A team of experts from the Centers for Medicare & Medicaid Services (CMS) released new data in the early days of the new year, detailing the most recent national health spending data for 2007, based on Medicare and Medicaid data, the Census Bureau’s data, private health insurance filings with state commissioners, provider surveys, and many other sources. These new data from the National Health Expenditure Accounts show that the rate of increase in healthcare spending in the United States grew in 2007 at the lowest rate since 1998.

Although the total decline in growth of national health expenditures (NHE) in 2007 is rather small compared with the growth in 2006, a mere 0.6%—reflecting an increase of 6.1% in 2007 compared with 6.7% in 2006—the trend reversal can portend significant changes for some industry stakeholders, particularly those in the pharmaceutical industry.

The main reason for the spending growth slowdown, the CMS authors report, is the ever-increasing use of generic drugs in the past few years. According to IMS Health, the share of generic drug use among all prescription drugs dispensed in the United States reached a new height in 2007—at 67.3%. The previous rates of generic drug use were 63% in 2006 and 60% in 2005, signaling a clear trend of constant growth in demand for this type of medications.

However, the decline in spending in 2007 on pharmaceutical drugs overall is not duplicated in other sectors of the healthcare system; most of the national spending categories on healthcare did (as expected) increase in 2007, including out-of-pocket consumer spending (by 5.3% vs 3.3% in 2006), hospital spending (by 7.3% vs 6.9% in 2006), nursing home costs (by 4.8% vs 4.0% in 2006), and home healthcare services (by 11.3%). Of note, the private health insurance cost increase remained the same as in 2006 (at 6%, a much better rate than the 10.2% increase in 2002), as did physician and clinical services (by 6.5%, as in 2006).

Two other factors cited by the authors as contributing to the 2007 slowing in NHE were the decreased growth in prescription drug prices overall and the growing concerns of consumers about drug safety. Prescription drug prices rose by 1.4% overall in 2007, according to these new NHE data, compared with a 3.6% growth in 2006. And even this reduced growth in drug costs can be largely attributed to the increased use in generic drugs, which are said to cost, on average, 30% to 80% less than their branded counterparts, according to the Generic Pharmaceutical Association, a fact that is cited by the authors of the CMS report as one of the explanations for the overall reduction in drug expenditures.

Since it is widely accepted that prescription drug costs amount to only about 10% of all healthcare spending, the question arises whether this new trend of slowing spending on national healthcare can be maintained in the years to come, even with a continued increase of generic drug use.

Nevertheless, since it is widely accepted that prescription drug costs amount to only about 10% of all healthcare spending, the question arises whether this new trend of slowing spending on national healthcare can be maintained in the years to come, even with a continued increase of generic drug use, especially in light of the anticipated changes to the healthcare system that may be implemented by the new administration (which, even if not sweeping changes, may initially lead to increased costs). Such sentiment was, indeed, expressed by Richard S. Foster, FSA, chief actuary of CMS, in his comments about the newly released findings. “I wouldn’t expect the good news to continue,” said Dr Foster.
In addition to the increase in generic drug use, the authors of the report suggest that the loss of patent exclusivity of many “blockbuster” branded drugs in 2006 and 2007 “had a large impact on the 2007 prescription drug trend.”

Blockbuster prescription drugs losing patent exclusivity in 2006 and 2007, according to the authors, were:

- In 2006—Flonase, Pravachol, Zocor, and Zoloft
- In 2007—Norvasc, Ambien, Lotrel, Coreg, and Toprol-XL.

Finally, this report of NHE reductions in 2007 may indeed signal an emerging, if temporary, trend of cost reductions in healthcare spending as a result of drug cost reductions overall, as was also suggested by a report from the Pharmacy Benefit Management Institute (PBMI). A survey done by PBMI in 2008 revealed reductions in the average rate of increase of drug expenditures to employers in 2008. The growth rate of drug expenditures to employers in 2008 was 4.86%—the lowest cost increase to employers since 1995, according to PBMI.

References