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PATIENTS & PDABS: ENSURING A VOICE IN THE PROCESS

UPPER PAYMENT LIMITS

What is an Upper Payment Limit?

Upper payments limits (UPLs) are essentially limits on the amount that a payer, such as the state or an insurance plan, can reimburse pharmacies or pharmacy benefit managers (companies that manage prescription drug coverage for health insurance plans) for the purchase of certain prescription drugs. UPLs only apply to prescription drugs that a PDAB has deemed "unaffordable." Unaffordable is not often defined and may be reviewed from the state's perspective, a consumer perspective, or both.

UPLs do not control what patients pay at the pharmacy counter.

UPLs only limit what health plans reimburse behind the scenes. If a state or health plan saves money as a result of a UPL they are often not required to pass these savings down to consumers in the form of lower drug costs or lower premiums.[1] Depending on the state, UPLs might only apply to certain types of plans that the board has authority over. For example, most PDABs have authority over public health plans, such as Medicaid and state employee health plans. Depending on the state's statute, some boards also have authority over certain state-regulated commercial health plans.

How are UPLs Set?

Establishing a UPL is a long process. The methodology for establishing a UPL varies across boards, but generally follows the following process:

Create list of drugs that can be reviewed by the PDAB.
PDABs cannot review every single drug, therefore, PDABs look for drugs that are the most expensive, have significantly increased in price during a specific time period, or place a financial strain on state health programs and/or consumers. These criteria are used to create an initial list of drugs subject to review.

Determine if a drug is unaffordable. Once a drug is selected, the board reviews various factors associated with each drug, like how many people use it, what type of drug it is, if there are alternatives, and the cost to the state. Based on this analysis, the board will determine if the drug is unaffordable or creates an affordability challenge.

Establish a UPL if the board decides a drug is unaffordable.
The board can establish a UPL to set the maximum reimbursement amount. Determining a fair price is a difficult and complex analysis. As a result, some states have proposed to rely on existing benchmarks such as Medicare's Maximum Fair Price.

How will UPLs Affect Consumer Costs?

It is difficult to determine how UPLs might impact consumers because these limits apply to how much insurers reimburse pharmacies or pharmacy benefit managers (PBMs) for a drug, not what patients are charged at the counter. Additionally, most laws creating PDABs do not explicitly require any of the savings from a UPL to be used to lower patient costs.[2] In other words, even if UPLs do save money, patients may not see any benefit.

Other than Changing What My Plan Pays, Will a UPL Impact Me?

Because PDABs are still relatively new, and no state has been able to implement a UPL yet, it is unclear how their decisions will affect the drug supply chain and what consequences they may create for patients.

However, Congress has attempted to implement a similar type of program for Medicare through the Maximum Fair Price (MFP). Since the implementation of MFPs in Medicare plans, health care providers have reported an increase in restricted formularies, raising concerns that such limits could hinder patient access and potentially increase expenses for certain beneficiaries.[3]

So, why does this happen? One possible explanation is that MFP drugs reduce the financial incentives associated with those drugs for PBMs. Because PBMs and Part D plans often negotiate manufacturer rebates and other price concessions in exchange for favorable formulary placement, lowering a drug's effective price through an MFP may diminish the value of those financial arrangements. Consequently, plans may respond by tightening or modifying formularies, which ultimately can restrict access and potentially increase costs for patients.[4]

Because of these incentives and underlying issues within the health insurance system, some stakeholders have raised concerns that state-based UPLs will create similar problem in state plans, resulting in UPL drugs becoming unavailable or unaffordable for consumers.[5]

This resource is part of Aimed Alliance's Consumer Education Series on PDABs. If you want to learn more, check out our resources on Upper Payment Limits and Getting Involved.

REFERENCES

1. Colorado and Washington require health plans to apply any potential savings generated from UPLs toward reducing costs for consumers. See Colo. Rev. Stats. § 10-16-1401(1) and Rev. Code of Wash. § 70.405.060.
2. Exception: Colorado and Washington.
3. Avalere Health, Update: Health Plans' Perceptions of PDABs and UPLs (Mar. 28, 2025), https://advisory.avalerehealth.com/insights/update-health-plans-perceptions-of-pdabs-and-upls#:~:text=Payers%20noted%20that%20setting%20UPLs,Could%20Contribute%20to%20Increased%20Premiums.
4. Colorado Prescription Drug Affordability Board Meeting, at 2:42 (May 15, 2026), Zoom Recording; Kirsten Axelsen and Hely Jeppson, Keeping watch on Medicare: 2026 maximum fair prices for ten selected drugs, DLA PIPER, https://www.dlapiper.com/en-us/insights/publications/2026/01/keeping-watch-on-medicare-2026-maximum-fair-prices-for-ten-selected-drugs.
5. Colorado Prescription Drug Affordability Board Meeting, at 2:42 (May 15, 2026), Zoom Recording.

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