State Action to Reduce Drug Prices Is Essential

Guest Editorial

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This year, TennCare will drop about one-seventh of its patients and restrict prescription drug benefits for most of those who remain. Stripping away coverage has won out over hiking taxes. But TennCare has overlooked the best choice: cutting drug prices. And U.S. prescription drug prices are by far the highest in the world.

Tennessee’s desire to cut drug and other health costs is understandable. Medications absorbed a quarter of TennCare costs last year, well above the average share for state Medicaid programs.

Statewide, health spending now consumes 18 percent of the economy, a burden one-sixth above the national average. (This is mainly because average income in Tennessee is relatively low.) And state-funded TennCare spending absorbed 20 percent of state taxes last year, compared to 13 percent nationally.

Still, high rates of illness and broader coverage help justify high health and drug spending. Tennessee ranks second among states in its heart disease death rate, adjusted for age, and fifth-highest in adult diabetes. TennCare is one of the main reasons Tennessee has enjoyed the South’s highest rate of health insurance coverage. Before recent cuts, TennCare covered a quarter of Tennesseans, double Medicaid’s national share.

Because every state dollar spent on TennCare yields $1.81 in federal matching funds, cutting TennCare undermines economic development. And the matching funds generate an estimated $3.76 more in jobs and income and profits. Together, these dividends total $5.57 for each state dollar invested.

Nationwide, current health spending is enough to care for us all well. But about half is wasted on unneeded care, defensive medicine, administration, theft and excess prices. So Tennessee’s waste likely totals some $21 billion of this year’s $42 billion in statewide health spending.

Excess drug prices are a big part of the problem. But one of the worst ways to try cutting drug costs is cruelly restricting care, such as limiting most TennCare patients to two brand name drugs and three generics monthly. And private health plans may follow TennCare’s precedent.

Many patients truly need multiple medications and charity programs won’t help much. Without needed meds, more patients get sick and use costly hospital, nursing home and physician care. So, limiting prescriptions won’t save money.

Arbitrarily limiting pharmaceutical use makes no sense - not politically, not medically and not financially. Politically, there are many more voters than drug makers. Medically, doctors should use better evidence to write appropriate prescriptions. Politicians shouldn’t interfere. Financially, once effective medications are developed and factories are built, the cost of producing more pills is usually pennies on the retail dollar. With the real cost so low, there is no legitimate financial reason a single Tennessean should suffer avoidable disability, pain or premature death for lack of needed medications.

Publicly, drug makers threaten that if their prices are lowered, their profits will fall, they will close their laboratories, and Americans will all die for lack of new drugs. But privately, drug makers admit that price cuts are inevitable.

One way to win lower prices is to pool buying by TennCare, state government employees and retirees and other private and public employers that volunteer to join. Alternatively, the state and drug makers could make a package deal - a public guarantee to preserve drug makers’ profits at current levels in return for filling all needed prescriptions. When prices are cut, more patients and insurers will be able to afford needed medications. Drug makers would recoup, through higher volume, the revenue they lose from the price cuts. Such careful reforms could cut prices in a way that protects and rewards investments in breakthrough research.

Some Tennesseans are prescribed more medications than they need. The remedy to overuse is not a rigid state cap on monthly prescriptions, but rather a combination of providing better information for doctors and removing drug makers’ huge financial incentive to push pills. Because drug makers’ costs vary little with volume, it’s foolish and dangerous to tie their revenues so closely to volume.

Americans are paying drug makers more than $250 billion this year. That’s half their worldwide revenue. Yet we’re only 5 percent of the world’s people. We already pay enough to get the meds that work to all Americans who need them. With Congress paralyzed, state action to win lower drug prices is essential. The alternative is continued erosion of insurance coverage and growing medical insecurity for all Tennesseans.

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