

# **Kaiser Foundation – Prescription Drug Trends, June 2006**

Summary prepared by WCD September 2006

## **Overview**

- Nationally, rising drug costs and the new Medicare drug benefit highlight the need for:
  - Better understanding of the pharmaceutical market
  - New approaches to address rising costs

## **Key factors driving changes in prescription spending**

Three factors drive changes in drug spending:

1. Changes in the number of prescriptions dispensed (utilization)
  - Nationally, the number of overall prescriptions increased 71 percent between 1994 and 2005.
2. Price changes
  - Retail prescription prices increased an average of 8.3 percent a year from 1994 to 2005 (more than triple the average annual inflation rate of 2.5 percent).
3. Changes in types of drugs used
  - New drugs (prior to loss of patent) can increase overall drug spending if used in place of older, less expensive medications.
  - Drug spending typically is reduced when brand drugs lose patent protection and face competition from low-cost generic substitutes.

## **Insurance coverage**

- Statistics show that lack of drug insurance among uninsured adults (51 percent nationally) caused them to cut pills, not fill a prescription, or skip medical treatment.
- Employers offer coverage to nearly 60 percent of the national workforce; 66 percent of those eligible opted for the coverage.
- Medicare Part D (drug coverage) provides eligibility for 43 million beneficiaries; as of June 2006, 22.5 million beneficiaries were covered by Part D.
- Medicaid (state programs) currently covers about 55 million low-income eligible individuals nationally. About 6 million dual eligibles (eligible for both Medicaid and Medicare) have been transferred from Medicaid to Medicare Part D.

## **Cost-containment models**

- Utilization strategies:
  - Excluding certain drugs from coverage
  - Using quantity dispensing limits
  - Increasing enrollee cost-sharing amounts
- Discounts and rebates:
  - Negotiating pharmaceutical manufacturer discounts based on volume, prompt payment, and market share
  - Using state Medicaid rebates including supplemental rebates
  - Using Federal Supply Schedule, drugs purchased at prices equal to or lower than those charged to manufacturers' "most favored" nonfederal purchasers
- Purchasing pools:
  - Increasing purchasing power through higher volume and shared expertise
  - Using, for example, Department of Defense and the VA, state employee and Medicaid pools, multi-state pools (Oregon's OPDP is a good example), and uninsured/low-income programs

- Consumers:
  - Requesting generics
  - Making Internet price comparisons
  - Using over-the-counter instead of prescription drugs
  - Using mail-order pharmacies
  - Using state drug assistance programs

### **Future Outlook**

- Projections show an expected national increase in drug spending from \$188.5 billion in 2004 to \$446.2 billion in 2015 (a 138 percent increase in 11 years).
- As a percent of overall health spending, projections show an increase from 10 percent in 2004 to 11 percent in 2015.
- Drug spending increases due to:
  - Greater prescription use by Medicare Part D enrollees
  - Increased availability of lower-cost generics (increased prescriptions)
  - More people covered by tiered copayment drug plans (increased prescriptions and more out-of-pocket expense)
  - More drugs shifting to over-the-counter status (increased drug usage at possibly higher than generic prescription cost)