The Facts on Formulary Restrictions

MINNESOTA COUNCIL of HEALTH PLANS

AT A GLANCE:

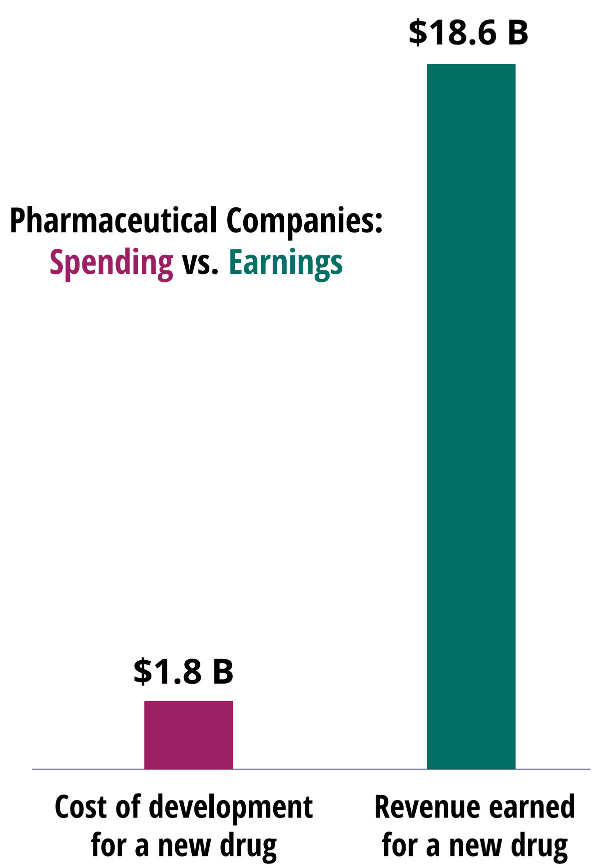
- A formulary is a list of generic and brand-name prescription drugs covered by a health plan.
- Plans aim to make few changes to that list throughout the year.
- Adjustments are usually made because a drug manufacturer has decided to increase drug prices in the middle of the year.
- Not allowing plans to respond to those price changes — via formulary restrictions — incentivizes drug makers to increase costs without consequence.
- Policies should focus on the root cause of formulary changes: the unwillingness of drug makers to lower prices or keep them steady.

What's behind increasing drug prices

Rising prescription drug costs impose a heavy burden on Minnesotans and have constituted the largest segment of total health expenditures in the commercial market. Pharmaceutical companies routinely raise their prices every year, often multiple times. They justify high drug prices by pointing to the increasing costs of researching and developing new drugs. On average, pharmaceutical companies earned $18.6 billion in total worldwide revenues for a new drug, while spending around $1.8 billion for that drug's development.[1] U.S. Securities and Exchange Commission filings also show that drug manufacturers spend more on sales and marketing than on research and development. For this group of 10 companies alone, sales and marketing expenses exceeded R&D spending by $36 billion, or 37%.

How health plans set products and premiums

Health plans typically begin crafting their insurance products in March, the year before the products will be offered for sale in the fully insured market. These products are sent to the Minnesota Departments of Commerce and Health for their review and approval, and their associated premiums are locked in once they are given final approval by state agencies in October. These insurance products are then offered for sale during open enrollment through the end of the year through MNsure, small employers, or insurance brokers.



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Why formulary restrictions don't make sense

While health plan products are set far in advance, a drug manufacturer can change the price of their drugs at any time. They often do so in January and July, long after health plans have set premiums and deductibles for their products. According to GoodRx Health, manufacturers raised the price of 832 drugs in January 2021 by an average of 4.6%.[2] In July 2021, 67 drugs increased in price by an average of 3.1%.[3] When a manufacturer decides to charge a health plan more for a drug than what was expected, the health plan has few mechanisms to offset this cost other than make a change to a plan's formulary. This flexibility is needed to continue to keep costs down for Minnesotans.

Addressing the Root Cause of the Problem

The cost a consumer pays for insurance premiums and copays — as well as how a formulary is structured — is a direct reflection of the cost of care. Money collected by insurance companies is used to pay for doctors, hospitals, pharmaceuticals, medical equipment, and other costs associated with maintaining the health of enrollees. Health care is expensive and policies should be focused on placing pressure on those delivering and charging patients for health care, not restricting health plan flexibility.

When it comes to controlling the cost of pharmaceuticals, there are a number of steps that can be taken by our state, including:

Promoting price transparency

The Minnesota Legislature passed a law in 2019 requiring drug manufacturers to report to the Minnesota Department of Health when they raise the price of a drug 10% or more over the previous 12 months or 16% or more over the previous 24 months. As of January 1, 2022, manufacturers must start disclosing the price of their drugs and why they are raising the price.

Delivering greater value to patients

Pharmaceuticals should be priced to reflect their value and efficacy. Research has shown that most drug price increases are not supported by new clinical evidence. The Institute for Clinical and Economic Review (ICER) recently released a report that found that substantial price increases for 7 out of 10 drugs in 2019 were not supported by clinical evidence. Increases for those 7 drugs cost Americans $1.2 billion.[4]

Reducing rules that block entry by generics

The state should support federal action to prohibit anti-competitive tactics such as "pay for delay" settlements that hinder generic and interchangeable biosimilars.

1 America's Health Insurance Plans. Gaming the System: How Big Pharma Drives its Higher Revenues Through Patent Gaming and Extending Exclusivity. December 2021.
2 https://www.goodrx.com/healthcare-access/drug-cost-and-savings/january-drug-price-hikes-2022
3 https://www.goodrx.com/healthcare-access/drug-cost-and-savings/july-drug-price-hikes-2021
4 Institute for Clinical and Economic Review. Unsupported Price Increase Report: 2020 Assessment.

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