



Government Encourages Third-Party Payment, Which Drives Health Care Prices Higher

Michael F. Cannon

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Cato adjunct scholars [Charlie Silver](#) and [David Hyman](#) have an important oped in today's *Houston Chronicle* explaining how third-party payment increases prices for drugs and other medical goods and services. An excerpt:

If you're like us, your health insurance coverage includes a prescription drug benefit. The benefit isn't free, but you're willing to pay for it because it saves you money every time you have a prescription filled. You are responsible for your co-pay, and your insurer pays the rest.

At least, that's how it is supposed to work. But the truth is that your insurer often pays nothing. Your co-pay is all the pharmacy receives. Not only that, but your co-pay often exceeds the amount that someone without insurance would have paid for the drug. That's right: People who don't have insurance are paying less than you are for the same drug...

The scam works by taking advantage of consumers' naive belief that their insurers are watching out for them. Suppose you have high blood pressure and your doctor prescribes amlodipine, a medication used by millions. If you have insurance, you probably think your insurer negotiated a great deal because a month's supply at the pharmacy costs you only \$10. But if you paid cash for the same drug at Costco, you'd have to pay only \$1.85...

The real problem is that insurance is a terrible way of paying for things that we can and should pay for directly. Price-gouging does not happen with drugs that are sold over-the-counter at retail outlets like CVS, Costco or Wal-Mart. Those prices are transparent and easy to compare. When people pay directly for drugs, there are no hidden transfers between pharmacies and PBMs either. Competition does for cash customers what PBMs and pharmacies don't seem able to do for one in four of the prescriptions filled by insured customers — reduce drug prices to the lowest sustainable level.

Overcharges occur throughout the rest of our health care system too, and they drive up the cost of all sorts of procedures. Why? Because insurers don't care about costs nearly as much as patients do. If we want to get health care spending under control, we should pay for it directly as often as we can.

Michael F. Cannon is the Cato Institute's director of health policy studies.