Why are prescription drug costs rising?

How can your plan get the most out of its pharmacy benefit dollars?

Use National CooperativeRx’s proven methods to lower your drug spend costs.

Why Do Pharmacy Benefit Costs Continue to Rise?

Aging Population. People are living longer, and those over age 65 cost three times more than those under age 65.¹

Poor Personal Health Care Choices. The United States spends the most on health care, but ranks last in health status compared to other nations, which adds towards drug costs.²

- **Obesity (35.7% of adults):** With obesity-related conditions ranked as the second leading cause of preventable death in the U.S., it is no surprise that obese people spend 42 percent more on health care than people with a normal body weight.³
- **Excessive alcohol consumption (18% of adults):** The Centers for Disease Control and Prevention estimates that 88,000 Americans die of binge drinking each year and the cost adds up to approximately $249 billion.
- **Tobacco use (17.8% of Americans):** Smoking is the leading cause of preventable death in the U.S. The total cost of smoking adds up to over 480,000 deaths and more than $300 billion annually.⁴

- **Medication nonadherence:** The Pharmaceutical Research and Manufacturers of America reports that up to 20 percent of those with chronic conditions are non-adherent to their medications, which includes not filling a prescription or taking less than the intended dose. These actions result in losses of $100 billion to $300 billion per year.

Price and Inflation

- Double-digit annual price increases are not uncommon for brand name drugs.
- While rebates used to represent 3 percent to 5 percent of drug spend, they now represent upwards of 15 percent to 20 percent of drug costs.
- The pricing of new drugs is often based on what the market will bear instead of value.
- Consumers may be making decisions that are in their best interest but not your plan’s.

Specialty Drugs. Drugs in this category are typically very expensive and require special handling and administration. The cost of specialty drugs has been rising at an astonishing rate due to various reasons.

- Specialty drugs are targeted to a specific patient population.
- There is a lack of lower-cost treatments available to these patients due to the complexity of their illness.
- A larger portion of the population is contracting diseases which are treated with specialty drugs.
- The Food and Drug Administration (FDA) is expected to approve an additional 200 specialty medications between 2017 and 2018.

Lobbying and Advertising. The Pharmaceuticals/Health Products industry spent $14 billion on lobbying, advertising and copay card programs just in 2016.⁵
Research and Development (R&D)
- The U.S. bears much of the world’s R&D costs.
- More therapies are now available for previously untreatable conditions, most of them being specialty drugs.
- Reformulations of existing drugs have been created for convenience (e.g. a once-a-day pill now available as a once-a-week pill, an injectable can now be taken as an oral supplement, etc.).

How Can Your Organization Contain Drug Plan Costs?

Partner with an advocate you can trust.

Pharmacy Benefit Manager (PBM) Contract
Controlling PBM profits starts and ends with a stable contract. Make sure your definitions are solid, you have access to your data and your pricing terms are best-in-class. Remember, rebates make up 15 percent to 20 percent of total spend, on average.

Cost-Share Management
A sound plan design is key to drive favorable performance and outcomes. Coinsurance or similar cost-sharing strategies may encourage lower-cost options.

Watchdog
With a complex distribution and reimbursement system, the pharmaceutical industry is fraught with opportunities for abuse. Make sure someone you trust is watching over your plan and the entire industry, keeping your best interest in mind.

Formulary Management
Formulary management helps guide participants and health care providers to the most cost-effective therapies as determined by your PBM.

Utilization Management
Evidence-based guidelines help ensure participants get the correct drug at the correct time.

Network Management
By limiting access to fewer pharmacies, your PBM is able to negotiate better pricing on your behalf. You can also promote mail order, where your participants can have medications shipped to their home — often saving you and your participant money.

Legislative Action.
Action at the federal level would further help plan sponsors with high costs.
- Streamline generic approval process. The rising cost and complexity of filing a generic drug application with the FDA has prevented new drug competition from coming on the market. New and novel therapies get expedited review and this has resulted in a backlog of generic drug applications, due to the FDA’s limited resources.
- Ban “pay for delay.” The Federal Trade Commission estimates that lawsuits filed to extend exclusivity periods of drugs cost $3.5 billion annually.
- Stop Direct-to-Consumer (DTC) advertising. With the pharmaceutical industry spending $6 billion just in 2016, the U.S. is one of only two countries that allow DTC advertising of prescription drugs. Research proves it works, with patients requesting advertised brand name medications and doctors prescribing them at a higher cost to plan sponsors.
- Limit copay coupons. Although they can save individuals money, the pharmaceutical industry issues these coupons to undermine plan design and promote more expensive and often less effective medications.
- Biosimilar approvals. As defined by the FDA, biosimilar medications are highly similar, lower-cost alternatives that have a comparable effect to a biological product, but have allowable differences since they are made from living organisms. Policies to assist these drugs in coming on the market would go a long way in lowering costs for individuals and plan sponsors.