Prescription Medicines: Costs in Context

2022
We are in a New Era of Medicine Where Breakthrough Science is Transforming Patient Care

60 new medicines were approved by the FDA in 2021.

Cancer Treatments
Cancer mortality rates continue to decline amid ‘major progress’ in lung cancer early detection and treatment

Game Changer
Newly approved drug being called ‘game changer’ for people who suffer from hemophilia

Coronavirus Treatments
FDA authorizes new Covid antibody drug to fight omicron variant

Spending on Medicines Is a Small and Stable Share of Total Health Care Spending

Prescription medicines account for just 14% of total health care spending.

In 2021, per capita spending on medicines* declined by 1%.


Projected US Health Care Expenditures Attributable to Retail and Nonretail Prescription Medicines, 2021-2028

Note: Nonretail prescription medicines are those purchased through physicians’ offices, clinics and hospitals and are typically administered to the patient by the provider. Retail prescription medicines are those filled at retail pharmacies or through mail service.
A New Era of Medicine is Not Expected to Impact the Share of Total Health Care Spending on Medicines

Projected Spending on Prescription Medicines, Total Health Care, and Anticipated Cell & Gene Therapies ($B), 2021-2025

Net Prices for Brand Medicines Have Stayed Nearly Flat For The Past Five Years

Average Net Price Growth for Brand Medicines, 2017-2021

2017: 2.1%
2018: 0.3%
2019: 1.7%
2020: -2.9%
2021: 1.0%

On average, a brand medicine’s net price is 49% lower than its list price.

Source: IQVIA, 2022.
Unlike Other Aspects of the Health Care System, Medicine Costs Decrease Over Time

The price of medicines used to prevent cardiovascular disease decreased…

...while the cost of the surgical procedure to treat it increased over a decade.

Source: IQVIA analysis for PhRMA, June 2020.; AHRQ HCUP, July 2020.
Generic and biosimilar medicines drive significant savings in the health care system.

91% of All Drugs Dispensed in the United States are Generics

Looking Ahead, Biosimilar Savings Projected to Grow 5x

Nearly $2.4 trillion
10-year savings from use of generic and biosimilars (2011 - 2020)

Sources: Drug Channels, AAM, IQVIA.
The Influence Pharmacy Benefit Managers (PBMs) Have Over Patient Access and Affordability Continues to Grow

Negotiating power is increasingly concentrated among a small number of PBMs.

Insurers & PBMs determine:

**IF MEDICINE IS COVERED**
on the formulary

**PATIENT OUT-OF-POCKET COST**
based on tier placement

**ACCESS BARRIERS**
like prior authorization or fail first

**PROVIDER INCENTIVES**
through preferred treatment guidelines and pathways

Source: Drug Channels Institute, March 2022.
The Majority of Brand Medicines Face Generic and Brand Competition

More than 99% of Part D spending in 2019 was for medicines with competition

- Generics, and brands that have generic versions: 29%
- Brands without their own generic but in classes that include generics: 63%
- Brands in classes with competing brands (but no generics): 8%
- Brand medicines alone in their class: <0.001%

Class analysis is based on USP classification system. Part D plans are generally required to cover two medicines per USP class, and CMS uses USP to review Part D plan formularies to ensure plans meet formulary standards. Source: Avalere, 2022.
More than Half of Every Dollar Spent on Brand Medicines Goes to Entities Who Did Not Develop Them

Percent of Total Spending on Brand Medicines Received by Manufacturers and Other Entities, 2020

- 50.5% Other Entity Received
- 49.5% Brand Manufacturer

Source: Berkley Research Group, 2022.
Insurers, PBMs And Others Receive An Increasing Share Of Total Spending On Brand Medicines

