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Making Ends Meet: Reducing Costs at the Pharmacy Counter Will Help Americans Survive Inflation

The high cost of prescription drugs in the United States is a huge health problem and a significant economic problem. Consumers facing increased drug costs report cutting back on key areas of their budget, such as buying food.[1] For some the choice is a matter of life and death, with research showing that nearly three in ten U.S. adults — approximately 80 million people — have not taken required medicine due to its costs.[2] Approximately one in five U.S. adults — about 13 million people[3] — forgo essential medications altogether because they cannot afford to fill their prescription.[4]

High drug costs have left families making unwinnable financial trade-offs to afford their medication, and rising inflation has only exacerbated that issue. Inflation has impacted low-income families the most, with household needs such as food, energy and housing seeing some of the biggest cost increases over the past year.[5]

Congress can take immediate steps to lower day-to-day costs for millions of families by passing drug price reforms, including giving Medicare authority to negotiate fair drug prices. This potential change is timely and popular: Over 80% of Americans, across political parties, said they support proposals to give Medicare authority to negotiate drug prices.[6]

In this report, we look at three key elements of drug pricing reform that Congress has recently developed and debated, all of which enjoy widespread support by majorities in both the House and Senate, many of which were included in the House-passed Build Back Better Act (H.R. 5736):

1. Capping out-of-pocket expenses for people enrolled in Medicare.
2. Saving money for families, small businesses, and the country by allowing Medicare to negotiate fair drug prices and preventing drug price increases from rising faster than inflation.
3. Lowering the cost of lifesaving insulin.

1. Capping out-of-pocket expenses for people enrolled in Medicare

Most people who access prescription drug coverage through Medicare Part D pay 5% of any drug costs that reach "catastrophic" levels, with no cap on how much they could ultimately be responsible for paying. Hitting the catastrophic level is unfortunately a common occurrence for people with chronic conditions or people who are going through a significant medical situation. Currently when beneficiaries' use of Part D drug benefits hits merely $7,050 per year, they trigger the catastrophic phase of the Medicare benefit, which exposes people accessing prescription drugs through Part D to thousands of dollars in out-of-pocket costs.

Current congressional proposals would institute a cap of $2,000 beginning in 2024, limiting out-of-pocket costs in Medicare Part D for the first time. **Based on 2019 data, the most recent available, this provision would help over 1.2 million older adults and people with disabilities, with average annual savings of more than $1,200.** Given the rising costs of everyday goods, these savings alone would make a significant difference for families and individuals across the country.

Figure 1: Impact of $2,000 Out-of-Pocket Maximum in Medicare Part D, by State

	Number of enrollees with out-of-pocket costs above $2,000 in 2019	Average out-of-pocket costs for enrollees*	Estimated average savings from a $2,000 cap
United States	**1,217,110**	**$3,216**	**$1,216**
Alabama	18,115	$3,288	$1,288
Alaska	1,255	$2,959	$959
Arizona	26,875	$3,248	$1,248
Arkansas	11,680	$3,254	$1,254
California	100,000	$3,279	$1,279
Colorado	16,575	$3,222	$1,222
Connecticut	16,390	$3,184	$1,184
Delaware	4,860	$3,165	$1,165
District of Columbia	920	$3,339	$1,339
Florida	95,340	$3,294	$1,294
Georgia	38,765	$3,220	$1,220
Hawaii	3,080	$3,085	$1,085
Idaho	6,815	$3,305	$1,305
Illinois	49,490	$3,164	$1,164
Indiana	33,665	$3,079	$1,079
Iowa	18,300	$2,981	$981
Kansas	15,425	$3,117	$1,117
Kentucky	19,325	$3,184	$1,184
Louisiana	14,865	$3,241	$1,241
Maine	5,025	$3,379	$1,379
Maryland	17,970	$3,137	$1,137
Massachusetts	19,945	$3,388	$1,388
Michigan	32,750	$3,305	$1,305
Minnesota	23,690	$3,181	$1,181
Mississippi	12,475	$3,214	$1,214
Missouri	28,005	$3,203	$1,203
Montana	4,655	$3,416	$1,416
Nebraska	11,185	$3,100	$1,100
Nevada	9,705	$3,373	$1,373
New Hampshire	5,865	$3,331	$1,331
New Jersey	39,885	$3,211	$1,211

