Prescription Drug Trends

As prescription drug costs continue to increase, it is important for employers to understand the trends behind prescription drug costs and what they can do to better manage their health care expenses.

In 2013, the United States spent $329.2 billion on prescription drugs—eight times more than the $40.3 billion spent in 1990\(^1\). Although prescription drug spending has historically been a small proportion of national health care spending compared to hospital and physician services, in recent years, it has grown rapidly.

In 2014, prescription drug spending in the United States increased 13.1 percent—the largest increase since 2003. This jump was due to a number of factors—a major one being a 30.9 percent increase in spending on specialty medications, which are high-cost drugs used to treat complicated conditions like hepatitis C, cancer and rheumatoid arthritis\(^2\). The growth in prescription spending was also due to more people being insured and gaining prescription drug coverage as a result of the Affordable Care Act (ACA).

*Source: The Express Scripts Lab 2014 Drug Trend Report\(^2\)*
Prescription Drug Spending in Previous Years
The 2014 increase marked a departure from previous years’ prescription drug trends. Annual prescription spending growth declined from 18 percent in 1999 \(^3\) to 5 percent in 2007 \(^4\) due to variety of factors, including greater usage of generic drugs, changes in the types of drugs being used and more tiered copayment prescription plans. Spending fell 3 percent in 2008 as a result of the recession and safety and efficacy concerns \(^5\).

Following years of decreasing rates, drug spending increased in 2012 by 3.8 percent \(^6\). It then grew by 5.4 percent in 2013, again due to a multitude of reasons, such as greater patient usage and rising costs for traditional and specialty drugs \(^2\).

Changes to the Prescription Drug Payer Mix
The portion of prescription drug spending paid by private insurers increased from 27 percent in 1990 to 43.5 percent in 2013, contributing to a reduction in the amount people paid out of pocket, which dropped from 56.8 to 16.9 percent. During this same time, Medicare spending increased from 0.5 to 27.5 percent \(^7\).

The implementation of Medicare Part D in 2006 dramatically altered payer mix, as Medicare expenditures soared from 1.9 percent in 2005 to 17.7 percent in 2006. Medicaid’s expenses, on the other hand, fell from 17.7 percent to 8.5 percent during this time because Medicare replaced Medicaid as the primary insurer for individuals covered under both programs \(^7\).

*Source: Compiled using historical data from Centers for Medicare & Medicaid Services \(^7\). Other public may include Children’s Health Insurance Program, Department of Defense, and Department of Veterans Affairs.

Reasons Behind Prescription Drug Trends
A multitude of factors led to changes in prescription drug costs, as outlined below.
**Increasing Drug Prices**

In 2014, traditional prescription drug spending increased 6.5 percent, while specialty drug spending climbed 30.9 percent. Even though specialty medications only account for 1 percent of all U.S. prescriptions, they made up nearly 31.8 percent of 2014 drug costs (up from 27.7 percent in 2013)². Specialty drug spending is projected to experience double-digit growth over the next three years—increasing 22.6 percent in 2015, 22.3 percent in 2016, and 21.3 percent in 2017².

**Types of Drugs Used**

From 2013 to 2014, the utilization of traditional prescriptions decreased 0.1 percent. Usage of specialty drugs, though, increased 5.8 percent². Approximately 49 percent of the drugs that gained Food and Drug Administration (FDA) approval in 2014 were specialty drugs. This trend is likely to continue as more specialty drug therapies are in the development pipeline. Furthermore, many brand-name medications command a high price today because they are patented. When these patents eventually expire, it will allow generic versions to enter the market, which has historically helped reduce medication expenses.

**Failure to Follow Physician Orders**

Reductions in drug utilization may mean that patients aren’t adhering to the drug treatments recommended by their doctors. A failure to fill prescriptions can have serious effects on patient health and lead to more costly medical problems down the road. A recent study found that 31 percent of prescriptions go unfilled and individuals over the age of 52 were more likely to fill their prescriptions than their younger counterparts. Women were more likely fill their prescriptions than men, and, unsurprisingly, drugs with higher copayments were less likely to be filled⁸.

