BBH REVIEW

Medicare and the Prescription Drug Industry in the U.S. (2024)

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Introduction

A study on 2018's International Prescription Drug Price Comparisons (Mulcahy, 2021) revealed that drug prices in the United States were substantially higher than those in the 32 countries compared, at a rate of up to 256% on average. The disparity is more drastic for brand-name originator drugs. This study is frequently quoted when justifying policies that target the future growth in drug spending and the current financial burden of prescription drugs on the U.S. healthcare system.

Consumption of prescription drugs is projected to increase as the American population aged 65 and over grows, from 58 million in 2022 to a possible 82 million by 2050 (a 47% increase). The 65-and-older group's share of the total population is projected to rise from 17% to 23% (Population Reference Bureau, 2024). Nearly nine in ten (89%) adults 65 and older currently take prescription drugs, and are more likely to take multiple simultaneously (KFF, 2019).

While a majority have Medicare coverage through Part D, a KFF health tracking poll indicates that 76% of older adults still deem these costs unreasonable. Many favor the current federal negotiations for drug prices and the capping of out-of-pocket spending under Medicare Part D.

The Inflation Reduction Act (IRA)

Recent legislative change involves the Inflation Reduction Act, passed by the Senate on August 7, 2022. The Act enables the Health & Human Services (HHS) Secretary to negotiate the prices of 10 prescription drugs in 2026, and another 15 drugs in 2027 and 2028. These are single-source brand-name drugs or biologics without generic or biosimilar competitors. It also limits out-of-pocket costs for Part D beneficiaries to $2,000 annually, down from the current $7,050 limit; eliminates co-insurance and certain vaccination costs; and caps monthly cost sharing for insulin at $35, effective January 1, 2023, for insulin covered under Part D. To help Americans access these benefits, HHS launched LowerDrugCosts.gov.

Who is opposing these changes

Recently the industry lobbying group PhRMA (Pharmaceutical Research and Manufacturers of America) appealed its loss at a Texas federal court as it challenges the legality of the new Medicare price negotiations. This happened the same week Bristol Myers Squibb, Novo Nordisk, Novartis, and Johnson & Johnson were set to lay out their arguments against the IRA at a joint

hearing. PhRMA claimed that government pricing negotiations violate due-process provisions in the Fifth Amendment, and argued that the law's excessive fines for non-compliance violate the Eighth Amendment.

Possible changes in the healthcare and pharma landscape

The law sets a nine-year exemption period for "small-molecule" drugs, mainly pills, while "large-molecule" biologics (generally injections or infusions) are protected from negotiation for 13 years. This may disincentivize investment in convenient small-molecule drugs, making complex biologic therapeutics more financially attractive and directing where future pharmaceutical investment lies. However, manufacturers may face only a muted near-term financial impact, as factors such as patent expirations and strong competition already exist. For example, Merck's Type 2 diabetes drug Januvia could lose exclusivity in mid-2026, only a few months after negotiated prices take effect.

Sources

RAND: International Prescription Drug Price Comparisons (Mulcahy et al., 2021)
KFF: Explaining the Prescription Drug Provisions in the Inflation Reduction Act
National Academy of Social Insurance: Medicare provisions in the IRA
Reuters, CNBC, Fierce Pharma, HHS.gov - see original publication for full citations