Figure 1: Impact of $2,000 Out-of-Pocket Maximum in Medicare Part D, by State, continued

	Number of enrollees with out-of-pocket costs above $2,000 in 2019	Average out-of-pocket costs for enrollees*	Estimated average savings from a $2,000 cap
New Mexico	4,785	$3,462	$1,462
New York	61,650	$3,260	$1,260
North Carolina	41,555	$3,248	$1,248
North Dakota	4,395	$3,011	$1,011
Ohio	52,630	$3,210	$1,210
Oklahoma	17,695	$3,116	$1,116
Oregon	17,510	$3,074	$1,074
Pennsylvania	59,940	$3,215	$1,215
Rhode Island	4,105	$3,316	$1,316
South Carolina	24,200	$3,148	$1,148
South Dakota	5,160	$3,136	$1,136
Tennessee	30,105	$3,217	$1,217
Texas	87,565	$3,159	$1,159
Utah	9,545	$3,141	$1,141
Vermont	2,585	$3,286	$1,286
Virginia	30,560	$3,232	$1,232
Washington	25,210	$3,226	$1,226
West Virginia	6,805	$3,133	$1,133
Wisconsin	25,460	$3,159	$1,159
Wyoming	2,755	$3,045	$1,045

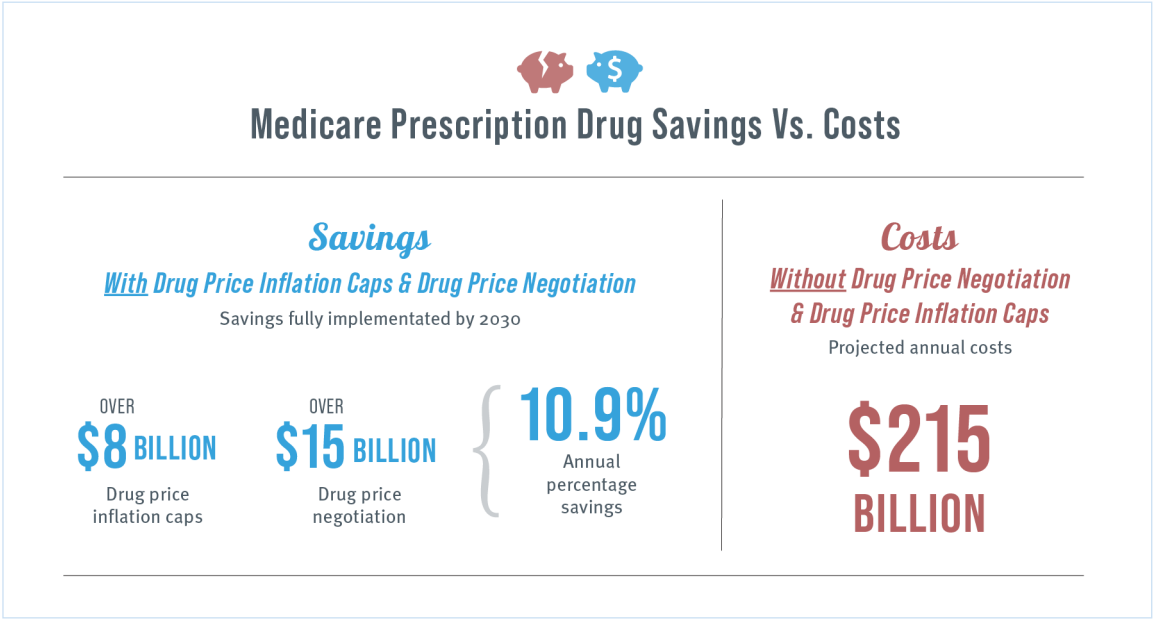
*This includes enrollees who do not qualify for the Medicare Part D low-income subsidy program.