**ACA’s Impact on the Pharmaceutical Industry**

The ACA implemented various provisions designed to help monitor the pharmaceutical industry, including imposing an annual fee on importers of branded prescription manufacturers and importers whose branded sales exceed $5 million. This annual flat fee started at $2.5 billion in 2011 and will increase to $4.1 billion by 2018. The ACA also created a process for gaining FDA approval of biosimilar, or interchangeable, versions of brand-name drugs. Brand-name drugs, though, are given 12 years of exclusivity before biosimilar drugs can be approved.

In addition, the ACA requires non-grandfathered health plans to include prescription drugs as one of the “essential health benefits,” and all forms of birth control must be covered without cost-sharing. Over the next few years, rebates and discounts will also be available to certain Medicare Part D beneficiaries.

**Cost Control Strategies**

Below are several tactics that insurers, employers and consumers have implemented in an effort to curb rising prescription drug expenses.

**Managing Usage**

Many health plans have responded by creating drug formularies, which exclude certain drugs from coverage, and step therapy requirements, which require individuals to try more cost-effective treatments before “stepping up” to more costly drugs. In addition,
some insurance plans have increased patients’ out-of-pocket responsibilities by imposing separate prescription deductibles (see graph below) and requiring certain medications to have a prior authorization. Prior authorizations may be required when an insurer believes a less expensive drug may work just as well as the more expensive drug the doctor prescribed.

![Average Prescription Drug Deductible, for Plans with Separate Medical and Prescription Drug Deductible](chart.png)

*Source: Kaiser Family Foundation analysis of Marketplace plans in the 37 states with Federally Facilitated or Partnership exchanges in 2015 (including New Mexico, Oregon and Nevada). Data from Healthcare.gov Health plan information for information for individuals and families.

**Medical Therapy Management (MTM) Programs**

Under this model, pharmacists or other health professionals provide care to people who take medications for different medical conditions. MTM programs are available at no cost to those enrolled in a Medicare drug plan. The goal of the program is to improve medication adherence and optimize drug therapy, which, in the long run, can help reduce health care costs. On average, the return on investment for MTM programs is estimated to be about 2:1 to 3:1.

**Employer Group Waiver Plans (EGWPs)**

EGWPs are Medicare Part D programs that are intended to help employers better manage prescription costs for retirees. While this option was available in the past, the ACA now allows employers to contract with third-party administrators rather than just CMS. With an EGWP, employers may be able to reduce health expenses for Medicare-eligible retirees compared to more traditional retiree drug subsidy programs.

**Rebates and Discounts**

Some businesses have elected to partner with organizations known as pharmacy benefit managers in order to negotiate with pharmaceutical manufacturers to receive rebates and discounts on prescription drugs based on factors like volume and market share. Similarly, some employers have joined together to create prescription drug purchasing pools in
order to increase their purchasing power when negotiating lower prices for prescription drugs.

Employee Awareness
Employers are not the only ones seeking to reduce costs when it comes to pharmaceuticals. As employees’ out-of-pocket responsibilities continue to grow, rather than paying for a brand name, more people are asking for cheaper or generic versions of drugs. Consumers are also using the Internet and phone apps like LowestMed and GoodRX to make price comparisons between local pharmacies and to locate available coupons. Some consumers are also looking to mail-order pharmacies to handle 90-day supplies of their medications, which often offer lower drug prices.

Prescription Drug Trend Projections
CMS projects that from 2012 to 2022, annual expenditures on prescription drugs will grow by 75 percent to $455 billion. Outpatient prescription drugs will account for about 9 percent of total health care spending. By 2022, the ACA is expected to add an additional $15.3 billion in annual drug expenditures.

Furthermore, CMS projects that from 2015 to 2024, prescription drug spending will grow, on average, 6.3 percent annually, which is slightly higher than its projections for health spending (which will increase at an average rate of 5.8 percent per year). CMS notes that during this time, new specialty drugs will enter the market and there will be fewer generic drugs launched. These projections are subject to change.

For help with developing strategies to control your employees’ prescription drug costs, contact MDG - Benefit Solutions today.

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5 Kaiser Family Foundation calculations using data from IMS Health, www.imshealth.com (Press Room, US Top-Line Industry Data 2008), and Census Bureau, www.census.gov. The per capita number may differ from the number reported at KFF’s website www.statehealthfacts.org because of differing data sources which use different retail pharmacy definitions (e.g., IMS Health includes mail order, Verispan does not).