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Drug market disruption: Price negotiations and new entrants change the landscape

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The Buzz This Week

The pharmaceutical industry is undergoing many changes on the heels of recent Medicare drug price negotiations, enabled by the Inflation Reduction Act (IRA). For the first time in the history of the Medicare Part D program, the federal government can negotiate drug pricing with all insurers at once, instead of negotiating specific prices with each individual health insurance company.

The White House announced the new, lower Medicare pricing for 10 drugs, which will take effect in January 2026. Discounts range from 38% to 79% off of previously negotiated government rates, based on the new maximum fair price (MFP) rule. The discounts vary based on how long a drug has been available in the market. These drugs include blood thinners and medications for arthritis, cancer, diabetes, and heart failure.

These 10 drugs cost Medicare \$50.5 billion in 2022, 20% of the program's gross total drug spending that year. Beneficiaries spent \$3.4 billion in out-of-pocket costs. The government expects to save \$98.5 billion on Medicare drug price negotiations over the next decade.

However, a national survey published in October found that more than 90% of independent pharmacies may not stock the newly negotiated drugs because the reimbursement rate, largely driven by pharmacy benefit managers (PBMs), falls short of costs for procuring and dispensing the drug.

According to the survey, Medicare Part D accounts for roughly 35% of an average pharmacy's business. The National Community Pharmacists Association (NCPA) estimated it would cost pharmacies \$27,000 every month to stock these drugs, with no guarantee of timely or complete refunds. This is forcing pharmacies to reconsider their participation in the program.

Why It Matters

About 9 million Medicare enrollees use at least one of the 10 negotiated drugs. 18.7 million people are estimated to save \$7.4 billion next year alone through out-of-pocket caps and other changes courtesy of the IRA. Improvements to Medicare drug coverage and pricing stipulated in the IRA are the most sweeping changes since Congress added the Part D benefit in 2003. But a changing drug and pharmacy landscape may hinder the full impact.

According to the NCPA, 19,432 independent community pharmacies operate in the US, substantially more locations than any of the major chain stores. They represent a \$94 billion marketplace. A study published last year estimates roughly 15.1 million people rely on independently owned pharmacies to access pharmacy services. These individuals were more likely to live in rural areas, be over the age of 65, and belong to low-income households. Many are Medicare beneficiaries. A pharmacy dropping out of the Medicare Part D program, or discontinuing its stock of certain drugs, could have drastic consequences for members of surrounding communities.

At the same time, recent market disruptors such as Mark Cuban's Cost Plus Drugs are expanding their medication options and offering an affordable, convenient alternative to consumers. The recent introduction of the direct-to-consumer model for prescribed medicine (in which patients don't have to go through insurance or a PBM) is reshaping accessibility and convenience. This is especially true in remote areas where traditional healthcare infrastructure struggles to keep pace.

Drug prices and access issues are not limited to Medicare enrollees. A recent survey conducted by KFF included all age and demographic groups. It found that concerns over drug pricing and medication access were prevalent in every cohort:

- 61% of adults report currently taking a least one prescription medicine, with 27% reporting taking four or more.
- 82% of adults say the cost of prescription drugs is unreasonable.
- 55% of adults are worried about affording their family's prescription drugs, including 26% who are very worried.
- 30% of adults report not taking their medications as prescribed at some point in the last year because of cost. The percentage increases for adults ages 18 to 29 (40%), Hispanic adults (39%), and adults living in households with annual incomes of less than \$40,000 (37%).

Cost Plus Drugs offers low-cost generic drugs, as well as a growing number of branded prescription medications, at a 15% markup. It charges a \$3 pharmacy handling fee and a \$5 shipping fee. All costs are transparently displayed online. The service has demonstrated itself as a cost-effective strategy for the public. As of October, it also accepts 14 prescription insurance plans and intends to add more.

For Medicare beneficiaries, though, the value is mixed. Cuban has said "we are cheaper than Medicare copays, so we are a great place for Medicare recipients to buy medications." However, the service does not bill Medicare for medications. That means beneficiaries do not get credit toward their Part D deductibles,

and all expenses are out-of-pocket costs. Additionally, forgoing Part D coverage in favor of paying out of pocket for Cuban's reduced drug prices could result in steep and permanent penalties.

Vice President Kamala Harris has indicated a pillar of her presidential platform is to expand the cost-saving initiatives from the IRA beyond Medicare beneficiaries to alleviate financial strain for a much larger cohort. In the interim, Medicare will resume negotiations for the next batch of medicines in 2025. The process will continue annually, with up to 20 drugs negotiated by the end of the decade. But as the drug and pharmacy landscape continues to evolve, it could change the impact of these negotiations and access to medications for not only Medicare beneficiaries but the population at large.

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