How are prescription drug prices determined?

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The high cost of prescription drugs is an issue where Congress has found common ground—and passing legislation on the connected issues of patent reform and price transparency has bipartisan appeal.

That is a development AMA experts predicted after the 2018 midterm elections that divided party control of Capitol Hill.

“The Speaker of the House and the White House may reach an agreement on this because this is an issue that all Americans are concerned about,” Richard Deem, the AMA’s senior vice president for advocacy, said at the 2018 AMA Interim Meeting.

The U.S. spends nearly $334 billion a year on prescription drugs. In 1990, the share the nation spent for pharmaceuticals accounted for 5.6% of total health care spending, but grew to nearly 10% in 2017.

Prescription drug price increases can lead some patients to not be able to afford critical medicine, causing them to skip doses of their medications or split pills, or force them to abandon treatment altogether. Physicians and patients are often left in the dark about how and why prices fluctuate year after year when ingredients stay the same.

To expose the opaque process that pharmaceutical companies, pharmacy benefit managers and health insurers engage in when pricing prescription drugs, the AMA launched the TruthinRx campaign. This grassroots campaign provides opportunities for patients and physicians to share their experiences with prescription drug price and cost challenges and rallies grassroots support to call on lawmakers to demand drug price transparency.

Prescription drug price negotiations often happen behind closed doors, leaving patients and physicians out of the negotiating room despite the impact drug pricing has on the health and treatments of patients. To improve prescription drug price transparency, the TruthinRx campaign is focusing on three major market players who significantly impact drug prices:
**Pharmaceutical companies.** Pharmaceutical companies make and sell drugs, but don’t explain pricing or why costs can greatly exceed research-and-development (R&D) expenses. Some even buy existing drugs, spend nothing on R&D, and still raise prices.

**Pharmacy benefit managers (PBM).** Working on behalf of health insurance companies or employers, PBMs negotiate upfront discounts on the prices of prescription drugs with pharmaceutical companies, as well as rebates, which reward favorable coverage of a particular drug (and the resulting increase in utilization by a health plan’s patients). These prescription drug agreements are kept secret, so it is unknown if savings ever reach the patients.

**Health insurance companies.** Health insurance companies approve treatments, set co-pays, and price out with PBMs how much patients pay for drugs. Often, they decide coverage options based on what maximizes company profits.