



Drug Pricing Transparency

What is the effect of transparency laws on consumer drug costs?

Prescription drug costs are rising faster than the rate of inflation.

Since 2003, consumer drug prices have increased by around 8% per year on average, compared to less than 5% for inflation (BLS 2023; Dana 2017). In 2020, the average American paid about \$1,300 a year for prescription drugs (OECD 2023).

- A third of households making under \$40,000 report not taking their prescriptions as directed due to cost (KFF 2022).

Transparency laws can identify where profits are retained in the drug supply chain.

Pharmacy benefit managers (PBMs) negotiate drug discounts and maintain lists of insurance covered drugs. Negotiations between PBMs and other supply chain intermediates (e.g., drug distributors, pharmacies, health insurers) determine consumer drug prices.

- Price-setting details (e.g., discounts, profits retained) are usually not public, which can obscure the parts of the supply chain most responsible for price increases (Ryan 2019).

As of February 2023, 21 states require at least

Research Highlights

Prescription drug costs are higher in the U.S. than in similar economies and rising annually.

21 states have transparency laws that require at least one drug supply chain entity to meet reporting standards for drug pricing and profits.

Transparency and regulatory laws on pharmacy benefit managers (PBMs) can reduce consumer costs. However, these laws alone do not affect profits retained in other supply chain entities.

one pharmaceutical supply chain entity to meet transparency standards for reporting profits and price design/methodology, providing advanced notice of price increases, and/or regulatory oversight (**Figure 1**). Seven states specifically require annual transparency reports from PBMs.

- Research on how transparency laws in one state affect pricing in other states is limited.

OR requires drug manufacturers who sell in-state to notify the Dept. of Consumer and Business Services when they increase prices by more than 10% on drugs (1) with a launch price over \$670 for a month supply, or (2) cost over \$100.

- Between enactment (2018) and 2020, there was a 73% decrease in price hikes and a 15% increase in drugs with higher launch prices (OR DCBS 2020).

The ME Health Data Organization is statutorily required to prepare an annual drug pricing report that determines the average net income at each step in the supply chain.

- When the law was enacted in 2019, PBMs received roughly 14% in discounts from manufacturers (11% passed to consumer, 3%

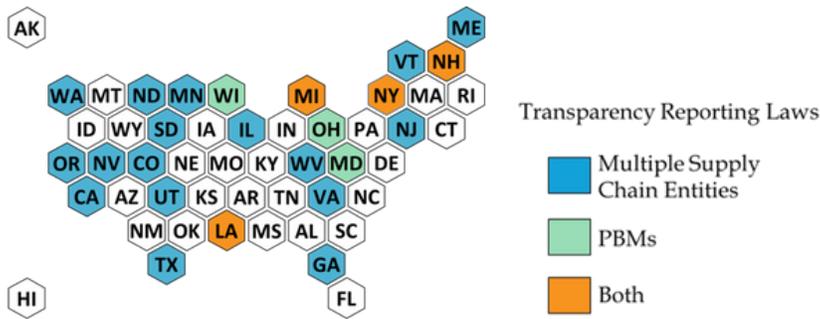


Figure 1. Public transparency requirements for drug supply chain entities. States with statutory transparency standards for at least one non-PBM entity in the drug supply chain (blue), PBMs only (green), or both (orange). Data from [NASHP \(2023\)](#).

retained as profit). In comparison, wholesalers received 25% in discounts (6% passed to consumer; 19% retained as profit), and pharmacies received 6% in discounts (0% passed to consumer; [ME HDO 2021](#)).

- While generic drugs reduced wholesale costs by half, consumer costs have fallen by 11% due to higher prices charged by pharmacies.
- Subsequent reports have emphasized costs by drug type, not how discount data is kept in each supply chain sector. Further analysis is needed to understand how the law impacted pricing over the short and long-term.

VT maintains a list of the top 10 drug price increases for the state Medicaid program.

- Between 2016 and 2020, Medicaid price hikes declined by 79% ([VT DOHA 2021](#)).

WA requires mandatory reporting of transactions between manufacturers and PBMs.

- In 2019, the top four PBMs gave pharmacies nearly 100% discount on generics which was not passed to consumers in order to recoup costs for higher-priced brand name drugs ([WA DPT Program 2022](#)).

Developing countries using transparency tools (e.g., comparative drug price data, mandatory price reporting) have lower prices ([Hinsch 2014](#)).

PBM regulations can reduce consumer costs.

PBMs negotiate with insurers and manufacturers before drugs enter the supply chain, as well as with wholesalers and pharmacies later in the process.

- 46 states regulate at least one PBM activity, including pharmacy pricing and reimbursement, drug dispensation, insurer interactions, state licensure, and financial transparency ([Mattingly 2022](#); [NASHP 2023](#)).
- Most PBM regulations do not specify enforcement mechanisms ([Mattingly 2022](#)).
- MO law prohibits PBMs compelling pharmacists charge more than a drug's cash price.

In ME, PBMs charged insured consumers 11% more than what pharmacies paid for drugs; markup decreased to 2% after 4 months of enactment of a law requiring that PBMs pass drug discounts to consumers ([ME HDO 2021](#)).

OH's requirement for all Medicaid discounts to be passed on to the consumer saved consumers 6% in costs after 6 months ([OH DOM 2019](#)).

NJ contracted their state employee plan to the lowest bidding PBM, while WV replaced their Medicaid contracted-PBM with a state-run PBM, saving 25% and 9%, respectively ([NCSL 2021](#)).

For more information, read our **related Science Notes** on **Pricing & Transparency in Prescription Drug Costs** and **Rising Health Care Costs**.

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