

Benefits Insights

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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 2019, the United States is projected to spend over \$500 billion on prescription drugs, by some estimates—12 times more than the \$40.3 billion spent in 1990¹³. Although prescription drug spending has historically been a small proportion of national health care spending compared to hospital and physician services, it has grown rapidly in recent years.

In 2014, prescription drug spending in the United States increased by 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 arthritis². 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).

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 1999³ to 5 percent in 2007⁴ 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 concerns⁵.

Following years of decreasing rates, U.S. drug spending increased in 2012 by 3.8 percent⁶. Since then, it has risen over 30 percent¹³.

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 percent⁷.

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 programs⁷.

Reasons Behind Prescription Drug Trends

A multitude of factors led to changes in prescription drug costs, as outlined below.

Increasing Drug Prices

In 2017, traditional prescription drug spending decreased 0.3 percent¹⁴. Specialty medications account for a smaller portion of U.S. prescriptions, yet they commanded 40 percent of the pharmaceutical market in 2016 (\$180 billion)¹⁵. Specialty drug spending is projected to experience rapid growth over the next several years, due to pricing increases. These increases are often cited by insurers as reasons for raising premiums¹⁴.



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Types of Drugs Used

In 2016, specialty drugs comprised just under 2 percent of total prescription volume, but accounted for nearly 40 percent of prescription spending. Approximately 49 percent of the drugs that gained Food and Drug Administration (FDA) approval in 2014 were specialty drugs, pointing to a steady rise in usage. This trend is likely to continue as more specialty drugs enter the market.

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 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.

Using Other Payment Methods

Using generic drugs is a well-known way to save money on prescriptions without sacrificing quality, but a lesser-known option may be using cash to buy prescriptions—instead of using insurance. No longer bound by gag clauses as of 2018¹⁶, pharmacists can now say whether you'll save money by not using insurance and paying with cash instead.

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 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

The Centers for Medicare & Medicaid Services (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 expenditures¹¹.

Furthermore, the 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)¹². The 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 Insure NW today.

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