Source: 2019 figures (most recent available). KFF analysis of 2019 prescription drug event claims data from a 20% sample of Medicare beneficiaries from the Centers for Medicare & Medicaid Services Chronic Conditions Data Warehouse; Juliette Cubanski, Tricia Neuman and Anthony Damico, "Potential Savings for Medicare Part D Enrollees Under Proposals to Add a Hard Cap on Out-of-Pocket Spending," Kaiser Family Foundation, September 10, 2021, https://www.kff.org/medicare/issue-brief/potential-savings-for-medicare-part-d-enrollees-under-proposals-to-add-a-hard-cap-on-out-of-pocket-spending/.

2. Saving Money for Families, Small Businesses, and the Country by Allowing Medicare to negotiate fair drug prices and preventing drug price increases from rising faster than inflation

Congress is considering legislation that would allow Medicare to negotiate the price of drugs. The House-passed drug pricing reform provisions in the Build Back Better Act also limit manufacturers' ability to increase the price of drugs over and above their initial price faster than the rate of inflation both for Medicare and for private insurers. The inflation cap provision is long overdue. There is no economic rationale for price increases that are higher than inflation after a drug has been introduced and priced.

Both of these steps would bring major savings to people who rely on Medicare for their health insurance, and the inflation cap provision would also bring parallel savings for people with private insurance. Individuals would pay lower prices for any drugs included in the pool of drugs for which Medicare can negotiate prices (limited at first to 10 drugs under the House-passed Build Back Better Act), and the Medicare program would experience savings too. According to Congressional Budget Office projections, when the provisions are fully implemented in 2030, Medicare would save over 10% of its projected spending on prescription drugs, meaning lower costs for those who rely on Medicare for their insurance, and taxpayers would save more than $23 billion every year.[7]



Source: "Estimated Budgetary Effects of Title XIII, Committee on Ways and Means, H.R. 5376, the Build Back Better Act," Congressional Budget Office, revised January 6, 2022, https://www.cbo.gov/publication/57626. For projected annual Medicare spending for prescription drugs without inflation caps or drug negotiation, National Health Expenditures Projections, "Table 11: Prescription Drug Expenditures; Aggregate and Per Capita Amounts, Percent Distribution and Annual Percent Change by Source of Funds: Calendar Years 2014-2030," Centers for Medicare & Medicaid Services, Office of Actuary, n.d., https://www.cms.gov/files/zip/nhe-projections-tables.zip.

High drug costs have left families making unwinnable financial trade-offs to afford their medication, and rising inflation has only exacerbated that issue. Inflation has impacted low-income families the most.

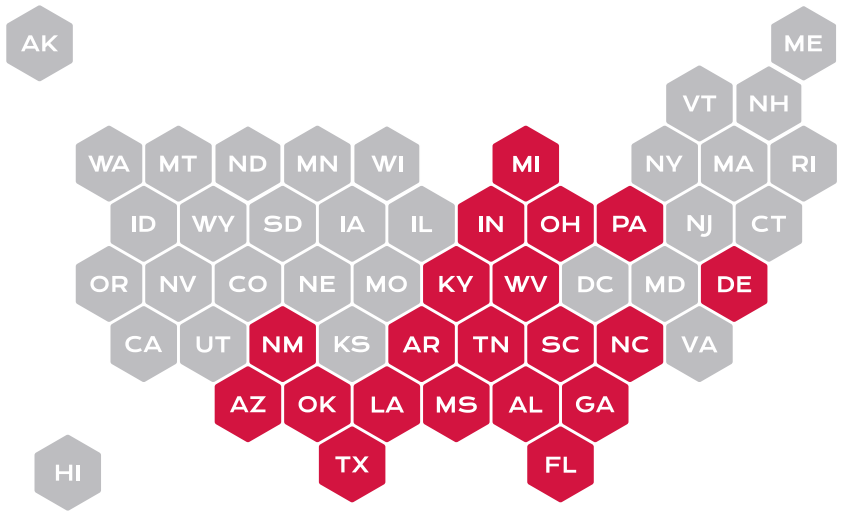
3. Lowering the cost of lifesaving insulin

