Weekly Checkup

The President's Plan for Drug Prices

CHRISTOPHER HOLT | MAY 18, 2018

The early responses to the Trump Administration's "Blueprint" for reducing drug prices (released last week) do not match the significance of the proposals. The stocks of pharmaceutical manufacturers and supply-chain companies continue to perform strongly in the absence of headline-grabbing policies like reimportation of drugs or direct negotiations of prices by Medicare in the Part D program, leading some to dismiss the Blueprint as mere window dressing. This reaction is both unfair and premature. A more accurate assessment would be to recognize the Blueprint as a deliberative, thoughtful approach to achieving sustainable, long-term, system-wide change.

American Action Forum President Douglas Holtz-Eakin has already addressed the dual policy issues of Medicare's noninterference provision and drug reimportation here, the absence of which from the Blueprint has generated scorn. Suffice it to say that neither policy would provide any real or sustained downward pressure on drug prices. The absence of silly, poorly understood pseudo policy initiatives from the Blueprint is a testament to its seriousness.

The prescription medication marketplace is a vast and complex system of interconnected and often obscure players, factors, and policies, as both the president and Secretary of Health and Human Services Azar have alluded to, and as illustrated here. Changes to one piece of the system can have significant downstream effects on seemingly disconnected programs. Federal policymaking on pharmaceuticals is riddled with attempts to patch holes created by previous federal policy initiatives, such as the Medicaid "best price" rule and the 340B program. The Trump Administration is striking a delicate balance between aggressive initiatives aimed at positive disruption of the drug market and avoiding the negative side effects that could result from a less deliberative approach.

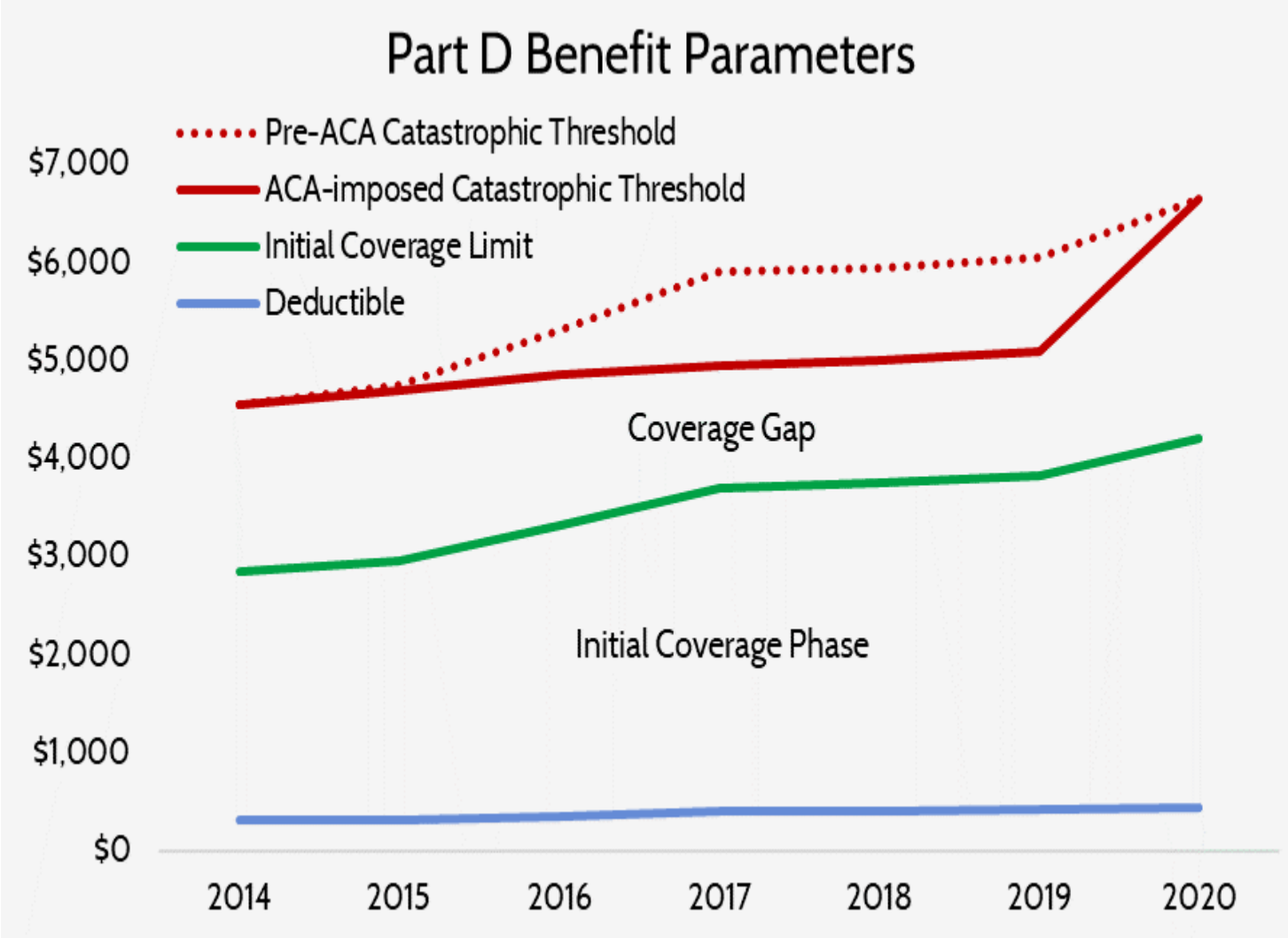
Much has been made about the questions that the Blueprint, and the accompanying request for information, ask, as if asking questions shows indecision. Gathering information on potentially transformative regulatory actions before implementing them is hardly something to criticize. The administration is embarking on a sustained effort to increase the accessibility of generic medications, to target bad actors and bad actions by all the players across the drug supply chain, and to look at potential changes to how Medicare pays for inpatient and physician-administered drugs. Whether all these initiatives will come together in ways that are truly transformative remains to be seen, but the Blueprint is a serious effort to make good on the president's directive to lower the cost of drugs for American patients.

Chart Review

Tara O'Neill Hayes, Deputy Director of Health Care Policy

The Affordable Care Act included a provision to slow temporarily the growth rate of the Medicare Part D

catastrophic coverage threshold, as shown in the chart below. The effect was a shortened coverage gap that resulted in more beneficiaries entering catastrophic coverage where the federal government covers 80 percent of costs, dramatically increasing the government's reinsurance costs, as detailed in this recent AAF study.



Worth a Look

Reuters: FDA names drugmakers potentially acting to delay cheap generics

Politico: Vermont becomes first state to permit drug imports from Canada

Wall Street Journal: Is This Hospital Takeover Permitted? Ask the Catholic Church