THE REALITY OF PRESCRIPTION DRUG SPENDING IN MEDICAID

Recent rhetoric on spending in state Medicaid programs often overstates the cost impact of prescription medicines and ignores the competitive biopharmaceutical market that exists in the U.S., which can generate significant savings for Medicaid programs.

Prescription medicines account for just 4-5 percent of total Medicaid spending and this share is projected to remain stable through the next decade, even as important advances, such as those made against hepatitis C continue. That’s because competition among brand-name medicines and aggressive tactics by insurers to negotiate prices all help to keep costs under control.

This is why we have seen state Medicaid programs negotiate steep discounts, on top of the statutorily mandated 23.1 percent rebate, that have further reduced the cost of hepatitis C treatment by 40-65 percent.

Discussions on spending on medicines in Medicaid programs need to include the following facts:

**Prescription medicines represent a small share of Medicaid spending and are not a main driver of Medicaid spending growth.**

Prescription medicines account for just 4-5 percent of total Medicaid spending. The most recent National Health Expenditure estimates project that between 2014 and 2023 prescription medicines will account for just 5.1 percent of Medicaid spending growth. This is critical to keep in mind as Medicaid spending on hospitals over the next decade is projected to total $140.2 billion, more than three times total spending on prescription medicines. Over this same period, nursing home and home health care are projected to grow by a combined $65 billion, underscoring the vital need for new medicines that can help people stay healthier longer as our nation ages.

**Medicaid costs for the newest hepatitis C medicines have been greatly overstated.**

Claims that state spending for new hepatitis C medicines could exceed $55 billion are wildly exaggerated. Medicaid covered an estimated 50,394 prescriptions for sofosbuvir in 2014, which represents 3.2 percent of Medicaid prescription drug spending (net of Medicaid rebates) and less than a quarter a percent of annual Medicaid costs. And some spending on the new generation of medicines is replacing prior spending on older drugs and health services previously used to treat hepatitis C and its effects. For example, in 2012 Medicaid spent approximately $443 million on the first generation of direct acting medicines for hepatitis C.

**Reported discounts for hepatitis C treatments demonstrate the significant savings that are provided by market competition.**

Discussions on spending on medicines too often focus solely on the list price and ignore publicly reported discounts. Jeff Myers, chief executive of Medicaid Health Plans of America, recently characterized the increased competition as positive noting that “market forces are beginning to take hold.” Leveraging increased competition in the hepatitis C market, state Medicaid programs are negotiating deep discounts with manufacturers, on top of statutorily mandated rebates, that reduce the cost of treatment by 40-65 percent.

**New and forthcoming hepatitis C treatments represent a remarkable advance against a very serious disease.**

The newest hepatitis C treatments have a cure rate of more than 90 percent against a disease that kills more patients than HIV/AIDS, is the leading cause of liver transplants and is the primary driver of the increase in liver cancer. Individuals with hepatitis C have a complex disease requiring advanced medical care. The cost of treating commercially insured patients with hepatitis C averages 5.5 times the cost of commercially insured patients overall. Hospitalization costs alone for hepatitis C patients with...
advanced liver disease increased 44 percent between 2004-5 and 2010-11 – averaging nearly $35 billion in the 2011. Without these treatments, annual medical costs to treat patients with hepatitis C have been projected to nearly triple, from $30 billion to $85 billion over the coming decades, because of increased hospitalizations and more patients suffering with advanced liver disease.

**Medicaid agencies and patients need a system that supports and encourages innovation and development of new treatments for Alzheimer’s and other costly conditions.**

We need a robust innovation ecosystem that permits the ability to recoup investment not just for the few medicines that successfully make it to market, but also for the many others that don’t. The research and development process is challenging and characterized by many failures, for example:

- Research in Alzheimer’s disease has resulted in 123 unsuccessful drug candidates and just 4 new drug approvals between 1998 and 2014.
- In melanoma, there have been 7 new approvals since 1998, but 96 unsuccessful drug candidates.
- In lung cancer, there have been 10 new approvals since 1998, but 167 unsuccessful drug candidates.
- In brain cancer, there have been 3 new approvals since 1998, but 75 unsuccessful drug candidates.