- FDA approval processes are overly restrictive and expensive
- Critics argue high costs are due to limited new drugs entering the market
- Easing regulatory requirements could lower costs by increasing available drugs
- Research and development costs drive high drug prices

## Counter Argument on Drug Pricing

- Regulatory hurdles do not address price-setting behaviors or lack of transparency
- Expanded innovation does not guarantee affordability
- Marketing funding and profits often drive higher prices more than R&D
- ACA is needed to increase accessibility without harming drug availability

# Identifying Stakeholders

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## **Patients and Families**

- Bear the financial burden of high drug prices
- Advocate for policies to lower costs and improve access
- Skipping doses or foregoing treatment due to unaffordability

## **Pharmaceutical Companies**

- Benefit from high drug prices
- Oppose changes that reduce profit margins
- Support policies that minimize price regulation

## **Insurers and Healthcare Providers**

- Face pressure to cover high-cost drugs
- Leads to increased premiums for patients

## **Government and Policymakers**

# Closing the Medicare 'Donut Hole'

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## Medicare Part D Coverage Gap

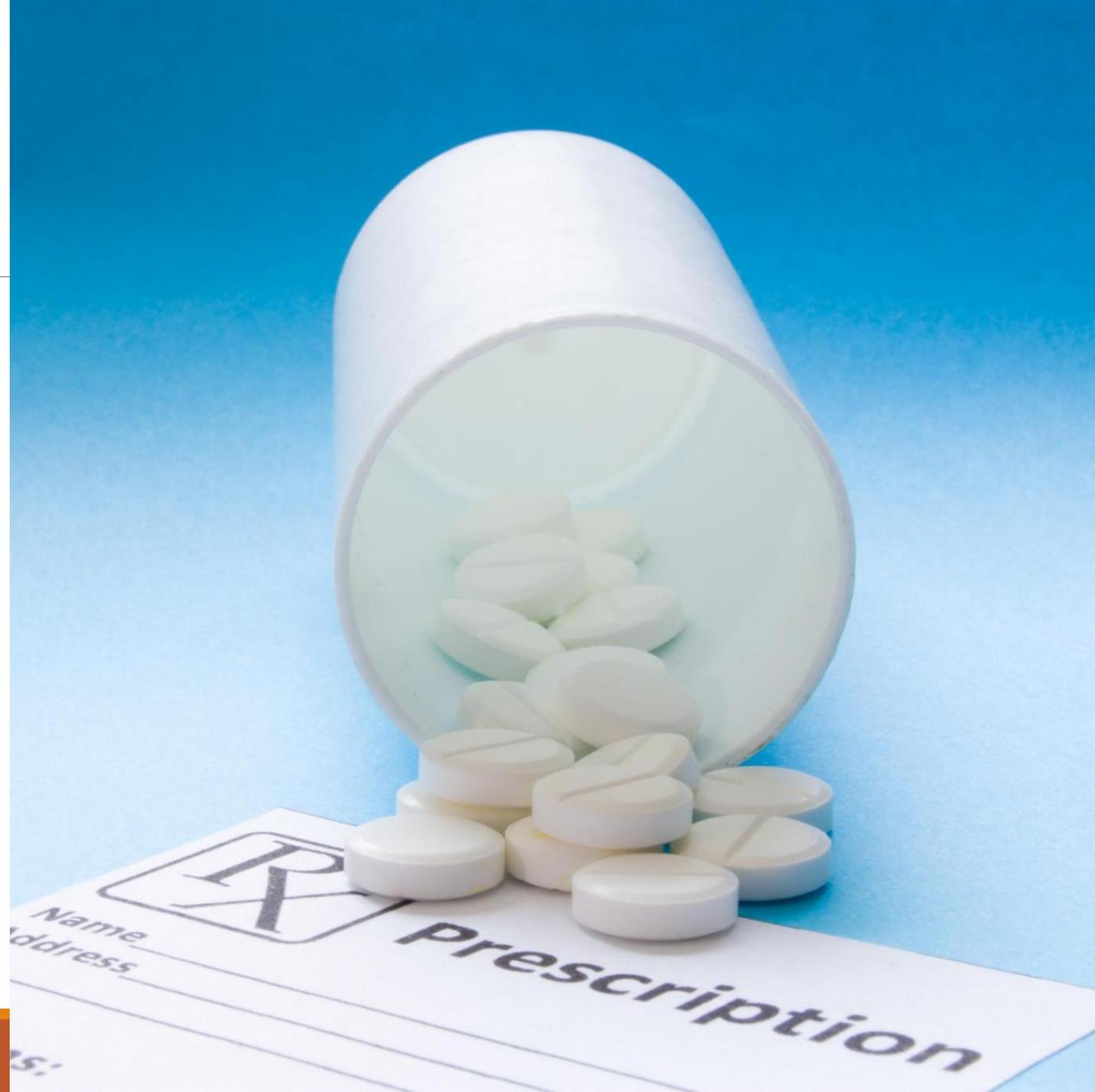
- Known as the 'donut hole'
- Beneficiaries pay more after initial coverage limit

