Prescription drug spending in the US surpassed $633 billion in 2022, representing the fastest-growing category of health care expenditures.¹ This trend is driven by rising prices for newly approved brand-name medications and increasing use of expensive therapies. High prescription drug costs in the US have consequences; more than 1 in 4 individuals struggles to afford their medicines, leading them to ration their supplies or abandon prescriptions at the pharmacy.² This challenge has become even more pressing with the advent of cell and gene therapies, which are priced at millions of dollars. Prescription drugs are one of the most important and impactful tools in medicine, but rapid spending growth is straining our health care system.

Rising pharmaceutical spending is particularly challenging for state governments, which are directly responsible for spending in Medicaid and state-sponsored insurance plans that cover government employees and incarcerated individuals. Unlike the federal government, states must balance the budget each year, meaning that higher spending on prescription drugs directly translates to less funding available for other state services, such as education and transportation. Accordingly, states have adopted various strategies to curb high prescription drug spending. In Maine and New Hampshire, for example, legislators enacted requirements to set annual prescription drug spending targets for state-sponsored health insurance plans. Although well-intentioned, legislators should be cautious about the limitations of these policies, which are likely insufficient to address high prescription drug spending without additional policies to tackle the underlying drivers of rising pharmaceutical spending.

Challenges in Implementing Prescription Drug Spending Targets

Maine and New Hampshire are the first states to consider spending targets specifically focused on prescription drugs. These laws are modeled off several states that have implemented targets for total per-capita health care spending. While spending targets for prescription drugs contribute to an important goal of improving access and affordability to essential medicines, they also present measurement and enforcement challenges.

Spending targets focused on prescription drugs may be particularly difficult to enact due to opaque pricing. Specifically, 2 important spending offsets are difficult to measure. First, health insurer spending is offset by confidential manufacturer rebates; rebates vary by drug and offset more than one-third of prescription drug spending by private plans.³ Second, patient out-of-pocket spending is sometimes offset by manufacturer-sponsored copayment cards and patient assistance programs. Failing to account for these cost offsets could lead states to overestimate spending growth, especially because the sizes of rebates and manufacturer assistance have increased over time. These challenges could be alleviated through improved data transparency from drug manufacturers and pharmacy benefit managers. Dozens of states have passed drug price transparency laws in recent years, although few of these provide sufficient details to accurately measure pharmaceutical spending after accounting for all rebates and discounts.

Another complexity is that expenditures on prescription drugs includes both retail pharmacy spending and spending on injections and infusions administered in clinics and hospitals. These clinician-administered drugs, which comprise about one-third of overall pharmaceutical spending, are usually covered through patients' medical benefits rather than their pharmacy benefits.⁴
Therefore, dissecting which medical costs are spent on clinician-administered drugs vs preventive care or other outpatient services is important. Without methods to precisely measure prescription drug spending, operationalizing spending targets will be challenging.

In addition, states must also consider how to sufficiently enforce prescription drug spending targets. Among states that have passed laws to implement overall health care spending targets, strategies for enforcement range from none to financial penalties, public testimonies, and structured performance improvement programs. Neither Maine nor New Hampshire has enforcement mechanisms in place to ensure that their prescription drug spending targets are met. Although setting targets alone may provide visibility to legislators and regulatory agencies by highlighting the challenges of rising pharmaceutical spending, the targets would be far more effective if accompanied by strong enforcement mechanisms.

**Implications for Patients**

Beyond these operational challenges, states must consider how state-regulated health plans may respond to the targets. Spending can be reined in by either lowering prescription drug prices or limiting the use of high-cost medications. Expecting lower prices without offering these health plans additional levers to negotiate with drug manufacturers is unrealistic, so plans may attempt to meet these targets by limiting the use of high-cost therapies.

In some cases, this could lead states to restrict patient access to highly effective and potentially life-saving therapies. For example, many state Medicaid programs restricted access to curative hepatitis C antivirals to prevent catastrophic surges in spending, which slowed the uptake of an important but costly public health intervention. More recently, in April 2024, the North Carolina State Health Plan opted to remove coverage of new highly effective antiobesity medications to prevent premiums from climbing by nearly $50 a month. States could also indirectly restrict use of high-cost drugs by shifting a greater share of the cost to patients. High out-of-pocket costs are associated with decreased medication adherence, worse health outcomes, and greater health disparities. Without proper controls, spending targets could have unintended adverse effects on public health and access and affordability to medicines.

To prevent this, policymakers will need to find ways to help state-regulated health plans lower prices or introduce targeted policies to reduce the use of low-value medications that offer no added safety or efficacy benefits over less expensive therapeutic alternatives. Many health plans design formularies to steer patients away from high-cost and low-value medications or choose not to cover these medications at all. However, the implementation of these so-called utilization management strategies varies significantly between health plans, is burdensome to patients and clinicians, and has not been shown to contain pharmaceutical spending.

**Beyond Spending Targets**

Beyond spending targets, states need policies to address one of the key drivers of rising spending: high prices. Under the Inflation Reduction Act of 2022, Medicare has begun negotiating prices for a limited number of high-spending drugs. State-regulated insurers could adopt these federally negotiated prices, although some drugs are exempt from Medicare negotiation, including drugs that are less than 9 years old. States could also enact their own policies to rein in prices for certain high-cost drugs. At least 9 states have enacted prescription drug affordability boards, some of which have the authority to set statewide maximum purchasing prices.

If states can successfully decrease spending to target levels, policymakers should ensure that these savings are used to lower out-of-pocket costs for patients who need expensive medications. This could be accomplished through explicit out-of-pocket caps for drugs with negotiated prices or by more general regulations to ensure more generous prescription drug coverage. For example, by
2025, Congress plans to appropriate some of the projected savings from Medicare’s price negotiations to cap annual out-of-pocket pharmacy-dispensed prescription drug costs at $2000 per person for Medicare enrollees.9

Conclusions

The high costs of prescription drugs present affordability challenges for patients and strain state budgets. New policies in Maine and New Hampshire to set spending targets demonstrate the appetite among states to address this problem, but legislators must recognize that these policies alone will likely be insufficient to curb prescription drug spending growth without proper measurement and enforcement. Spending targets should be part of a more comprehensive strategy to lower drug prices, decrease the use of low-value medications, and ensure that clinically important drugs are accessible and affordable to the patients who need them.

ARTICLE INFORMATION

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Corresponding Author: Catherine S. Hwang, MD, MSPH, Program on Regulation, Therapeutics, and Law (PORTAL), Division of Pharmacoepidemiology and Pharmacoeconomics, Department of Medicine, Brigham and Women’s Hospital, 1620 Tremont St, Ste 3030, Boston, MA 02120 (chwang@bwh.harvard.edu).

Author Affiliations: Program on Regulation, Therapeutics, and Law (PORTAL), Division of Pharmacoepidemiology and Pharmacoeconomics, Department of Medicine, Brigham and Women’s Hospital, Boston, Massachusetts (Hwang, Lalani, Rome); Harvard Medical School, Boston, Massachusetts (Hwang, Lalani, Rome).

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