

THE REALITY OF PRESCRIPTION DRUG SPENDING IN MEDICAID

The share of spending growth attributable to prescription medicines in Medicaid is often miscategorized and also ignores the significant offsetting savings medicines generate for the overall health care system.

Prescription medicines account for a far smaller share of total Medicaid spending than hospital and long-term care 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. 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 to 65 percent.

Discussions on medicine spending 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.

On average, prescription medicines account for less than 10 percent of total Medicaid spending across all states. The most recent National Health Expenditure estimates project that between 2015 and 2025 prescription medicines will account for just 6.7 percent of Medicaid spending growth. This is critical to keep in mind as Medicaid spending on hospitals over the next decade (2015 – 2025) is projected to total \$2.8 trillion, more than five times total spending on prescription medicines. Over this same period, nursing home and home health care are projected to grow by a combined \$1.1 trillion, underscoring the vital need for new medicines that can help people stay healthier longer as our nation ages.

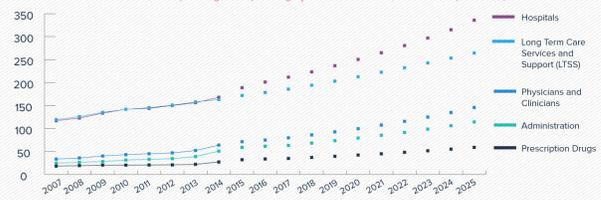
Drivers of Medicaid costs need to be addressed holistically.

States should consider interventions to

Prescription Drugs Projected to Be a Small Share of Medicaid Spending Through 2025

In 2014, Medicaid retail drug spending, including brands and generics, was \$27.3 billion, while total Medicaid spending was \$495.8 billion.

Total Medicaid Spending and Spending by Selected Service, 2007-2025 (in Billions)*



better manage chronic disease to avoid preventable and costly hospitalizations. For example, research has shown that improved medication adherence among patients with mental health conditions can reduce hospitalizations by up to 40 percent.¹ We also need solutions that maintain incentives for medical advances to address unmet needs, such as Alzheimer’s disease. Medicaid agencies currently spend 23 percent of their budgets on fee-for-service long-term care. A new medicine that delays the onset of Alzheimer’s disease by five years could reduce Medicaid spending by \$77 billion by 2050.

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

Spending on new, curative hepatitis C medicines represented a small proportion for overall Medicaid spending in 2015. Medicaid spending on the three most commonly prescribed new generation hepatitis C treatments represented less than 3.5 percent of national Medicaid drug spending (net of rebates) and less than 0.2 percent of total annual Medicaid spending.

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 up to 65 percent.

Improving Use of Medicines Can Reduce Hospital Costs

Improved medication adherence for patients with chronic disease is associated with reductions in inpatient hospitalizations of up to 40%.

Reductions in Inpatient Hospitalizations for Adults in Medicaid with Selected Conditions*



*Additional five conditions studied but listed here include: congestive heart failure, hypertension, asthma & chronic obstructive pulmonary disease, seizure disorders, gastroesophageal reflux disease. Range for reductions in hospitalizations, inclusive of all 9 conditions studied.

Source: Roebuck, C. Dougherty, S.

¹ Roebuck, C, Dougherty, S. “Impact of Medication Adherence on Hospitalization in Medicaid.” Poster Presentation at ISPOR 21st Annual International Meeting, Washington, DC. May 23, 2016.