## Impact on Seniors

- High out-of-pocket costs
- Skipping doses or delaying refills
- Foregoing medications due to cost

## Current Policy

- Inflation Reduction Act (IRA) signed in 2022
- Eliminates the donut hole for seniors by 2025



# Current Policies and Their Impact

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## Current Policy: Inflation Reduction Act (IRA) 2022

- Eliminates Prescription Drugs Coverage Gap for Seniors by 2025
- Most Medicare drug plans have a coverage gap

## Working Aspects of Policy

- *Cost Relief*
  - Beneficiaries pay no more than 25% of drug costs in the coverage gap
  - Seniors saved an average of \$2,272 per person on prescription drugs in 2021
- *Increased Medication Adherence*
  - Lower costs lead to better medication adherence
  - Reduced hospitalizations and emergency care
- *Addressing Inequities*
  - Targeted policy interventions help vulnerable populations



# Current Policies and Their Impact

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## Not Working Aspects of Policy

- *High Drug Prices*
  - No regulation on how pricing is set
  - Benefited Medicare subscribers however greater population still affected
  - Lack of affordable access to essential medications
    - Can lead to worsening health outcomes, increased hospitalizations, and higher overall healthcare costs



# Policy Goals

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## **Efficiency**

- Limit administrative complexity and reduce wasteful spending
- Streamline price negotiation process between payers and manufacturers
- Reduce administrative expenses and overall drug prices

## **Effectiveness**

- Provide financial relief and improve access to medications
- Reduce out-of-pocket costs by at least 20%
- Increase medication adherence and improve health outcomes

## **Equity**

- Ensure affordability for all demographics, especially vulnerable groups
- Provide subsidies or capped pricing models for essential medications
- Safeguard equitable access to life-saving medications



# Suggested Policy Changes

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## **Government Price Negotiation for Medicare**

- Efficiency: Save billions through direct negotiation with pharmaceutical companies
- Effectiveness: Leverage Medicare's purchasing power to lower prices
- Equity: Benefit seniors and low-income groups relying on Medicare

## **Value-Based Drug Pricing**

- Efficiency: Link drug prices to their clinical effectiveness
- Effectiveness: Encourage innovation for high-value treatments
- Equity: Ensure fair pricing based on medication benefits

## **Expanding Access to Generic Drugs**

- Efficiency: Encourage competition to reduce costs
- Effectiveness: Provide affordable alternatives to brand-name drugs
- Equity: Benefit all populations, especially those with chronic conditions

# Suggested Policy Change 1.

## Government Price Negotiation for Medicare

### Efficiency

- Negotiating pricing directly with pharmaceutical companies can save billions annually
- Facilitates alignment of drug costs with their clinical value
- Reduces costs by allowing Medicare to negotiate directly

### Effectiveness

- Empowers Medicare to leverage its purchasing power
- Lowers prices for a significant portion of the population
- Cost savings could be redirected to other health programs

### Equity

- Targets seniors and low-income groups who rely on Medicare
- Benefits all Medicare beneficiaries, especially low-income seniors
- Facilitates access and care for underserved parts of the population

# Suggested Policy Change 2. Value-Based Drug Pricing

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## **Efficiency**

- Enhances efficiency by linking drug prices to their effectiveness
- Prevents overpayment for less effective or low-impact drugs

## **Effectiveness**

- Encourages pharmaceutical companies to innovate
- Promotes production of high-value treatments
- Increases the effectiveness of treatments

## **Equity**

- Ensures fair pricing based on actual benefit of medication
- Makes effective treatments more accessible to those in need





