Making Drug Costs More Transparent to Consumers: A Summary for Policymakers

California HealthCare Foundation

FACT SHEET

States are taking aim at prescription drug prices, a major factor in the escalating cost of health care. According to the Kaiser Family Foundation, pharmaceutical drug costs have been increasing by an average of 8.3 percent per year since 1994. Uninsured Americans, who pay 40 to 60 percent more for their drugs than government or private insurance providers, bear the heaviest burden and are a particular concern for state policymakers.[1]

Price transparency is one strategy governments are using to try to drive down costs by steering consumers to less expensive options. Hospital and physician costs, the subject of another California HealthCare Foundation (CHCF) fact sheet,[2] are one focus of price transparency, while another focus is on prescription drug prices. Comparing drug prices is the simpler of the two for consumers, mainly because variations in quality are less of an issue. In other respects, however, these price transparency initiatives face similar challenges in providing consumers with accurate, complete, and timely information that is relevant to them as individuals.

The Center for Studying Health System Change (HSC) recently completed a study of pharmacy price transparency for CHCF.[3] It looked at the ten state programs that in late 2007 were posting drug price information online (see Table 1). The HSC report cites examples of useful information and tools on these sites, but concludes that "extensive gaps in available price information… seriously hamper the effectiveness of the price-comparison Web sites." The authors outline what states can learn from these early experiments about helping consumers find the lowest drug prices and other steps they can take to reduce the cost of pharmaceuticals.

What Do Consumers Need to Know about Prescription Prices?

Today, Americans can buy their prescription drugs not only from local retailers but also from online vendors and, in some areas, legally from international sources. Yet most state price transparency programs have information on local pharmacies only. And just one state site includes information on the deep discounts for leading generics that several large retail chains now offer. (In 49 states, Wal-Mart, Target, and other discount retailers now sell at least 140 generic drugs at deep discounts, usually $4 for a 30-day supply.)

It is important to recognize that there are major differences among consumers when it comes to drug prices, based primarily on their insurance status—just as with hospital and physician costs. But some generalizations apply to all of them. To make the best purchasing decisions, consumers need this core information:

- The costs of both name-brand and generic prescription drugs; and
- Comparative costs charged by all of their purchasing options—local pharmacies, large retailers, online sources, and international sources.

In addition, the following details add to the utility of the core information:

- The date of the reported data;

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Table 1. States with Drug Price Comparison Web Sites (as of November 2007)

State (Launch Year)	Web Site Address	Price Data Source	Number of Drugs (Formulations) as reported by the state*	Duration of Reporting Period	Frequency of Price Updates
Connecticut (2005)	www.ct.gov/ag/cwp/view.asp?a=2106&q=294076	Medicaid claims	32 (40)	1 month	Monthly
Florida (2005)	www.myfloridarx.com	Medicaid claims	100 (650)	1 month	Monthly
Maryland (2004)	www.oag.state.md.us/drugprices/	Medicaid claims	26 (26)	2 months	Monthly
Michigan (2006)	www.michigandrugprices.com	Medicaid claims	150 (306)	6 months	Biweekly
Minnesota (2004)	www.state.mn.us/portal/mn/jsp/home.do?agency=Rx	Medicaid claims	400 (700)	Since launch	Biweekly
Missouri (2007)	www.morxcompare.mo.gov	Medicaid claims	1,300 (5,200)	6 months	Bimonthly
New Hampshire (2004)	www.egov.nh.gov/medicine-cabinet/Drug_Listing.asp	Medicaid claims	Not available	1 month	Monthly
New Jersey (2007)	www.state.nj.us/lps/ca/njpdr/index.htm	Medicaid claims	150 (618)	1 year	Weekly
New York (2004)	www.nyagrx.org	Price list	155 (158)	Not available	Monthly
Vermont (2007)	www.atg.state.vt.us/display.php?smod=185	Medicaid claims	90 (237)	1 month	Monthly

Source: HSC analysis of information on state drug price comparison Web sites; supplemental information collected by telephone and email exchanges between HSC researchers and state agency staff or private data contractors.

Note: For complete notes on Table 1 data, see original HSC report, *State Prescription Drug Price Web Sites: How Useful to Consumers?* at www.hschange.org/CONTENT/966/.

*Some states count only brand name drugs while others count brand name drugs and generic substitutions separately. Where not provided by the state, the counts of formulations were tallied by HSC researchers. In these cases, some rounding may have been performed. Formulations may include different dosages, quantities, and suspensions of the same drug.

- Which pharmacies have policies to match lowest prices; and
- Pharmacy contact information (for checking the accuracy of posted prices).

Finally, having these tools and functionalities available will help consumers easily use the information:

- Searching and sorting by drug name (both generic and name-brands) and geographical area;
- Side-by-side comparisons of the prices from available sources; and
- Multi-lingual versions of the information.

As noted, insured and uninsured Americans typically pay markedly different prices for their prescription drugs, because insurers (public and private) negotiate lower prices for their enrollees. (A few states negotiate lower prices for their uninsured populations, as described below.) What consumers need most is price information that is specific to their own economic and insurance profile, including information about which discounts are available to them.

