

PRESCRIPTION DRUG EXPENDITURES IN 2000:

The Upward Trend Continues

A report by

*The National Institute for Health Care Management
Research and Educational Foundation*



**NIHCM
FOUNDATION**

1225 19th Street, NW
Suite 710
Washington, DC 20036
TEL 202.296.4426
FAX 202.296.4319
WEB www.nihcm.org

CONTENTS

Summary of Key Findings	2
Introduction	3
Methodology	5
Findings — Sales Growth Remains Strong	6
Findings — The “Utilization” Driver	9
Findings — The Price Factor	10
Findings — The Market Share Issue	12
Credits	14
About the NIHCM Foundation	14
Detailed tables	15
Notes	23

ACRUX DDS PTY LTD. et al.

PRESCRIPTION DRUG EXPENDITURES IN 2000

Summary of Key Findings

This report presents data and analysis on the retail sales and average price of individual prescription drugs and categories of drugs in 1999 and 2000. And it assesses the increase in prescription drug expenditures between the two years.

Overall

- Spending on retail outpatient prescription drugs rose 18.8% from 1999 to 2000, from \$111.1 billion to \$131.9 billion. (Table 1)

- The bulk of the one-year spending growth was attributable to increased expenditures among a relatively small number of drugs and therapeutic categories of drugs.

- > About half (51.4%) of the \$20.8 billion increase in retail drug spending in 2000 occurred among just eight categories of medicines — those to treat high cholesterol, arthritis, chronic pain, depression, ulcers and other stomach ailments, high blood pressure, diabetes, and a predisposition to seizures. (Table 1)

- > Increases in the sales of just 23 individual drugs were responsible for half (50.7%) of the \$20.8 billion rise in prescription drug spending from 1999 to 2000. Leading the list were: Vioxx, Lipitor, Prevacid, Celebrex, Avandia, Actos, and OxyContin. (Table 4)

- > Among the 50 drugs contributing most to the one-year increase in spending, sales rose 40.2%. Sales of all other drugs increased 7.9%. (Table 4)

- > The number of prescriptions dispensed for the 50 drugs contributing most to the one-year increase in overall spending rose 30%. The number of prescriptions for all other drugs rose 2%. (Table 4, Figure 1)

- > Among the top 50 drugs contributing most to the one-year increase in spending from 1999 to 2000, the average price of a prescription was \$75.88. The average price for all other drugs in 2000 was \$35.72. (Table 4, Figure 1)

- > Nineteen drugs had retail sales over \$1 billion in 2000, up from 15 drugs in 1999. (Table 3)

- An increase in the number of prescriptions overall and a shift towards the use of costlier drugs continued in 2000 to be the central forces driving up retail prescription drug spending.

- > About 42% of the \$20.8 billion increase in retail

FIGURE 1

Summary of Findings

	1999	2000	Percent Change
ALL DRUGS			
Total Sales (billions)	\$111.1	\$132.0	18.8%
Total Prescriptions (millions)	2,712.4	2,915.2	7.5%
Average Price per Prescription	\$40.96	\$45.27	10.5%

50 BEST SELLING DRUGS

(RANKED BY 2000 SALES)

Total Sales (billions)	\$44.9	\$58.2	29.7%
Total Prescriptions (millions)	730.6	866.6	18.6%
Average Price per Prescription	\$61.41	\$67.15	9.4%

REST OF MARKET

(RANKED BY 2000 SALES)

Total Sales (billions)	\$66.2	\$73.8	11.4%
Total Prescriptions (millions)	1,981.9	2,048.6	3.4%
Average Price per Prescription	\$33.42	\$36.01	7.7%

50 DRUGS CONTRIBUTING MOST TO SALES GROWTH, 1999–2000

(RANKED BY CONTRIBUTION TO SALES GROWTH, 1999–2000)

Total Sales (billions)	\$37.5	\$52.6	40.2%
Total Prescriptions (millions)	533.5	693.1	29.9%
Average Price per Prescription	\$70.32	\$75.88	7.9%

REST OF MARKET

(RANKED BY CONTRIBUTION TO SALES GROWTH, 1999–2000)

Total Sales (billions)	\$73.6	\$79.4	7.9%
Total Prescriptions (millions)	2,178.9	2,222.2	2.0%
Average Price per Prescription	\$33.77	\$35.72	5.8%

NOTE: Data from Tables 3 and 4

attributable to an increase in the number of prescriptions dispensed.

