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Pharmacy Spending Higher in 2014 than in Recent Years

According to a new report by IMS Institute for Healthcare Informatics, growth in spending on medicines was higher in 2014 than any year since 2001, and exceeded forecast overall healthcare spending growth for the first time since 2011. According to IMS, US healthcare system spending reached \$373.9 billion in 2014, up 13.1%, the highest level since 2001 when growth was 17.0%. Real per capita spending was \$995 in 2014 and has nearly tripled since 1995 when it was \$339, both measured in 2005 dollars. Diabetes spending increased 30.5% to \$32.2 billion in 2014, driven by innovation and partially offset by off-invoice discounts and rebates, resulting in net spending growth of 22.4%. The biggest driver of specialty spending growth, \$12.3 billion in spending on treatments for hepatitis C, caught many payers by surprise, forcing budget holders to weigh the cost and the value of new cures.

The impact of patient expiries has consistently slowed spending growth in the past five years, but the level in 2014 was the lowest in that period at only \$11.9 billion, compared to the peak amount in 2012 of \$29.3 billion. Generic spending increased \$9.5 billion in 2014, driven by increased spending on generic mental health, pain, and cancer medicines. Prices for branded products rose in 2014 at an average rate of 13.5% on an invoice basis, but were reduced to 7%-8%, taking into account off-invoice discounts and rebates which offset most of the increases. (Figure 1).

In the first full year of enrollment for expanded Medicaid and exchanges under the Affordable Care Act (ACA), patients with Medicaid in states that expanded eligibility filled prescriptions 25.4% more than the prior year, and 2.8% more in non-expansion states. Medicaid patients used dramatically more prescriptions, lifting overall prescription demand nationally, suggesting that new enrollees were sicker than previously enrolled patients. Nine percent of patients filling Medicaid prescriptions in 2014 and 24% of those with exchange plans may have been previously uninsured, representing a substantial shift in coverage. The relationship between office visits and prescription demand is substantially lagged and distorted, perhaps in recent periods by the large group of newly insured patients with substantial disease burdens entering the health system.