High and rising out-of-pocket costs for insulin have created a public health crisis in the United States. The American Diabetes Association has estimated that almost one in ten people with insulin prescriptions recently skipped doses or otherwise skimped on insulin because of cost, and one study in Connecticut found that this figure was one in four for low-income diabetics.[8,9] These are shocking figures for such a basic, lifesaving drug. Synthetic insulin was developed decades ago, and the costs of that drug's development have long since been recouped, yet the price of insulin has grown rapidly in recent years because of broken financial incentives in the health care system and the market power of the small number of manufacturers of the drug.[10] These price increases of 50% or more in five years for a long-existing drug have no possible justification related to drug research and development costs. They are purely the result of abusive market powers. This is evidenced by the fact the price of insulin has not grown as quickly in any other country. The United States buys 15% of the world's insulin but accounts for half of global revenue for insulin manufacturers.[11]

The United States has some of the highest rates of diabetes in the world. The prevalence of diabetes is not distributed evenly across the country, but insulin cost is a significant problem in every part of our country. **Congressional proposals to cap the cost of insulin at $35 in 2023 would reduce the cost of insulin across all states.** In fact, the prescription drug provisions that passed the House last fall would take on this public health problem in two key ways: 1) applying a cap of $35 on out-of-pocket costs for insulin to all Medicare Part D beneficiaries and to all people with private insurance coverage[12] and 2) allowing the federal government to begin to negotiate the underlying price of insulin.

If these two provisions were enacted, people from every region of the country would see significant benefits, especially states such as Alabama and West Virginia where over 15% of residents have diabetes.

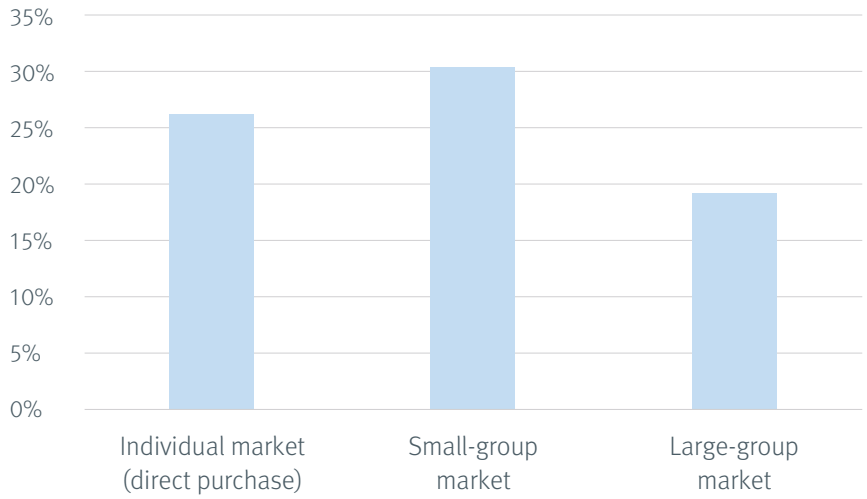
Figure 3: Top 20 States for Percentage of People with Diagnosed Diabetes at High Risk of Needing Insulin[13]



1.	West Virginia	15.7%	11.	Delaware	12.7%
2.	Alabama	15.0%	12.	North Carolina	12.7%
3.	Mississippi	14.6%	13.	Ohio	12.5%
4.	Louisiana	14.3%	14.	New Mexico	12.2%
5.	Tennessee	14.2%	15.	Michigan	12.1%
6.	South Carolina	13.6%	16.	Indiana	12.0%
7.	Arkansas	13.2%	17.	Florida	11.8%
8.	Kentucky	13.1%	18.	Georgia	11.8%
9.	Oklahoma	13.0%	19.	Pennsylvania	11.4%
10.	Texas	13.0%	20.	Arizona	11.3%

These cost-sharing provisions would help millions of people with private health insurance. The percentage of insulin users paying more than $35 monthly out of pocket for insulin ranges from about 20% for people with coverage from large employers to over 30% for people with coverage from small employers (see Figure 4).