- > About 36% of the \$20.8 billion increase in spending was caused by the shift in the mix of drugs dispensed — from lower-priced drugs to higher-priced medicines, many of which were approved in the last five years.

- > About 22% of the \$20.8 billion increase was caused by the one-year increase in the price of individual drugs.

- 2.9 billion prescriptions were dispensed in the retail market in 2000, up from 2.7 billion in 1999. That translates to an average 10.4 prescriptions per person in 2000, up from 9.9

PRESCRIPTION DRUG EXPENDITURES IN 2000

- The average retail price for a prescription in 2000 was \$45.27, up 10.5% from \$40.96 in 1999. (Table 1, Figure 1)

Sales

- The top 50 best-selling prescription drugs (of 9,911 overall) were responsible for 44% (\$58.2 billion) of all retail drug spending in 2000. (Table 3, Figures 1 and 2)
- Aggregate sales of the top 50 best-selling prescription drugs rose 29.7% in 2000, compared to 11.4% for all other drugs combined. (Table 3, Figure 1)
- Of the 50 best-selling drugs in 2000, four were generic drugs with combined sales of \$2.7 billion, 2% of all retail sales in 2000. (Table 3)
- Antidepressants remained the top-selling category of prescription drugs in 2000, with \$10.4 billion in retail sales, up 21% from 1999. (Table 1)
- The anti-ulcer drug Prilosec remained the top-selling prescription medicine in the U.S., with sales of \$4.1 billion, up 12.4% from 1999. The second best-selling drug was Lipitor, to treat high cholesterol, with retail sales of \$3.7 billion, up 38.8%. (Table 3)

Number of Prescriptions

- The top 50 best-selling drugs accounted for 30% of all prescriptions dispensed in 2000. (Figure 1)

- Total prescriptions dispensed for the top 50 best-selling medicines rose 18.6%, to 866 million from 730 million. The number of prescriptions for all other drugs rose 3.4%. (Table 3, Figure 1)

Price

- Among the top 50 best-selling medicines, the average price for a prescription in 2000 was \$67.15, up 9.4% from \$61.41 in 1999. The average price of all other drugs in 2000 was \$36.01 per prescription. (Table 3, Figures 1 and 2)

Market Share

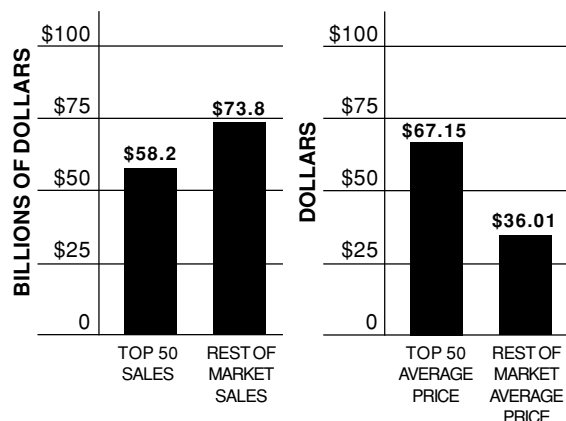
- In the 30 best-selling categories of drugs combined, the best-selling single drug had an average 31.7% percent of the market in terms of sales. The top two selling drugs had a cumulative average 51% of the market; the top three had 62.3% and the top four a cumulative average 68% share of the market. (Table 5, Figure 8)
- \$86.2 billion worth of prescription drugs (65% of total retail sales) were sold in therapeutic categories where the top four drugs had a 50% or greater share of the market.

Introduction

Spending on prescription drugs has escalated sharply in recent years and increased more than 12% a year in seven of the last 13 years. The growth in expenditures has also become increasingly concentrated among a relatively small number of drugs and categories of drugs.¹ Although expenditures for prescription drugs are still a relatively small portion of overall health care spending (around 9% in 2000), the rise in drug spending in the last few years has contributed disproportionately to an upturn in health care costs and health insurance premiums. It is also partly responsible for steeply rising Medicaid costs and health care spending by other government entities such as the Department of Defense and the Department of Veterans Affairs.