# Suggested Policy Change 3. Expanding Access to Generic Drugs

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## **Efficiency**

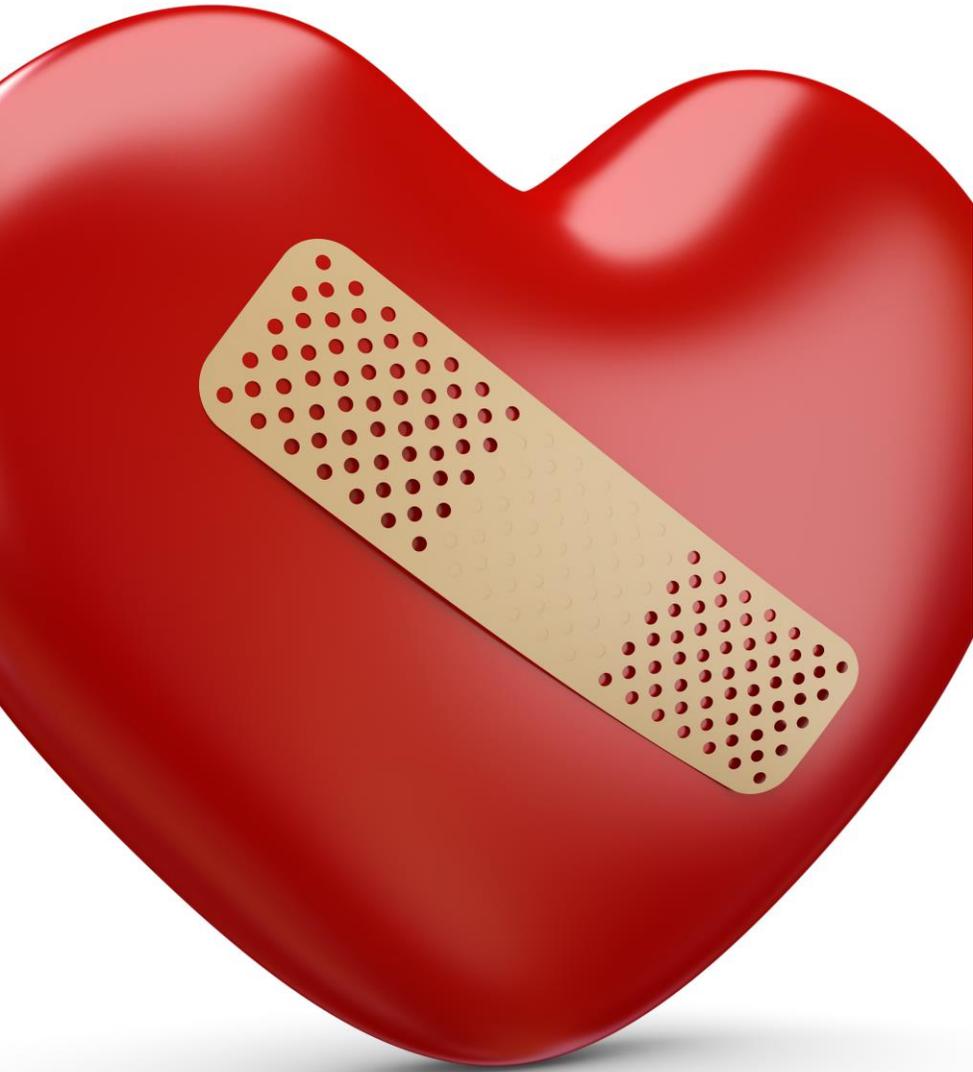
- Encourages competition, reducing costs
- Facilitates market entry for generics
- Increases competition, lowers prices, and boosts efficiency

## **Effectiveness**

- Provides affordable alternatives to brand-name drugs
- Maintains drug quality
- Improves access to widely used drugs

## **Equity**

- Benefits all populations with low-cost options
- Especially helps those with chronic conditions needing long-term medication
- Supports vulnerable populations with affordable medication



# Conclusion

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## **Importance of Policy Reforms**

- Ensures equitable access to medications
- Improves health outcomes
- Reduces financial burdens on patients

## **Building on ACA Successes**

- Closure of Medicare 'donut hole'
- Medicare price negotiations
- Value-based drug pricing
- Expanded access to generics

## **Comprehensive Policy Solutions**

## **Benefits of Proposed Reforms**

## **Broader Implications for Society**