Weekly Checkup

A Warning From Across the Pond

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The implementation of the Inflation Reduction Act (IRA) is rolling steadily along, despite warnings from many (including us at the American Action Forum) about the consequences of the legislation. In that vein, **AAF's Director of Health Care Policy Laura Hobbs has released a paper looking at the price control schemes of the United Kingdom. Hobbs' paper should give pause to those who think we can legislate our way to cheaper, more accessible drugs.** Let's review her key concerns.

First, a bit of background on how the UK pays for drugs through its single-payer system, the National Health Service (NHS). The NHS is funded primarily through general taxation, and works with industry to negotiate price concessions (also known as rebates or inflationary penalties) at a set percentage to control government spending on branded medicines. Patients pay a small price for their prescriptions, which is currently set at a flat rate of £9.65 per item (or approximately $12.00 U.S. dollars). There are two types of price control schemes in England: the statutory scheme and the voluntary scheme. Both are intended to control the growth of the NHS' drug spending: If drug costs exceed a certain growth rate, manufacturers must pay a rebate to the NHS on all sales above that growth rate. In the statutory scheme, these rebates are set at 27.5 percent for 2023. In the voluntary scheme (which comes with lower rebates and increased flexibility for manufacturers), if drug spending growth on branded medicines increases above 2 percent, manufacturers must pay a rebate. As Hobbs explains, "payment percentages paid through the voluntary scheme for 2019–2021 were under 10 percent. The COVID-19 pandemic and subsequent surges for products following lockdowns led to a 15 percent rebate for 2022. **The UK government's current proposed increase of 26.5 percent is estimated to be approximately £3.3 billion (approximately $4.10 billion in U.S. dollars) in sales revenue."**

Naturally, there will be consequences to this dramatic increase in the rebates that manufacturers must pay to the NHS. In fact, a recent report> found that the "increased government revenue from raising the rebate rate over the [voluntary scheme] is more than

offset by higher prices and costs for the NHS and has other longer-term implications due to continuity of supply." Both Eli Lilly and AbbVie left the voluntary scheme in January of this year precisely because of the giant rebate increase. Additionally, a study found that the voluntary scheme "could actually reduce generic and biosimilar competition to such an extent that prices rise for the NHS."

None of this should shock anyone. As much as some policymakers want to paint pharmaceutical manufacturers as greedy, the reality is that producing new and better drugs is an extremely complicated and expensive task that researchers, developers, manufacturers, and investors are not going to undertake without the promise of good profit margins. **The IRA has already led to pharmaceutical companies pulling back investment in small-molecule drugs (which were particularly targeted by the law), most notably Eli Lilly, which pulled the plug on a cancer drug because it "couldn't get the math to work," and Alnylam Pharmaceuticals, which ended early-stage trials on a rare eye-disease drug.** Indeed, other companies have hinted they're likely to take similar steps. These aren't threats by unhappy losers of a legislative battle. These are the consequences of poorly considered government price controls on the pharmaceutical industry. The results were predictable.