

2006 Prescription Drug Trend Report

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According to the 2006 *TrendsRx Report* published by Caremark, a leading pharmaceutical services company, the growth of prescription drug spending has moderated in recent years. In 2005, prescription drug trend was lower than rates of annual growth for the previous six years. At the same time, general healthcare costs growth has also slowed. Nonetheless, both of these health care expenses continue to outpace the rate of inflation and analysts are anticipating ongoing growth of national healthcare expenditures at 7% or more each year for the next decade until healthcare costs eventually claim 20% of our gross domestic product in 2015.

National health expenditures are expected to increase primarily as a result of the money source, specifically from increased public spending. With the implementation of Medicare's new Part D prescription benefit, the growth rate of public spending for personal healthcare is expected to increase to 11.8% and private spending is expected to decline to 3.9%. After 2006, both spending rates are expected to return to the normal range of about 6-7%.

Along with the higher than expected discounts and rebates from pharmaceutical companies, several other factors have contributed to slowing the growth of prescription drug cost: (i) key name brand drugs representing \$18 billion in sales are facing generic competition for the first time; (ii) analysts predict an increase of over 12% in generic drug sales this year; (iii) the increased use of lower-priced generic drugs represents significant savings opportunities for plans this year and for many years to come; (iv) the availability and increased use of over-the-counter medications; and (v) greater utilization of mail service dispensing which is generally cheaper than retail.

Despite these changes, rising healthcare costs continue to have a substantial impact on businesses and consumers. Both employer and employee costs have risen over 60% since 2000, and a recent Kaiser Family Foundation survey found that 60% of U.S. businesses offered health insurance to workers in 2005, compared with 69% in 2000. This is consistent with a United States Government Accountability Office ("GAO") report that found that rising benefit costs are forcing employers and their employees to make increasingly difficult decisions regarding wages and benefits. In fact, for many years, employer spending on benefits has grown faster than wages, due largely to rising costs for health insurance and retirement benefits. This cause and effect relationship has resulted in reduced benefits and an increase in the uninsured population which now exceeds 46 million Americans.

Consumerism and consumer directed health plans have been identified as utilization techniques for cost saving. The theory of consumerism is that increasing consumer cost awareness and accountability will encourage consumers to make wiser and more economical health decisions. The leading avenue toward consumerism is the implementation of high deductible health plans ("HDHPs") and tax-free health savings

accounts (“HSAs”). While the number of such plans has increased, they only cover a small percent of lives, which means that resulting behavior changes will be difficult to track for some time.

The success of consumerism will depend primarily on the efforts of health plans to educate plan participants, however, participants must be able to evaluate the quality of care being provided and the risks and advantages of receiving that care. For participants to accurately evaluate their care, information reporting on clinical practices and evaluating outcomes according to accepted measures must be available. Increasing the use of electronic medical records and health information technology are gaining support as a means to provide this information. These systems are also expected to reduce costs, improve quality and lower the occurrence of medical errors.

An additional cost savings method is Disease Management. Disease Management is the process of identifying plan participants with higher risk and selected disease states such as asthma, coronary artery disease, and diabetes. Significant cost savings and improvements in clinical measures have been recognized following the implementation of this program by large employers.

What does the future have in store? While no one can absolutely predict what will happen with healthcare costs, analysts have cited that the factors causing the slowdown in prescription drug spending will only offset future expected increases and lead to a steady growth in the range of 8.0-8.4% from 2007 to 2015. America is spending more on healthcare largely because of its increased use of healthcare. Changes in the population show that increased disease prevalence related to aging and obesity and the treatment of chronic illnesses are dominating healthcare spending.

While there are no definitive solutions, actions are being taken to reduce costs and improve quality. Medicare Part D was a significant overhaul in the U.S. healthcare system. Other new solutions such as consumerism and health information technology, also offer promising future results. We must recognize that while improvements have been made, large issues remain and more changes lie ahead.