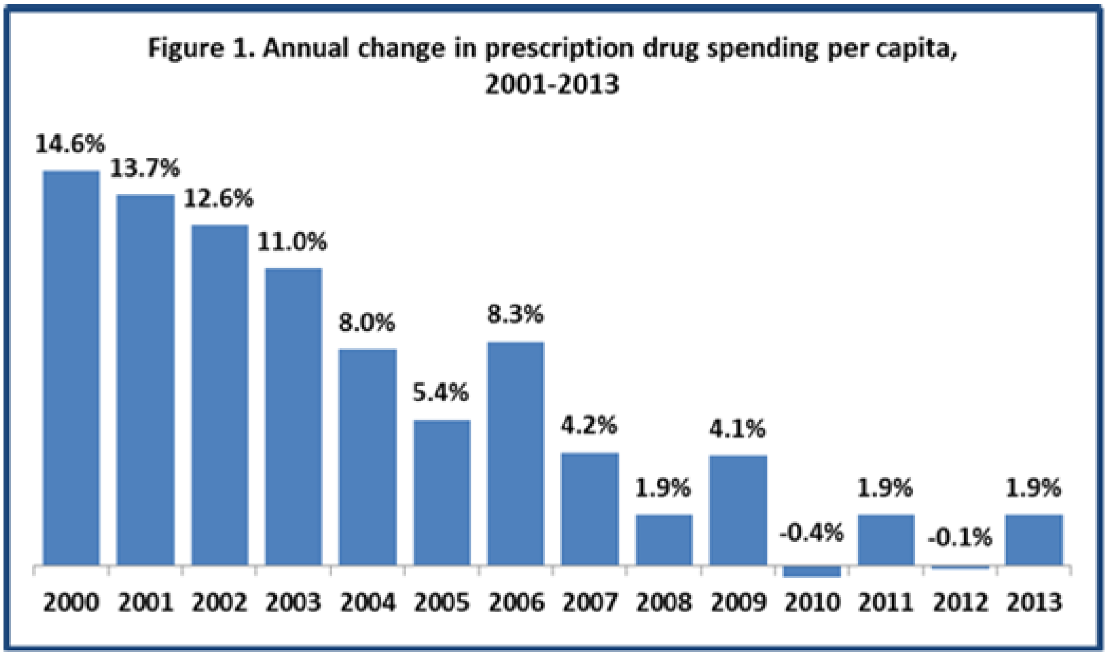
Recent Trends in Pharmacy Plan Management

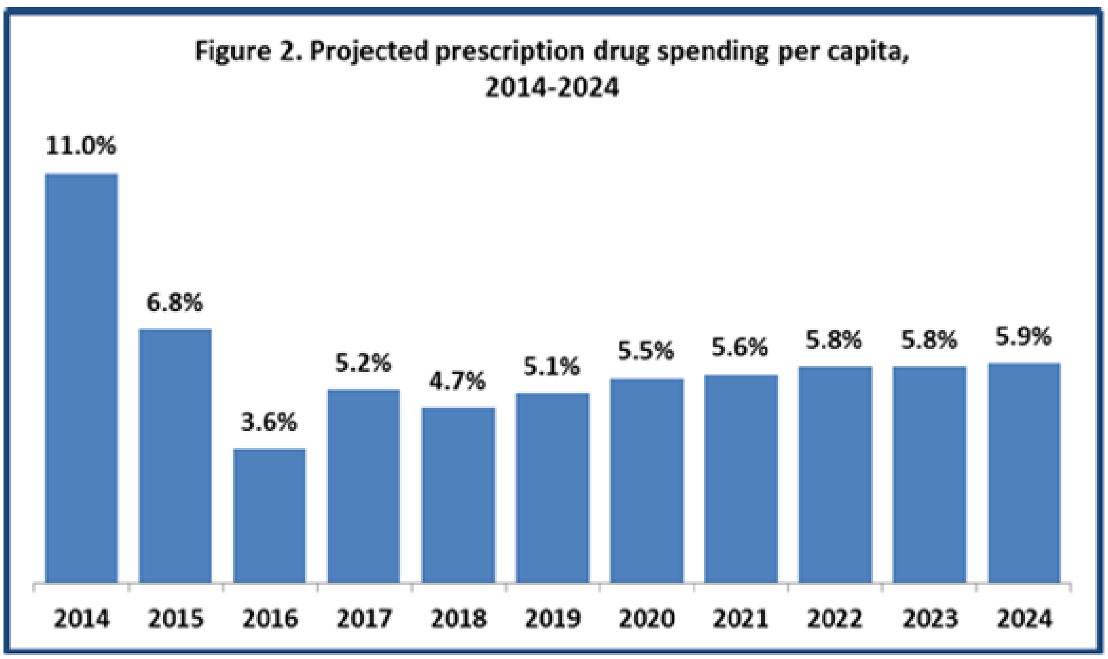
According to a recent pharmacy cost analysis from the Kaiser Family Foundation, per capita prescription drugs costs are estimated to have increased by more than 11.6% in 2014 and are projected to increase by at least 6.8% in 2015. As reported in their recent survey, the surge in spending is largely the result of high prices for new brand name drugs and price increases for some existing brand drugs. The Centers for Medicare and Medicaid Services (CMS) actuaries project per capita drug spending to increase faster over the next 10 years, between 4% and 6% annually, than in the recent period prior to 2014. As many employers and plan sponsors know full well, pharmacy spending has continued to spike at an alarming rate and management techniques to address these issues are at the top of planning agendas.

Below are some important highlights from the latest Kaiser survey:

- Per capita spending on prescription drugs grew in the low single digits, even dropping below zero in 2010 and 2012 (Figure 1). This was largely due to a number of drugs going off patent, and the recession likely had some effect on utilization as well. Low pharmaceutical growth was a main contributor to the overall slowdown in health spending growth during this period.
- This low growth in drug costs came to an abrupt halt in 2014, when pharmaceutical spending is estimated to have grown by 11.6% on a per capita basis – the highest annual growth in more than a decade. Consumers are likely to have picked up some of these additional costs: while out-of-pocket spending on doctor visits and hospital stays declined in 2014, consumer spending on retail drugs increased.
- Driving this spike in drug spending in 2014 was a combination of the introduction of new brand name drugs and higher prices for existing brands. Many of these new brand drugs are so-called specialty drugs, meaning they are used to treat complex and chronic conditions like cancer, rheumatoid arthritis, and multiple sclerosis. These drugs often have high prices and have been an increasing focus of drug company research and development. Additionally, patent expires did not exert as much downward pressure on drug spending in 2014 as in previous years.
- CMS and other industry metrics all point to the fact that pharmaceutical spending growth will continue to increase in 2016 and beyond.
- It appears that some insurers were caught off guard by the costs of some new-to-market drugs in 2014 and 2015 and are citing drug costs as one reason for the need to increase premiums in 2016.

Something else to look for in coming years will be how insurers build new, high-cost drugs into their plan formularies. On one hand, higher out-of-pocket exposure may help contain societal spending on drugs, but on the other, the high-cost drugs may offer better long-term value than standard treatments.





By all accounts, prescription drug spending will continue to consume more of the healthcare and benefit dollar in the coming years. This underscores the need for aggressive pharmacy plan management and the installation of contemporary techniques to manage cost and quality.

Please contact your Conner Strong & Buckelew account representative toll free at 1-877-861-3220 with any questions.

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