

March 2003

PRESCRIPTION DRUG TRENDS

Overview

National attention is focused on prescription drugs because of concerns about the lack of insurance coverage for prescriptions -- especially among the elderly -- and rising costs. Spending for prescription drugs is one of the fastest growing components of health care. Rising prices, increasing prescription use (particularly among the elderly), and growing reliance on newer, higher-priced drugs have all contributed to spending growth. This Fact Sheet summarizes some of the key trends in the prescription drug industry as background to the current policy debates.

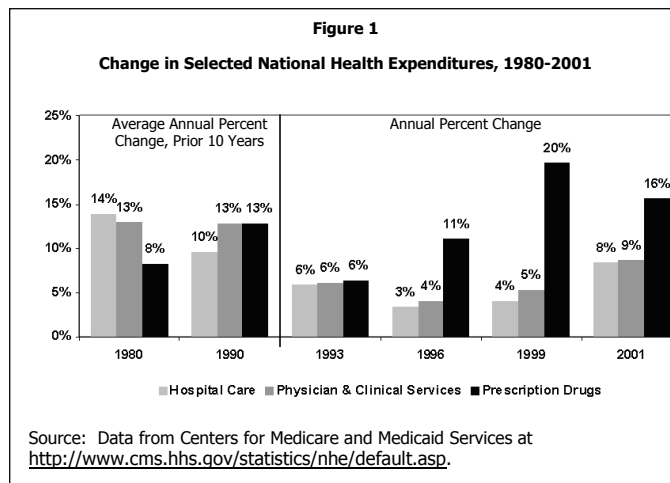
Insurance Coverage for Prescription Drugs

Almost a quarter (23%) of Americans under age 65 in 1996 (DHHS), and more than a third (38%) of Medicare beneficiaries in the Fall of 1999 (Laschober et al., *Health Affairs*, Feb. 2002), had no prescription drug coverage. Most nonelderly Americans without drug coverage have no health insurance at all. Seniors lack drug coverage because Medicare does not cover outpatient prescription drugs, and because they do not have or cannot afford a private policy that supplements Medicare with drug coverage.

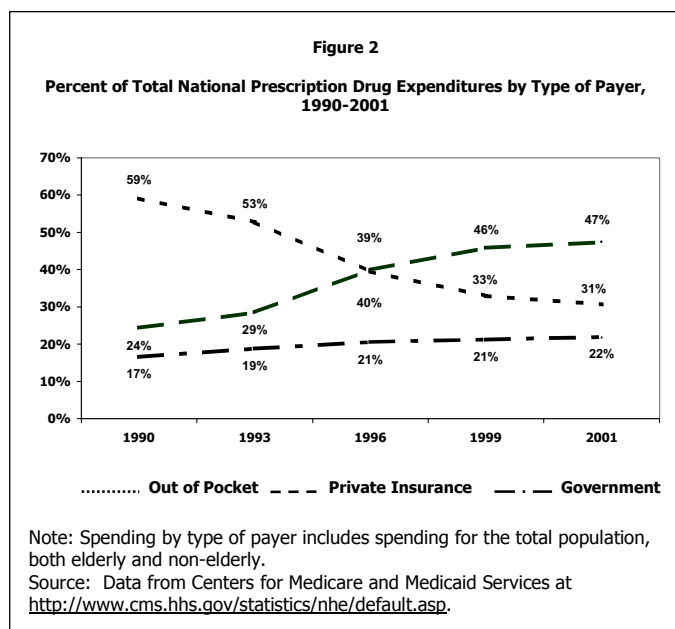
Lack of drug insurance can have adverse effects. Drug prices paid by those without drug insurance were on average about 15% higher than for those with insurance in 1996 (excluding rebates from drug manufacturers to health plans) (DHHS). A recent survey found that 27% of the uninsured said they needed a prescription drug but did not get it, compared to 10% of the insured (NPR/KFF/Kennedy School, May 2002). Medicare beneficiaries without drug coverage used fewer prescriptions compared to those with drug coverage (17 vs. 25 prescriptions) (Briesacher et al., 2002).

Rising Expenditures for Prescription Drugs

U.S. spending for prescription drugs was \$140.6 billion in 2001, more than tripling since 1990. Although prescription drug spending is a relatively small proportion (11%) of personal health care spending, it is one of the fastest growing components, increasing at double-digit rates in each of the past 7 years. National prescription spending increased 16% from 2000 to 2001, compared to a 9% increase for physician and clinical services and an 8% increase for hospital care (Figure 1).



The share of prescription drug expenses paid by private insurance increased substantially during the 1990s, contributing to a decline in the share that people pay themselves (Figure 2).

