Key Facts About Prescription Medicine Costs

Government and independent data show that spending on prescription medicines has grown at historically low rates for several consecutive years. Future spending growth is expected to remain low and government agencies have repeatedly lowered their cost projections. For example, the Congressional Budget Office (CBO) has reduced its 10-year forecast of Part D spending by over $100 billion in each of the past two years.

- IMS Health reports that for the past five years, spending for prescription medicines has grown at an average of just 3.3% annually. When economy-wide inflation and population growth are taken into account, per person spending for prescription medicines increased by just 0.5% in 2011.  

- Spending on brand medicines alone grew even slower, declining by nearly 1% in 2010 and increasing about 2% in 2011. This compares to an overall prescription drug cost growth of 3.7%. The difference is that generics now account for an increasing share of prescription drug spending growth.

- IMS reports that 80% of all prescriptions filled in 2011 were filled with generics, up from 63% five years earlier.

- IMS projects that future growth in prescription drug spending will remain at historically low levels, averaging 1% to 4% per year between 2012 and 2016.

- The most recent data from the CMS Office of the Actuary (OACT) also show slow rates of prescription drug spending growth. OACT reports that retail prescription drug spending grew by 1.2% in 2010, less than half the 4% growth for overall health spending. Three of the five lowest growth rates for medicines in the 50 years that OACT has reported data have occurred since 2006.

- The most recent OACT data show that retail medicines (combining brand and generic) represented 3% of the growth in total health care spending in 2010. All other health services accounted for 97% of cost growth.

- Many brand medicines are going generic in the next few years. IMS reports $65 billion in sales of medicines developed by innovator companies went off-patent between 2007 and 2011 and projects an additional $103 billion of U.S brand sales will lose patent protection between 2012 and 2016.

- An IMS Institute report shows that the average daily cost of therapy for medicines in the top ten therapeutic classes at the start of the Part D program declined by a third between January 2006 and December 2010, from $1.50 to $1.00, and is projected to drop to $0.65 by the end of 2015. These savings are part of the prescription medicine lifecycle, which begins when innovator biopharmaceutical companies produce medical advances through pioneering scientific work and large-scale investments, leading over time to generic copies that patients use at low cost for many years. Without the development of new medicines by innovator companies, neither the new treatments essential to progress against disease nor generic copies would exist.
In 2004, CBO estimated that Part D would cost $771 billion over 10 years. By 2011, CBO had reduced its estimate for this period by 41%. Likewise, in 2011 CBO lowered its Part D spending projection for 2012-2021 by about $120 billion and reduced it again for 2013-2022 by another $107 billion.

Analysis by an independent Medicare advisory commission shows that Part D prices grew 1% between 2006 and 2010, reflecting the mix of brand and generic medicines actually used by patients. Similarly, trends in average sales prices for Medicare Part B drugs have remained flat since 2006, and below the rate of medical inflation.

Better use of medicines can result in health care savings from reductions in other medical spending. In one study, adherent patients with congestive heart failure, high blood pressure, diabetes, and high cholesterol had significantly fewer ER visits and inpatient hospital days, generating cost savings of $1,200-$7,800 per patient per year. For these 4 conditions, every additional dollar spent on medicines generated $3 to $10 dollars in savings on other medical care. CBO recently announced plans to incorporate the offsetting savings associated with prescription drug use in budget estimates of policies affecting Medicare.

Likewise, Harvard research shows savings in hospital and skilled nursing facility costs of about $1,200 per newly insured Part D beneficiary in 2007. This equals overall Medicare savings of $13.4 billion, or more than one quarter of Part D’s total cost during the first full year of the program.

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2 Ibid.
3 Ibid.
4 Ibid.
5 Ibid.
9 PhRMA analysis of “National Health Expenditures by Type of Service and Source of Funds,” op cit.
18 M.C. Roebuck et al. “Medical Adherence Leads to Lower Health Care Use And Costs Despite Increased Drug Spending.” Health Affairs, January 2011.
22 2008 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, page 112, Table III.C17.