In 1999, the increase in spending on prescription drugs accounted for 44% of the increase in overall health care expenditures. By comparison, spending for physician and hospital services accounted for 32% and 21%, respectively, of the 1999 health spending increase, even though they make up larger shares of total spending on health care.² Other researchers have estimated that the increase in prescription drug spending in 1999 was responsible for one-third of the rise in the cost of employer-based health insurance.³ Health insurance premiums rose an average 8% in 2000. They are

FIGURE 2
Comparison of 50 Best-Selling Drugs to All Other Drugs, 2000



NOTE: Data from Table 3

PRESCRIPTION DRUG EXPENDITURES IN 2000

projected to increase between 10% and 13% in 2001, again driven substantially by prescription drug costs.⁴

Some 25 states in early 2001 reported that Medicaid costs will exceed budgeted amounts for fiscal year 2002, after several years of moderate growth. The shift is attributed in part to rising prescription drug expenditures.⁵ Medicaid spending on prescription drugs more than tripled between 1990 and 1999 — from \$4.8 billion (6.6% of total Medicaid costs) in 1990 to \$17 billion (9.4% of total Medicaid costs) in 1999.⁶ Medicaid spending on drugs increased 14.8% in 1998 and 17.2% in 1999, on par with private sector growth.⁷ States predict that overall Medicaid spending will rise between 8% and 12% in both 2001 and 2002, led by annual prescription drug cost increases in the 13% to 20% per year range.⁸

Some state Medicaid programs have been hit particularly hard. For example, outpatient prescription drugs accounted for 8% of Florida's Medicaid costs in 1995. In 1999 they accounted for 15.7% of Medicaid spending in the state. And in 2002 drugs are projected to account for 19% of total Medicaid spending in Florida. Similarly, in Mississippi, the share of Medicaid spending attributable to prescription drugs rose from 11.5% in 1996 to 14.8% in 1999. In New York, prescription drugs represented 7.3% of Medicaid costs in 1999, up from 4.4% in 1996.⁹

Rising drug costs are also having a major impact in the Federal Employee Health Benefits Program (FEHBP). FEHBP covers nine million federal employees, retirees and their families. The Office of Personnel Management (OPM), which operates FEHBP, reported a 2001 average premium increase of 10.5%. That came on top of average premium hikes of 9.3% in 2000, 9.5% in 1999 and 7.2% in 1998. OPM reported in late 2000 that 4.2 percentage points (40%) of the 10.5% premium increase in 2001 is due to rising pharmacy costs.¹⁰

Most Americans experience the escalating cost of prescription drugs indirectly, primarily through higher insurance premiums. Their health insurance typically covers the vast majority of the cost of outpatient drugs. In fact, insured persons today are paying a much smaller percentage of drug costs out-of-pocket than they did just 10 years ago (27.5% in 1998 versus 48.3% in 1990),¹¹ despite the recent rise in drug costs. That is part of the reason drug spending has been going up. Protected from all but a \$5, \$10 or \$15 flat co-payment per prescription, consumers have not been "price-sensitive" to the drugs they buy. And they tend to want the latest drugs, which are typically more expensive.

Pressured by rising costs, however, employers, private health insurers and managed care plans are shifting more of the cost for prescription drugs to employees and enrollees by asking them to pay higher co-payments when they fill

of HMOs had a so-called "three-tier" co-payment structure for prescription drugs in the fall 2000, up from 55% at the end of 1998. An estimated 40% of HMO enrollees, or 32 million Americans, were in such three-tier plans by fall 2000, up from 10% or 7.6 million Americans in 1998.¹² In a typical three-tier co-pay arrangement, enrollees pay \$5 or \$10 for a generic drug, \$10 to \$20 for a preferred brand name drug on a list, or formulary, and \$20 to \$35 (or more) for a non-preferred brand drug.

Medicaid spending

on prescription

drugs tripled

between 1990

and 1999 —

from \$4.8 billion

to \$17 billion.

Employers were also adopting three-tier plans in their other, non-HMO insurance health plan offerings in 2000. One recent survey projects that by the end of 2002 three-tier co-pays will cover 60% of all Americans with private employer-sponsored health insurance.¹³ (No studies have yet assessed the increase in employee out-of-pocket costs associated with three-tier co-pay plans.)

Some employers and health insurers are also considering adopting prescription drug plans that would have workers pay a larger portion of the costs for so-called "life-style" drugs.

Some consumers are more price-sensitive because they pay 100% of the cost for their medicines. Most vulnerable are people without health insurance at all (about 42 million Americans) and those without any prescription drug coverage (another estimated 23 million people, including 11.5 million who are age 65 and over).¹⁴ If they get sick or are diagnosed with a chronic ailment, the pharmacy bill can quickly eat up a sizable portion of income. This is especially the case for low-income elderly people who live on their Social Security checks.

