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Mid-year drug price hikes are back despite Inflation Reduction Act

By [Simar Bajaj](#) Aug. 24, 2023

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It's almost a tradition. At the start and halfway points of each year, many pharmaceutical companies raise drug prices to bolster revenue and reportedly fund new research.

"It's not just all selling new drugs," said Juliette Cubanski, deputy director of the Program on Medicare Policy at KFF. "It's increasing prices on their existing portfolio." But, this year for the first time in history, drugmakers' biannual price hikes will be factored into rebates, or partial refunds, that they will have to pay to Medicare if they increase prices above the rate of inflation.

A new STAT analysis of mid-year price hikes has found that, despite these new requirements, drug prices are on the rise. Indeed, on July 1, drugmakers raised the wholesale price on over 123 drugs in what's the largest number of mid-year price hikes since 2013, according to data from drug pricing nonprofit 46brooklyn and the Elsevier Gold Standard Drug Database.

The median price increase for these drugs was 3.4%, just above the one-year inflation rate of 3.2%. So, over half of these medications could potentially face rebates, including 10 Pfizer drugs whose prices increased by 10%, such as long-acting penicillin Bicillin and blood thinner Fragmin. It's difficult, however, to make definitive assessments because rebates are calculated based on inflation since 2021 and the average manufacturer price rather than the wholesale price. Drugmakers also argue that wholesale price hikes do not tell the full story since they don't reflect discounts paid to pharmacy benefit managers.

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"Ever since 2013, we've seen a gradual de-emphasis of July price increases," said Antonio Ciaccia, CEO of 46brooklyn, but he noted that there's been a trend upward after 2018. "I think it's safe to say that, whether it's policy-related or not, mid-year price increases are back."

Drug prices in the United States are uniquely high, with Americans paying twice or three times as much as patients in other developed countries. And this problem has only gotten worse over time, with launch prices increasing from an average \$2,115 per year in 2008 to \$180,000 in 2021. Among the top-25 Medicare Part D drugs, all but one have seen lifetime price increases beyond inflation rates, according to a recent report from AARP. For example, the insulin drug Lantus, from Sanofi, was introduced to the market in 2000, and inflation rose by 71% since. Meanwhile, the price of Lantus increased by 739%.

"There's often a lot of media attention on the individual drug prices to take place year after year," said Leigh Purvis, director of health care costs and access at the AARP Public Policy Institute. "Those relentless price increases add up over time."

Nevertheless, the pharmaceutical industry has resisted price regulation at every turn, including trying to block the passage of the Inflation Reduction Act, defanging its provisions when passage was inevitable, and now fighting the measure in court. So, even if the law weathers the latest set of challenges, it may not be able to stem the tide of high drug prices.

With the rebates, for example, the idea was to have a "speed limit" on price growth, said Ciaccia, incentivizing manufacturers to raise drug prices at or below the inflation rate. However, given significant year-to-year fluctuations in inflation, "you're dealing with an ever-changing speed limit" and thus greater unpredictability, Ciaccia emphasized. So, during periods of high inflation, manufacturers might default to raising prices right at the speed limit in order to hedge against future stretches of low inflation.

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It's also possible that manufacturers may simply blow past the speed limit since there's no penalty beyond paying Medicare back the difference. "Say the government calculates an inflation-adjusted price of \$100, and you charged \$125. You would have to give that \$25 back," said Cubanski from the Kaiser Family Foundation. "There's no \$25 times some multiplier because you charged a higher price."

And the potential benefit of raising prices above inflation is that drugmakers could generate higher revenues in the commercial market, where the rebates don't apply. Indeed, rebates have been in place for Medicaid since 1990 and Medicare ever since last year, but these federal programs cover only 40% of prescription drug spending, leaving pharmaceutical companies without a speed limit in the majority of the market.

As such, Cubanski thought that some companies might "take the hit on the Medicare line of business because they'll still end up with more revenues" by raising prices beyond inflation. The corresponding rebates drugmakers pay would be used to lower co-insurance rates for Medicare beneficiaries, but "I don't know whether we would call that a success because that's a sign that manufacturers are not showing that much regard for the financial disincentive," Cubanski said.

Sanofi — whose insulin drug Lantus was singled out by AARP as an example of how annual price hikes add up over the years — declined to comment on whether it would continue to hike prices above the rate of inflation because the company stands to make money on the commercial market. In March, Sanofi cut the price of Lantus by 78%, effective starting next year, following similar moves by rivals Novo Nordisk and Eli Lilly after President Biden urged pharma companies to make insulin more affordable.

Purvis, from AARP, said stronger penalties might be necessary to "encourage drug companies to price their products fairly and not take unjustified price increases." But she also cautioned that, for now, it's still early to tell whether or not this rebate is working. Indeed, with the Inflation Reduction Act so new, there have been only two rounds of rebate calculations for Medicare Part B, which is determined quarterly, and the annual Medicare Part D calculations will come out only around October. The Centers for Medicare and Medicaid Services also plans to send rebate invoices by fall 2025, so it might be a while before any money trades hands.

Still, the signs aren't promising for the Inflation Reduction Act slowing down price increases across the board, according to Ciaccia. "In fact, 2022 has the highest number of list price increases that we have seen in around a decade," he said, with 2023 currently on track to exceed even last year's numbers. "Without trying to contextualize it as good or evil, manufacturers are in the business of making money."

About the Author

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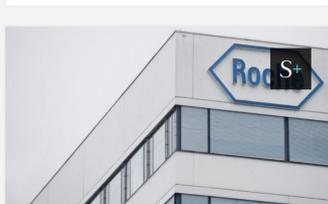
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