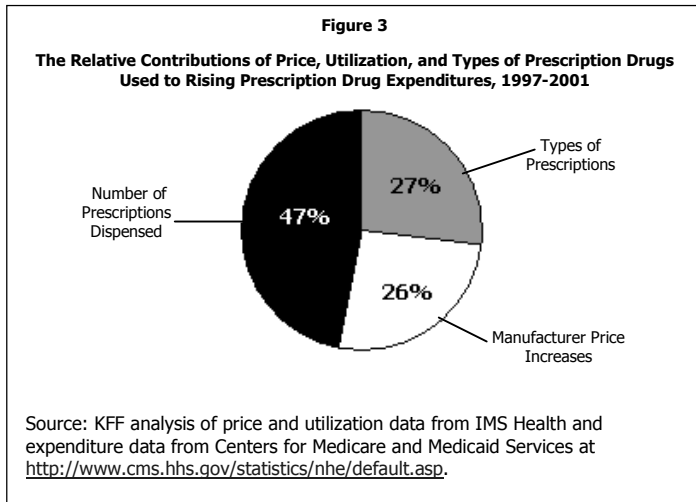


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Factors Driving Increases in Prescription Spending

Three main factors are driving the increases in prescription drug spending:

- *the increasing number of prescriptions* (utilization) was responsible for 47% of the overall increase in prescription spending from 1997-2001,
- *changes in the types of drugs used* (with newer, higher-priced drugs replacing older, less-expensive drugs) accounted for 27% of the increase, and
- *manufacturer price increases for existing drugs* accounted for 26% of the increase (Figure 3).



Among the key trends are:

- **Utilization.** From 1992 to 2001, the number of prescriptions purchased increased 68% (from 1.9 billion to 3.2 billion), compared to a U.S. population growth of 11%; the average number of prescriptions per person increased from 7.3 to 11.1 (IMS Health).
- **Price.** Retail prescription prices (which reflect both manufacturer price changes for existing drugs and changes in use to newer, higher-priced drugs) have increased an average of 7.7% a year since 1991 (IMS Health), more than double the average inflation rate of 2.7%. Manufacturer prices (which reflect only price increases for existing drugs) grew less rapidly, an average of 4.0% a year since 1991 (IMS Health).
- **Changes in Types of Drugs Used.** Most of the top selling prescriptions are newer, higher-priced brand name drugs, whose availability is affected by the research and development (R&D) activities of pharmaceutical manufacturers and government-supported research. Manufacturer R&D spending increased from \$10 billion in 1991 to \$30 billion in 2001, though R&D as a percent of sales (17% in 2001) has remained relatively flat since the mid-1980s (PhRMA). New drug use is also affected by the number of new drugs approved by the U.S. Food and

Drug Administration, typically about 30 a year over the past 10 years, but only 17 in 2002 (FDA).

Both prescription use and shifts to higher-priced drugs are affected by advertising. Manufacturers spent over \$19 billion for advertising in 2001, with \$16 billion directed toward physicians and other professionals (including \$10 billion for the retail value of drug samples; excluding \$2 billion for professional meetings and events, as reported by Scott -Levin), and \$3 billion directed toward consumers. Spending for direct-to-consumer advertising - typically to advertise newer, higher-priced drugs - was 7 times greater in 2001 than in 1995. Spending for television advertising (\$1.6 billion in 2000) was almost 30 times greater than in 1995 (IMS Health/Competitive Media Reporting).

Pharmaceutical manufacturers remain the nation's most profitable industry, with 2001 profits (return on revenues) of 19% compared to 3% for all Fortune 500 firms (*Fortune*, 4/15/2002).

Outlook for the Future

U.S. spending for prescription drugs is expected to continue to rise rapidly, reaching \$445.9 billion (17% of personal health care spending) by 2012. The introduction of newer, higher-priced drugs, combined with the substantial growth in advertising, will continue to put pressure on health purchasers and policymakers to address cost and affordability concerns, especially for elderly Medicare beneficiaries who lack prescription drug coverage.

Data Sources: (DHHS) from *Prescription Drug Coverage, Spending, Utilization, and Prices: Report to the President*, April 2000. (IMS Health) from: Kaiser Family Foundation, *Prescription Drug Trends—A Chartbook Update* (pre-2001 data); IMS 4/26/02 press release at www.imshealth.com (2001 manufacturer price increase); Industry Facts-at-a Glance, National Association of Chain Drug Stores, at www.nacds.org (2001 retail price); and "Business Watch, 2001 in Review" in *Medical Marketing & Media*, May 2002 (2001 increase in prescriptions dispensed). (PhRMA) from *Pharmaceutical Industry Profile*, various years, Pharmaceutical Research and Manufacturers of America at www.phrma.org/publications. (FDA) from Food and Drug Administration at www.fda.gov/cder. Scott-Levin from "Spending Hits a Wall" in *Pharmaceutical Executive*, Sept. 2002.

For More Information

This Fact Sheet (#3057-02) and the following reports are available on the Kaiser Family Foundation's web site at www.kff.org or by calling the Foundation's Publication Request Line at 1-800-656-4533: *Prescription Drug Trends—A Chartbook Update* (#3112), *Medicare and Prescription Drugs* (#1583-05), *Medicaid and Prescription Drugs* (#1609-02), *Federal Policies Affecting the Cost and Availability of New Pharmaceuticals* (#3254), *Employer Health Benefits, 2002* (#3251), *The Current State of Retiree Health Benefits*, (#6061). See also: State-Specific Prescription Drugs Costs and Spending at www.statehealthfacts.kff.org.