Almost 30% of Medicare beneficiaries lack any prescription drug coverage. This group spent an average \$546 out of their own pockets in 1998 compared with \$325 for seniors with drug coverage from private sources or Medicaid.¹⁵ More to the point, about 21% of all Medicare beneficiaries (eight million) spent in excess of \$1,000 on drugs in 1996. Of this group, about 2.5 million had no drug coverage and paid out of pocket. The highest spending 20% of this group spent an average 17% of their annual incomes

PRESCRIPTION DRUG EXPENDITURES IN 2000

Seniors who have drug coverage through private “Medigap” policies are affected as well. Premiums for Medigap policies that cover prescription drugs rose an average 37% between 1998 and 2000 and are expected to climb 10% to 30% in 2001, due largely to the increase in prescription drug costs.¹⁷ About 3.7 million seniors have Medigap policies that cover prescription drugs.

Those without coverage often pay the highest price for drugs, since they lack any bargaining clout to gain discounts. Uninsured non-elderly persons in 1997 spent an average of \$30.76 for a prescription compared to an average \$9.96 for an insured person buying a brand name drug. Insured people spent an average \$5.53 for a generic drug.¹⁸

As a result of this price difference, people with health insurance fill more prescriptions and take more medicines. And studies show that those who lack coverage too often go without needed drugs. For example, in 1996, 42% of uninsured adults with high blood pressure who had been told they needed a medicine said they were not taking one. By comparison, 25% of insured adults with high blood pressure were not taking a needed medicine. Likewise, 43% of uninsured adults diagnosed with elevated cholesterol and told to take a medicine said they were not taking one. The percentage was 29% for insured adults.¹⁹

The upward trend in pharmaceutical expenditures is forecast to continue. Recent studies predict increases in overall spending for outpatient prescription drugs of between 12% and 23% per year through 2004, with an average increase over the 2001–2004 period of 15% per year.²⁰ Government researchers recently forecast that from 2001 to 2010 prescription drug spending would increase an average 12.6% per year, reaching \$366 billion in 2010 (14% of total projected health care spending in that year).²¹

This forecast could be low if Congress adds a prescription drug benefit to the Medicare program in the next year or two. Such a program, subsidizing the purchase of drugs by seniors, would increase the demand for and use of prescription drugs among Medicare beneficiaries.

Our findings update recent research documenting the trend in pharmaceutical spending in the U.S. They add to a growing body of evidence showing that an escalation in the volume of prescriptions being dispensed and a shift to the use of newer drugs that are typically more costly are the principal forces behind the recent increase in prescription drug expenditures.

Methodology

This study is based on data from Scott-Levin, a health care market research firm. Its annual Source Prescription Audit (SPA) projects, through a sampling methodology involv-

The pharmaceutical marketplace is complex.

There are many ways to measure the sales of prescription drugs and the number of prescriptions dispensed. The Scott-Levin data used in this study yield sales figures for 1999 and 2000 that are higher than recent projections from the federal government but lower than those of IMS Health, another large pharmaceutical market research firm.

Federal government researchers use retail sales information collected once every five years by the U.S. Bureau of the Census. Their estimates of future drug expenditures use the growth rate in recent IMS Health data adjusted for manufacturer rebates paid to some insurers that reduces the effective price paid for some drugs.²² IMS Health data includes mail order sales and sales to long term care facilities such as nursing homes. Scott-Levin data does not. Differences in the two databases are also due to variations in sampling techniques.²³

Figure 3 presents the three determinations of the growth in prescription drug spending from 1999 to 2000. The differences are explained by variations in data gathering, sampling and projection methods.

FIGURE 3
Drug Spending as Measured by Different Groups
(BILLIONS OF DOLLARS)

	1999	2000	Percent Change
HCFA ^a	\$99.6	\$116.9	17.4%
NIHCM/AIR/Scott-Levin ^b	\$111.1	\$131.9	18.8%
IMS Health ^c	\$126.3	\$145.1	14.9%

SOURCES:
a. Health Care Financing Administration (*Health Affairs*, March–April 2001); 2000 projected
b. NIHCM/American Institutes for Research analysis of Scott-Levin Prescription Drug Audit (April 2001)
c. IMS Health, Westport, CT (February 2001)

Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

Real-Time Litigation Alerts



Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

Advanced Docket Research



With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

Analytics At Your Fingertips



Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.