

CUTTING MASSACHUSETTS PRICES TO MAKE PRESCRIPTION DRUGS AFFORDABLE FOR ALL

Fact Sheet from "A Prescription Drug Peace Treaty" (Oct. 2000)

Americans can win much lower drug prices and make all needed medications affordable for people of all ages without cutting drug makers' revenues and without spending substantially more. State action to achieve these goals is feasible—and necessary if Congress fails to act. If government fails to cut prices, more and more citizens will go without life-saving drugs.

- **In Massachusetts, an estimated 1.0 to 1.2 million people—or 1 out of 5—have no coverage for prescription drugs.** This figure includes uninsured people, many seniors, and many people whose private insurance lacks drug coverage. But in addition to that total are the many Medicare recipients with disabilities under age 65 who lack coverage (perhaps 2 million nationwide), and still more people who have inadequate drug benefits.

Residents Lacking Insurance for Prescription Drugs, 1998 (thousands)				
Age 65+ lacking Rx coverage	Lack Any Health Insurance	Privately Insured With No Drug Coverage	TOTAL Lacking Drug Coverage	PERCENT Lacking Drug Coverage
303	639	284	1,226	19.8%

CUTTING PRICES

- Americans spend more per person on drugs than any other nation, yet high prices here mean we get less for our money. And higher private insurance spending and huge public subsidies would be unaffordable solutions. Cutting drug makers' prices is vital to make needed drugs affordable for all.
- In the year 2000, Massachusetts residents paid manufacturers some \$2,236 million (\$2.2 billion) for brand name prescription drugs.
- **Cutting brand name prescription drug makers' prices by up to 42%—from undiscounted factory prices to Federal Supply Schedule (FSS) prices—for all drugs sold in Massachusetts in 2000, would have saved about \$801 million.**
- With these price cuts, the state's payments to brand name drug makers would have dropped from \$2.2 billion to \$1.4 billion, saving 35.8% of actual year 2000 payments. (The savings would be less than 42% because some buyers already receive discounts.)

Estimated Massachusetts Payments to Brand Name Prescription Drug Makers, Before and After Federal Supply Schedule Discounts, 2000 (\$ millions)		
Estimated Current Payments to Brand Name Drug Makers	Minus Additional Savings If All Pay FSS Prices	Equals Payments to Brand Name Drug Makers If All Pay FSS Prices
\$2,235.5	\$801.1	\$1,434.3

Note: FSS prices are those that certain federal agencies routinely pay for prescription drugs.

(continued)

- Of the year's **\$801 million in new savings for Massachusetts**, 57% would go to people with private third party insurance, and 19% to people who pay out-of-pocket. Medicaid and hospitals and nursing homes would split the rest of the savings.

Estimated Savings on Brand Name Prescription Drugs by Payor, If Federal Supply Schedule Prices Prevailed, 2000 (\$ millions)					
cash	3rd party	Medicaid	non-retail	Total	Savings as % of current spending
\$148.9	\$457.7	\$99.4	\$95.0	\$801.1	35.8%
19%	57%	12%	12%	100%	--

A DRUG PRICE PEACE TREATY

The state could act to assure that all residents get the medications they need, while keeping drug makers financially whole. Prices could be cut but drug makers' total revenue restored. They could be paid the cost of making more drugs to fill many more prescriptions. Several things combine to make this possible:

- Americans spend enough already to cover the cost of all needed medications.
- The state's buying power about equals that of Australia, which has far lower drug prices.
- Cutting brand name prescription drug prices to FSS levels would reduce drug makers' revenues by \$801 million, as shown—*if nothing else changed*. But the volume of drugs sold would rise as prices fell, as more people would be able to afford to fill prescriptions.
- **Higher volume would replace much or most of the revenue** that drug makers would otherwise lose to lower prices. And price cuts would permit expanding government programs for people who can't afford even the lower prices. Public funds to buy more drugs would offset the remaining loss of revenue from price cuts—and even could be guaranteed to fill any revenue gap.
- **The real cost of making more pills averages just 5 cents on the retail dollar**, and also will be paid.

A drug price peace treaty could guarantee all the state's people all needed drugs, without much higher spending, while protecting drug makers' revenues, profits, and research. Such a peace treaty can buy time to develop better evidence on which patients need which drug. Over time, it could boost research with high returns for breakthrough drugs. The peace treaty is an essential first step toward making medications durably affordable.

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Prof. Alan Sager and Deborah Socolar, Health Reform Program, Boston Univ. School of Public Health
phone (617) 638-5042 – email: asager@bu.edu, dsocolar@bu.edu

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For full report, including methods and data sources, see *A Prescription Drug Peace Treaty* (Oct. 2000), on the internet at

<http://dcc2.bumc.bu.edu/hs/ushealthreform.htm>