

STATE DRUG PRICING



When you think of drug pricing, you might think of the federal landscape, but states have growing power to lower the costs of prescription drugs.

It is important to note that it can often be difficult to determine what falls under federal versus state jurisdiction. This [article](#) is helpful in further clarifying federal versus state law. This is part one of a two-part series.

While the list prices of drugs are set by pharmaceutical companies, the cost that someone pays can vary based on numerous factors of our system and can differ by state. **State-level drug pricing may be faster to be enacted than federal drug pricing policy.**

Many states are beginning to develop their own legislation to lower the costs of prescription drugs and hold pharmaceutical companies accountable.

Below are three policy solutions some states have considered and implemented to use their authority to address drug pricing issues

1

Unsupported Price Increases (UPI)

This legislation fines pharmaceutical companies for instituting price increases without additional clinical evidence to justify them. The details of the bill may vary by state but the fines go directly toward consumers (think Robin Hood). If there are unsupported price increases for a particular drug, the state fines the pharmaceutical manufacturer and those fines are then used to lower the cost to the patient. An unsupported price increase is when a price for a drug rises even when there is no **additional** clinical benefit determined.

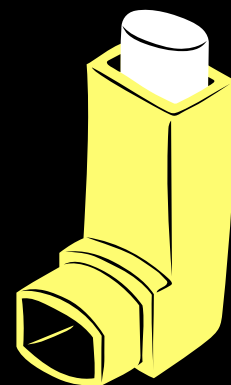
According to the Institute for Clinical and Economic Review (ICER), an unsupported price increase is “an increase in net spending exceeding twice the rate of inflation that is not supported by new evidence of the moderate or high quality of a “substantial improvement in net health benefit.” This is the standard that some states are using, but the definition can often differ.

Think about the concept like this:

One Monday morning in March, I make a trip to the nearest pharmacy to get my inhaler. I pay \$30 for this inhaler.

A few weeks later, I come to the store and it is \$70 for the same inhaler. After accounting for inflation, the price has still gone up, but the inhaler is the same so it doesn't offer me any additional benefit from the first time I bought it.

It has no extra clinical benefit or extra effectiveness that would make it more expensive. This would be an unsupported price increase because it is not supported by any new evidence.



This illustration illuminates the significant challenges that can happen for patients when a UPI occurs. If UPI legislation is passed within certain states, the manufacturer would be charged and that revenue would go back to the consumers! This also means that the manufacturer is disincentivized from making unnecessary price hikes that harm patients.

2 International Reference Rates

The International Price Index (IPI) and other international reference price calculations take the prices of drugs in certain foreign countries and compare them to domestic U.S. prices as a way to determine if the U.S. is overpaying. It is important to note that International Reference Pricing is also commonly discussed at a federal level. At the state level, some states have tried methods like developing a list of drugs that they spend the most money on. They then compare those to other countries' prices and set an upper limit of the price of the expensive drugs within their states. The details of this type of bill vary state to state – for example, some states may only reference Canadian prices while others may reference an index price averaging many countries' drug prices.

Example:

North Carolina filed a bill that would determine the 250 costliest prescription medications based on the total amount spent by consumers in North Carolina on each medication.



3 Prescription Drug Affordability Board (PDAB)

The goal of the PDAB is to establish an independent and unbiased stakeholder group to lower drug prices at a statewide level.

PDABs might vary per each state, but in Maryland, for example, PDABs will:



Identify certain high-cost drugs in the state and decide whether to further investigate their costs.



Submit reports to legislatures on state drug pricing systems and how other states and countries lower drug prices.



Submit reports and recommendations on lowering drug pricing to the state legislature.

Information was used from the **National Academy for State Health Policy** (NASHP) and **Families USA**. We encourage you to check out their work for up-to-date information about state drug pricing.