

HEALTH POLICY: PART I

AN ECONOMIC EVALUATION OF “AMERICAN PATIENTS FIRST”— THE TRUMP ADMINISTRATION’S STRATEGY TO LOWER DRUG PRICES

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Prescribing pharmaceuticals for patients is one major way that internists heal patients, making the cost of those drugs—purchased through mail-order, health plans, or directly from pharmacies—a growing issue in primary care. Since candidate Donald Trump first departed from the Republican Party line by promising to reduce drug prices, the health policy world wondered how. On Friday May 11, 2018, the Trump Administration communicated a plan through a policy speech delivered in the Rose Garden at 2:00 PM, formally announcing many of the components of American Patients First.¹

There is general bipartisan agreement that government intervention is needed to lower pharmaceutical prices with a 2018 poll finding 90% of Democrats and Republicans favoring federal negotiation with pharmaceutical companies.² National Health Expenditure data shows growth in pharmaceutical spending exceeds growth in other healthcare spending. According to the National Health Expenditure analysis from the CMS Office of the Actuary, the cost of pharmaceuticals as a percentage of overall health care costs has increased from 6.3% of healthcare expenditures in 1996 to 9.8% of overall health care spending 2016 and the compound annual growth rate of pharmaceutical spending was 8.2% during that period, in excess of overall medical spending growth during this time of 5.8%. Simultaneously, High Deductible Health Plans (HDHPs) have grown rapidly for people with commercial coverage. Drug prices have become more visible because total drug spending has grown and high deductible plans that expose patients to drug costs more directly have become increasingly common.

The most striking part of American Patients First was the decision not to negotiate directly for drugs as was promised during the campaign.³ The absence of direct drug price negotiation in the policy proposal result-

ed in an increase pharmaceutical stock prices after the speech. While a controversial tool due to the potential impact on innovation, it is the policy option most likely to have a tangible and prompt impact on drug prices.

Overall, four major issues were discussed in the proposal:

1. **International Drug Pricing.** Canada, France, Japan, and the United Kingdom use their full negotiating leverage and their citizens pay lower prices for drugs than Americans pay as a result. The Trump Administration proposes to use international trade negotiations to pressure other countries to increase prices for pharmaceuticals. The implication is if the United States can successfully cause other countries to raise pharmaceutical prices, pharmaceutical manufacturers would voluntarily lower prices in the United States. Economics, however, predicts that prices in Europe and in the United States are independent. Pharmaceutical companies are profit maximizers and a pharmaceutical company’s fiduciary responsibility to its shareholders is to maximize its overall profits across all markets. If the price of a drug were \$50 in the United States and \$30 in the United Kingdom, any method of forcing the latter to raise the price from \$30 to \$40 would not according to economic theory result in the pharmaceutical company reducing its U.S. price. Therefore, if this policy is effectuated there is no reason to believe that it will result in tangible pharmaceutical savings to American patients.

There were three policy ideas that could result in modest savings to U.S. patients.

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2. **Dropping the Pharmacist Gag Rule.** A USC study found that in 23% of transactions (2.2M claims of 9.5M transactions reviewed) at the pharmacy counter, the cost of the drug is actually lower than the co-payment.⁴ This means that an antibiotic prescription may cost \$5 at the pharmacy, but if the patient presents an insurance card requiring a \$15 copayment, the pharmacist collects \$15 on behalf of the insurer, the insurer pays the pharmaceutical company \$5 and keeps the remaining \$10. Meanwhile, if the insured patient did not use insurance the drug cost would have been \$5, not \$15. In addition, the pharmacist often understands this differential and wants to assist the patient in minimizing costs but is banned by state laws often called “gag rules” from informing the patient. The Trump Administration proposed banning these state laws and permitting pharmacists to assist patients in purchasing the drugs their physicians prescribe at the lowest price.
3. **Regulating Rebates.** Drug rebates are a concept that the Trump Administration has single-handedly brought into the public eye. In short, when an insured individual purchases a drug for \$1,000 per month through their insurer, and the insurer receives a \$250 rebate from the pharmaceutical manufacturer, the patient pays \$1,000 and receives no rebate. Pharmaceutical spending was \$329B in 2016 and of this there were \$89B in rebates disbursed, a whopping 27% of total spending.⁵ While many economists believe that these rebates, which incentivize insurer brand loyalty are passed back to the patient

in terms of lower premiums, the pathway by which the rebates reach the patient is indirect and may result in inefficiencies. The Trump Administration seeks to simplify this process and streamline the path of the rebate to the drug purchaser. If successful and the size of rebate was reduced, or if rebates were required to be passed directly to the patient, the result would be lower drug costs to those purchasing drugs.

4. **Clearing Generic Drug Roadblocks.** The third area that the Trump Administration pledged to improve was clearing the pathway for generic competition by reducing the ability of pharmaceutical companies to use frivolous litigation and obscure patent protection clauses to delay generic market competition. For example the administration plans to prevent generic manufacturers that are the first to market from “parking” their patent to permit the brand drug to continue to have exclusivity while preventing any other generic from entering the market.¹ Success in this arena could streamline generic entrance, resulting in additional savings, primarily during the initial six month period when generic alternatives are first permitted to enter the market.

Overall, the Trump Administration plans to target the low hanging fruit in the pharmaceutical industry by eliminating many of the most egregious pricing practices. These proposals will mostly require no major legislative change, will reduce pharmaceutical spending, and speed generics to market, all of which will improve patient access. Because the American Patients First scope is narrow, expected reductions in pharmaceutical prices and spending are expected to be small, the speech

resulted in an increase in pharmaceutical stock prices immediately after the speech. The industry had been fearful of a heavier hand in pharmaceutical price control and in spite of some discussion during the 2016 campaign, the Trump Administration has proposed an approach that the pharmaceutical industry favors, is achievable and will have at most a moderate impact on the growth in pharmaceutical costs. Overall, inter-nists who do much of the prescribing in the United States will not find many changes to their daily practice as a result of the proposal.

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