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THE U.S. PHARMA PREMIUM: WHO'S REALLY PAYING THE PRICE?

The U.S. Premium: Why Americans Front the Bill for the World's Pharmacies

Until the Inflation Reduction Act (IRA) took effect in 2022, the U.S. was the only major developed country that historically excluded government negotiation of prescription drug prices. While the U.S. represents roughly 70% of global biopharmaceutical profits, it also plays an outsized role in driving drug discovery and advancing medical innovation—contributing to breakthroughs that cure diseases, extend life, and improve quality of life. The U.S. is responsible for over 80 percent of drug launches and invests nearly four times in R&D, as a share of GDP, than its peers.[1,2] Although drug pricing reflects a complex supply chain, a portion of these dollars fuels the high-risk high-reward engine of pharmaceutical innovation.

The Executive Order: A Bold Attempt at Reference Pricing

President Trump's 2025 executive order (EO) aims to slash U.S. prescription drug prices by 30 to 80 percent through a Most Favored Nation (MFN) pricing model.[3] The EO instructs the Secretary of Health and Human Services (HHS) to communicate MFN price targets to pharmaceutical companies and, if significant progress is not made towards MFN pricing, take additional steps to drive pharma towards offering Americans the lowest price they charge in any developed country. The order also empowers the Secretary of HHS to bypass intermediaries and allow direct-to-patient pricing if manufacturers do not comply. The potential impact: Americans no longer subsidize lower prices abroad.

> "President Trump's 2025 Executive Order seeks to reduce U.S. prescription drug prices by 30–80% using a Most Favored Nation pricing model."

> "The Executive Order does not specify enforcement mechanisms and timelines, indicating it may be more of a political signal than a policy certainty."

Reading Between the Lines: Feasibility and Friction

While the EO is headline-grabbing, the path to execution remains uncertain. Trump's first attempt at MFN pricing in 2020 faced legal challenges and was later rescinded. Of note, HHS does not have the authority to test payment models outside of federal healthcare programs, limiting the impact of the EO.[4] Medicare is legally barred from broad drug price negotiations, except for a limited number annually under the IRA. Medicaid pricing is determined at the state-level and already benefits from MFN-like protections. Without new legislation, the federal government has limited leverage to enforce MFN pricing. Even if Congress could enact legislation, execution would require building capabilities to track and audit drug prices abroad, which do not appear to exist today. The market's reaction — drug stocks trading up — signals skepticism and potential execution risk.

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[1] Healthcare's New Frontier: Policy Goals and Industry Impact of the new Administration | Alvarez and Marsal

[2] Health at a Glance 2023: OECD Indicators | OECD Publishing

[3] Fact Sheet: President Donald J. Trump Announces Actions to Put American Patients First by Lowering Drug Prices and Stopping Foreign Free-riding on American Pharmaceutical Innovation | The White House

[4] Most-Favored-Nation Prescription Drug Pricing Executive Order: Legal Issues | Congress.gov

The Good, the Bad, and the Unintended

While lowering out-of-pocket costs for patients is a commendable objective, adopting price controls similar to those used in other countries could potentially lead to comparable consequences.

Upside Potential for Patients:

- **Pricing Transparency:** Shining a light on international price disparities could pressure companies to justify U.S. pricing.
- **Reduced PBM Influence:** Direct-to-patient pricing could bypass intermediaries and simplify the pharmaceutical supply chain.

Potential Risks and Pitfalls:

- **Global Price Inflation:** Companies may raise prices abroad to protect U.S. margins, undermining the MFN model.
- **Market Retrenchment:** Companies may exit smaller or lower-margin markets with lower prices to artificially inflate MFN.
- **Innovation Slowdown:** Price controls may stifle R&D investment, especially in rare disease indications, and reduce the number of innovative drug launches, worsening patient access to therapies.
- **Increased Foreign Dependency:** Foreign regulatory bodies could have outsized influence over drug prices for millions of Americans.

Tuning Out the Noise: Pricing Forces at Play

While the MFN executive order captured headlines, the most durable changes to U.S. drug pricing are likely to emerge from broader structural shifts already underway.

First, a potential **ban on direct-to-consumer advertising** has reentered the policy conversation, with Secretary Robert F. Kennedy Jr. signaling openness to regulatory action. If pursued, it could reshape demand dynamics by reducing consumer-driven brand preference — impacting over $12 billion in television ad spend.[5] In response, forward looking companies are closely examining their investments across medical, payer, physician and consumer channels to identify alternative strategies that can influence behaviors and treatment decisions with comparable impact.

Second, **PBM legislative reform** has renewed bipartisan momentum and is already spurring industry shifts. Provisions in Congress's recent bill – "One Big Beautiful Bill Act" would prohibit PBMs from excessively marking up drugs through spread pricing. Similarly, the 2025 budget reconciliation bill increases PBM reporting requirements, and prohibits PBM compensation based on drug prices[6]. The industry is already responding—for example, OptumRx recently announced a new pricing model that will pass through 100% of drug rebate discounts to clients by 2028.[7] In this evolving landscape, companies across the pharmaceutical value chain would be well served to assess how shifting incentives and regulatory pressures may reshape channel dynamics— identifying which channels and models are likely to gain traction, which may become challenges and where new opportunities could emerge. A&M is actively working with clients to scenario plan and stress-test strategies in light of these developments.

[5] RFK Jr. May Want to Ban Prescription Drug Ads, But Can He? | Forbes
[6] KFF Key Provisions in 2025 Budget Reconciliation Bill | Kaiser Family Foundation
[7] Optum Rx to launch new pass-through model | United Health Group

Third, **FDA biosimilar reforms** aim to streamline biosimilar approvals. Recommended changes – including the elimination of switching studies and select waivers for Phase 3 trials – could accelerate biosimilar entry, at prices averaging 15-30%[8,9] below reference drugs. Biosimilars are expected to become a key lever for cost containment given volume of biologics facing loss of exclusivity over the next decade (totaling $200 billion in sales one year prior to expiry).[10] Given the uneven performance of biosimilars in uptake, pricing dynamics, and launch success, organizations would be wise to adopt more robust data and analytical frameworks to navigate this evolving market.

> “The most durable changes to U.S. drug pricing are likely to emerge from broader structural shifts already underway.”

These developments reflect a deeper market evolution. Rather than focusing solely on high-profile policy announcements, leaders would benefit from monitoring the quieter — but more transformative — currents reshaping the drug pricing ecosystem.

[8] 2022 U.S. Generic and Biosimilar Medicines Savings Report | Association for Accessible Medicines
[9] Patient Out-of-Pocket Costs for Biologic Drugs After Biosimilar Competition | JAMA Health Forum
[10] Assessing the Biosimilar Void in the U.S. | IQVIA

AUTHORS

Rena Rosenberg
Managing Director
A&M Life Sciences
rrosenberg@alvarezandmarsal.com

Megan Shea
Director
A&M Life Sciences
mshea@alvarezandmarsal.com

Nick Porter
Associate
A&M Life Sciences
nporter@alvarezandmarsal.com

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