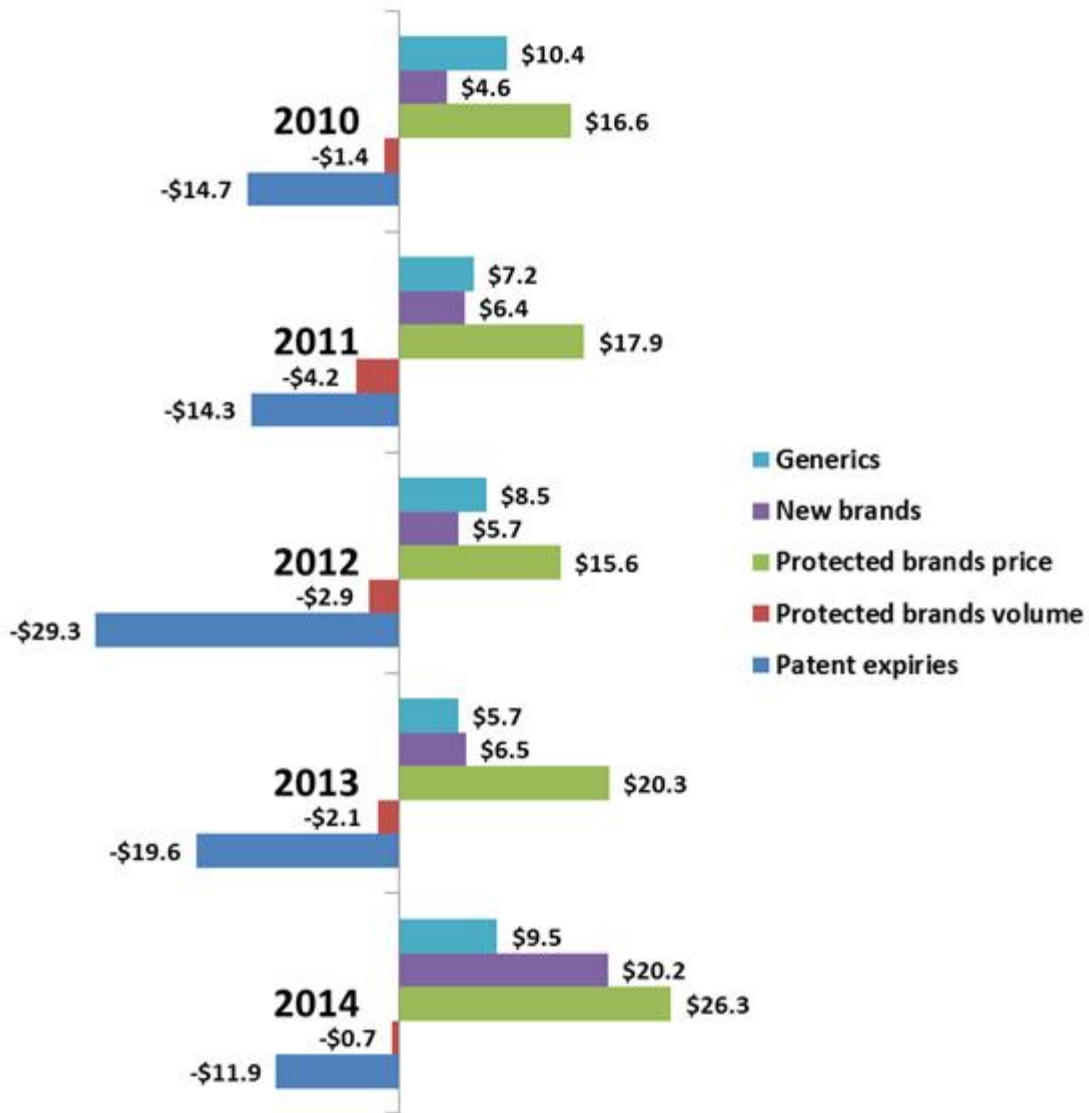
According to the report, early evidence suggests that networks are pursuing quite different protocols and while they may be highly rigorous in managing protocols within networks, care remains highly variable because of network to network differences which exceed the variability in care by doctors not aligned to any network. Integrated health systems have grown dramatically over the past decade and they now own or are affiliated with 80% of hospitals and nationally own or control 60% of group practices, have affiliations with 70% of doctors, and directly employ half of all doctors. Despite this growth, the U.S. health system remains highly fragmented with almost

75% of prescriptions written by providers not part of an integrated health system. The number of new medicines reaching patients has increased in the last few years and in 2014, 42 new active substances (NAS) were launched, up from 36 in 2013, and the most since 2001. Six of the nine NAS drugs receiving Breakthrough Therapy Designations were orphans, emphasizing a push toward making life-saving treatments quickly available to patients where treatment may not exist. Orphan drugs are increasingly focused on even smaller populations, with over 40% of orphans launched in the last two years treating fewer than 10,000 patients.

The unprecedented \$20.2 billion increase in spending on new brands contributed 6.1% points to overall 13.1% growth in 2014. Clusters of new medicines in hepatitis C, multiple sclerosis, and oncology each brought major efficacy, tolerability, or convenience benefits. The number of patients seeking treatment for hepatitis C jumped nearly tenfold in 2014, from 17,000 to 161,000, owing to new treatments with cure rates over 90% and dramatically fewer side effects. Oncologics led all classes in spending in 2014 with \$32.3 billion in spending, or \$43.4 billion including supportive care treatments. The drug research and development pipeline has shifted to specialty medicines over the past decade and 42% of the late stage pipeline is now specialty, up from 33% 10 years ago.

Perhaps the most anticipated innovations were generic versions of biologic drugs, called biosimilars because exact copies are not possible, which began to be filed for review in 2014 and approvals began in 2015.

Figure 1. Spending growth drivers for medicines in the US, in billions, 2010-2014



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