Existing state initiatives target the uninsured as their priority audience because they have the greatest need. Most post only the full, "usual and customary" prices on their Web sites. But many insured consumers also could benefit from knowing their options, especially those with high copayments or whose purchases are not covered by

insurance, for example because of the Medicare Part D "doughnut hole." As drug prices escalate and insurers shift more costs onto consumers, states may want to extend their price transparency programs to serve more residents.

The Challenges of Drug Price Transparency

To be meaningful and useful, prescription drug price information must be accurate, timely, and comprehensive.

- **Timeliness.** Price information that is out of date or of indeterminate age has limited usefulness and undermines trust in a Web site. States have tried different approaches, but none has solved the problem of the time it takes to assemble, post, and update price data.
- **Comprehensiveness.** There are thousands of prescription drugs, each with multiple formulations (dosages and forms of delivery), and drugs are constantly being added and removed. State Web sites provide price information on shorter lists of the most-prescribed pharmaceuticals—current totals range from 26 (Maryland) to 1,300 (Missouri).[4]

The HSC report notes the tradeoffs between comprehensiveness and timeliness, given limited state resources. The time it takes to provide accurate, up-to-date information means that fewer drugs can be displayed.

The report also points out that states have the option of mandating price reporting by pharmacies. However, no state has yet taken this step because of stiff opposition from the pharmaceutical industry. Nine of the ten state programs rely on Medicaid data, which have many limitations.[5]

Given these inherent challenges, the users of price comparison Web sites would be wise to consider the drug price information they find there suggestive rather than absolute and to double-check the information.

Recommendations for Policymakers

State policymakers should carefully weigh the potential benefits and costs of mounting an effective price transparency initiative online, especially given the challenges of reaching target audiences. Many state resources are required to provide timely, comprehensive, accurate, and useful drug price information. And the consumers who could benefit most from the information—uninsured people with low incomes—are arguably the least able to get to it because of limited access to the Internet, among other barriers.

For states that do choose to go forward, the HSC study recommends treating price transparency as part of a broader set of strategies to reduce costs. In particular, states can leverage their purchasing power of pharmaceuticals to negotiate with manufacturers for drug discounts for low-income residents.

California is taking just such an approach, as exemplified by two bills passed by the legislature in September 2006:

- **Assembly Bill 2911** authorizes the state to negotiate with pharmaceutical manufacturers to provide discounted drug prices to people who meet criteria related to their incomes, insurance status, and medical expenses. Negotiation is voluntary for manufacturers for the first three years, after which certain enforcement tools take effect.
- **Assembly Bill 2877** authorizes the creation by July 2008 of a consumer Web site to give consumers information on their options for finding the most affordable prescription drugs.

As they create the new Web site, California's leaders and other states launching drug price transparency initiatives can benefit from the experiences of the states that have preceded them. First, there are decisions to be made about which audience(s) to serve, which drugs to include, which retailers' prices to include, and which auxiliary information and tools to provide. In making these

decisions and then developing their Web sites, they can keep these lessons in mind:

1. Be clear about which audience(s) you are serving and be sure the price information meets their needs.
2. Don't limit the target audience to the uninsured.
3. Provide information on the most-prescribed pharmaceuticals.
4. Include information on brand-name and generic drugs.
5. Offer comparative costs for all purchasing options, including any discount programs from large chains that may offer better pricing than a pharmacy benefit.
6. Include supplementary information such as pharmacy contact, date of data, and disclosure about lowest matching price programs.
7. Make sure data are current.
8. Look beyond Medicaid claims as a data source and consider mandatory reporting.
9. Provide links to retail pharmacy sites where consumers have the option of buying their prescription drugs online from non-local suppliers.
10. To diminish the risks of adverse drug interactions that might arise from shopping with multiple retailers, encourage consumers to maintain their own medication records and to ask suppliers about possible drug interactions.[6]

The purpose of this endeavor, of course, is to support consumers' health decisions and ultimately to promote their well-being. As with other price transparency initiatives, it is essential to ensure that consumers are as well supported as possible in using the information beneficially.

Endnotes

1. Office of the Governor. Press release: "Governor Schwarzenegger signs legislation to make prescription drugs more affordable for uninsured Californians," 9/29/06.
2. California HealthCare Foundation, *Making Health Care Costs More Transparent: A Summary for Policymakers,* February 2008 (www.chcf.org/topics/view.cfm?itemID=133574).
3. Ha T. Tu and Catherine G. Corey, Center for Studying Health System Change, *State Prescription Drug Price Web Sites: How Useful to Consumers?* February 2008 (www.hschange.org/CONTENT/966/).
4. California Assembly Bill 2877 directs that the Web site should include price comparisons of at least 150 commonly prescribed prescription drugs.
5. The tenth state, New York, uses volunteers to collect price lists from retail pharmacies, resulting in what the HSC authors call "severely limited price information."
6. Consumer Reports, "Shopper's Guide to Prescription Drugs, No. 3: Getting the Best Price." Cited in the HSC report (note 2); accessed on November 28, 2007.

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