Figure 4: Insulin Users Who Would Benefit from a $35 Monthly Cap, by Private Health Insurance Markets, 2018



Source: Krutika Amin et al., "Out-of-Pocket Spending on Insulin Among People with Private Insurance," Peterson-KFF Health System Tracker, March 24, 2022, https://www.healthsystemtracker.org/brief/out-of-pocket-spending-on-insulin-among-people-with-private-insurance/.

People who access health care through Medicare would also see substantial savings. As shown in Figure 5, the cap would benefit the **majority of insulin users in Medicare who are not eligible for federal low-income subsidies, saving an average of $100 per person annually across the U.S.**

Figure 5: Average Out-of-Pocket Spending for Insulin in Medicare Part D, by State, 2019

	Total Medicare Part D insulin users without low-income subsidies	Average out-of-pocket spending for insulin
United States	1,669,610	$520
North Dakota	4,935	$822
Iowa	20,465	$748
Minnesota	28,315	$748
South Dakota	4,745	$741
Wisconsin	35,540	$712

$420

Maximum out-of-pocket cost for insulin under proposed new cap

Figure 5: Average Out-of-Pocket Spending for Insulin in Medicare Part D, by State, 2019, continued

	Total Medicare Part D insulin users without low-income subsidies	Average out-of-pocket spending for insulin
Nebraska	10,180	$701
Utah	12,675	$697
Kansas	16,580	$689
Idaho	8,235	$662
Wyoming	2,960	$662
Montana	5,375	$636
Rhode Island	5,125	$634
Oregon	21,570	$624
Maine	6,425	$616
Indiana	45,390	$610
Washington	32,325	$607
Missouri	38,055	$589
Arkansas	15,750	$580
New Hampshire	7,080	$577
Ohio	78,045	$575
Vermont	3,100	$571
Mississippi	15,865	$566
Oklahoma	21,120	$564
Connecticut	14,100	$553
Tennessee	41,005	$552
Illinois	66,595	$551
Virginia	39,990	$547
South Carolina	31,850	$546
Arizona	32,500	$538
Colorado	19,210	$536
Massachusetts	28,285	$536
Georgia	48,535	$533
Pennsylvania	85,855	$529
North Carolina	58,450	$526
Alabama	30,420	$525
Kentucky	29,850	$509
Louisiana	22,475	$509

$420

Maximum out-of-pocket cost for insulin under proposed new cap

Figure 5: Average Out-of-Pocket Spending for Insulin in Medicare Part D, by State, 2019, continued

	Total Medicare Part D insulin users without low-income subsidies	Average out-of-pocket spending for insulin
Texas	119,935	$507
New Mexico	9,145	$482
West Virginia	14,515	$481
Delaware	6,440	$478
Michigan	76,485	$469
Nevada	12,855	$462
New York	86,155	$456
Maryland	25,845	$454
New Jersey	45,510	$452
Florida	116,285	$449
Alaska	2,020	$326
California	158,045	$323
District of Columbia	860	$319
Hawaii	6,540	$309

$420

Maximum out-of-pocket cost for insulin under proposed new cap

Source: Juliette Cubanski and Anthony Damico, "Insulin Out-of-Pocket Costs in Medicare Part D," Kaiser Family Foundation, May 17, 2022, https://www.kff.org/medicare/issue-brief/insulin-out-of-pocket-costs-in-medicare-part-d/.

Conclusion

Taken together, these relatively modest drug pricing reforms would have immense impact for families. They would reduce out-of-pocket costs by an average $1,200 per person per year in Medicare Part D, and save up to $400 per person per year on insulin costs in Medicare alone. These cost-saving benefits would be especially helpful for families as they deal with the challenges posed by the U.S. inflation rate being at a 40-year high. Every dollar that families save in excessive drug costs can be spent on basic needs such as food, gas and housing. It is imperative for Congress to move immediately to pass these wildly popular, commonsense provisions and give millions of Americans much-needed relief and economic security.

Endnotes

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[12] Cost-sharing amounts are already much lower in Medicaid and the Children's Health Insurance Program (CHIP).

[13] https://stateofchildhoodobesity.org/diabetes/

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RX2022-85