<table>
<thead>
<tr>
<th>Total Brand Medicine Spending ($B)</th>
<th>Total Brand Medicine Spending Received by Payers ($B)</th>
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<tbody>
<tr>
<td>2013-2020</td>
<td></td>
</tr>
<tr>
<td>2013: 66.8%</td>
<td>2013: $50.3</td>
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<tr>
<td>2014: 64.9%</td>
<td>2014: $50.3</td>
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<tr>
<td>2015: 62.5%</td>
<td>2015: $50.3</td>
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<tr>
<td>2016: 58.3%</td>
<td>2016: $50.3</td>
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<td>2017: 54.0%</td>
<td>2017: $50.3</td>
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<tr>
<td>2018: 51.5%</td>
<td>2018: $50.3</td>
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<tr>
<td>2019: 50.9%</td>
<td>2019: $50.3</td>
</tr>
<tr>
<td>2020: 50.5%</td>
<td>2020: $141.1</td>
</tr>
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<td>180% increase</td>
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</tbody>
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Source: Berkley Research Group, 2022.

Payers include health plans, PBMs, federal and state governments, and employers.
Middlemen are Shifting Costs to Patients Through Coinsurance and Deductibles

In 2021, rebates, discounts and other payments made by brand manufacturers reached $236B, but insurers and PBMs do not always share these savings directly with patients.

Half of commercially insured patients’ out-of-pocket spending for brand medicines is based on the full list price

Patients Face Higher Out-of-Pocket Costs at the Pharmacy Counter than Other Parts of the Health Care System

Total hospital spending is much higher than total prescription drug spending

$1,270B
$348B

Total U.S. Spending

Hospital Care  Retail Prescription Drugs

Yet, total patient spending on medicines is more than on hospital care

$33B  $47B

Total Patient Out-of-Pocket Spending

Hospital Care  Retail Prescription Drugs

Hospitals Account for 1/3 of All U.S. Health Care Spending and Contribute to Patient Costs by Marking Up Medicines

Hospitals that mark up the cost of medicines can make more from administering a medicine than the pharmaceutical company that manufactured it.

- **250%**
  The average amount hospitals mark up the cost of medicines for patients with commercial insurance

- **3x more**
  The amount 340B hospitals receive for administering medicines to commercially insured patients is 3x more than what they paid to acquire the medicines

- **634%**
  Amount some hospitals mark up the cost of oncology medicines

Source: STAT, 2021.
Brand Medicine Spending Retained by Hospitals and Other Providers From the 340B Program Grew 12x Since 2013

Source: Berkeley Research Group.
More Medicines are Available to U.S. Patients as Compared with Other Countries that Set Prices Artificially Low

The 5-year survival rate for all cancers is 42% higher for men and 15% higher for women in the U.S. than in Europe.

Number of New Medicines Available by Country, 2011-2020

- United States: 86%
- Germany: 64%
- United Kingdom: 60%
- Japan: 52%
- France: 48%
- Canada: 47%
- Australia: 38%

Source: PhRMA analysis of IQVIAAnalytics Link and U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) and Japan’s Pharmaceuticals and Medical Devices Agency (PMDA) data. April 2021. Note: New active substances approved by FDA, EMA and/or PMDA and first launched in any country between January 1, 2011, and December 31, 2020. Many launched medicines are subject to additional government coverage restrictions.
PhRMA Created the Medicine Assistance Tool, or MAT, To Help Patients Navigate Medicine Affordability

MAT makes it easier for those struggling to afford their medicines to find and learn more about various programs that can make prescription medicines more affordable.

The Medicine Assistance Tool Includes:

- A search engine to connect patients with **900+** assistance programs offered by biopharmaceutical companies, including some free or nearly free options
- Resources to help patients navigate their insurance coverage
- Links to biopharmaceutical company websites where information about the cost of a prescription medicine is available
Common-sense, Patient-centered Reforms to Make Medicines More Affordable

- Making sure patients share in the savings our industry provides
- Capping what seniors pay out of pocket for medicines
- Addressing insurance practices that restrict access to care
- Strengthening safety-net programs to ensure they deliver the support vulnerable patients need

Learn more at phrma.org/betterway