Pharmacy spending trends: what you should know

Pharmacy spending
To better understand what’s happening with rising medication costs in Massachusetts and the rest of the country, it’s essential to look at the trends in medication spending. Some key findings from “Prescription Drugs: Excessive Prices, Unsustainable Spending”, a special report released in May, 2016 by America’s Health Insurance Plans (AHIP) help illustrate the rising trend in medication spending.

Data from the Massachusetts Health Policy Commission’s 2015 Cost Trends Report shows that pharmacy spending accounted for 13.5% of total health care expenditures (THCE) in 2014. And while all other health care spending increased by 4.8% between 2013 and 2014, pharmacy spending increased by 13% after years of relatively low growth.
A few of the factors driving the increase in medication spending:

1. The national nature of medication pricing
   - The pricing source for Average Wholesale Price (AWP) is set by the pharmaceutical companies with little transparency. Fallon and our pharmacy benefits manager (PBM), CVS/Caremark, negotiate discounts from this AWP level and seek other areas of inflation protection.

2. Similar payer distribution for prescription medications
   - Massachusetts’ payer distribution for prescription medications is similar to the national averages (see breakout below)

### Key contributors to medication spending growth in MA – 2014

- **Non-HIV antiviral medications**: + $339 million
- **Antiarthritis, systemic**: + $110 million
- **Oncology**: + $76 million
- **Insulin**: + $71 million
- **Neurological disorders/other**: + $68 million

Source: Data from IMS Health Incorporated.
Three key reasons increases in medication spending will continue over next decade

National Health Expenditures estimates spending growth for medications in the U.S. will reach high single digits each year for the next decade. The top three reasons:

1. Medication pricing
As noted on the previous page, Sofosbuvir and other new HCV medications have high prices like orphan medications (see sidebar), but unlike orphan medications, they have a much wider market. It is likely that this pricing trend will continue in new medications.

2. Specialty medications
Specialty medications typically cost between $4,000 - $6,000 per month and up. By 2019, it is estimated that specialty medications will represent more than 50% of the total pharmacy spend.

3. Biologics
Biologics—medications made from live organisms, not chemical compounds—are projected to grow, especially within the specialty medication category. Because biologics are made from live organisms it is difficult to develop generic equivalents. Spending on biologics grew by 56% between 2010 and 2014 in Massachusetts.

Orphan medication basics
An orphan medication is developed specifically to treat an extremely rare medical condition, which is referred to as an orphan disease.

Because these medical conditions are so rare, pharmaceutical manufacturers are reluctant to develop them under normal marketing conditions, which is why Congress enacted the Orphan Drug Act to provide these manufacturers seven years of marketing exclusivity. There was a 22% increase in orphan medication designations awarded by the FDA in 2015 vs. 2014. A designation means the FDA has decided a medication qualifies for orphan status and takes place before a medication is approved. In all, 41 orphan medications were endorsed by the FDA in 2015:

<table>
<thead>
<tr>
<th>Requested</th>
<th>Designated</th>
<th>Endorsed</th>
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<tbody>
<tr>
<td>472</td>
<td>354</td>
<td>41</td>
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**Why you should care**
Currently, there are no regulations on prescription medication pricing in the U.S. and as pharmacy costs continue to rise, the pressure on insurers, employers and employees to effectively manage those costs for long-term sustainability will increase. Current efforts to control medication spending include:

- **Value-based benchmarks**—an objective third party quantifies the value of a medication, accounting for the medication’s expected clinical benefit, medical savings and price. The Institute for Clinical and Economic Review (ICER) calculates a value-based benchmark price for selected new medications and plans to evaluate 15 to 20 medications over the next two years.
- **Risk-based contracting**—payers contract with medication manufacturers to pay less, or more, depending on whether a particular medication produces the desired outcomes.
- **Group purchasing**—payers combine purchasing power so they can improve their leverage with medication manufacturers.

**Next steps**
Fallon Health has always been proactive in the fight against rising medication spending, using such practices as prior authorization, step therapy, quantity limits and others to help keep those costs down. For more information about all the factors contributing to rising pharmacy costs, what steps Fallon takes to alleviate those rising costs and what you, your clients and their employees can do, please see the complete series of our *Pharmacy: A Growing Concern* flyers.

This flyer is one in a series designed to help educate brokers and their clients about pharmacy costs and trends. To view the complete series, please visit [fallonhealth.org/brokers](http://fallonhealth.org/brokers).

*Data from the Massachusetts Health Policy Commission’s “2015 Cost Trends Report” was used for this document.*