

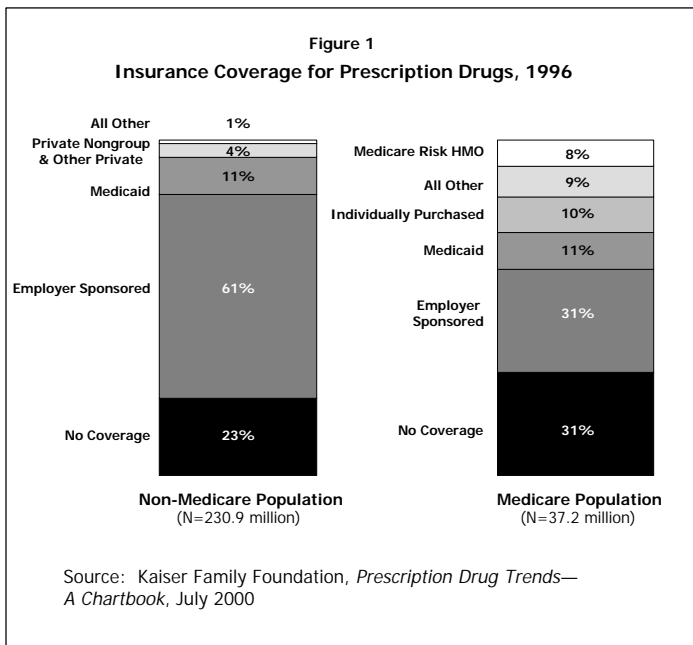
PRESCRIPTION DRUG TRENDS

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 spending for drugs. Spending for prescription drugs has risen much faster than for other types 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

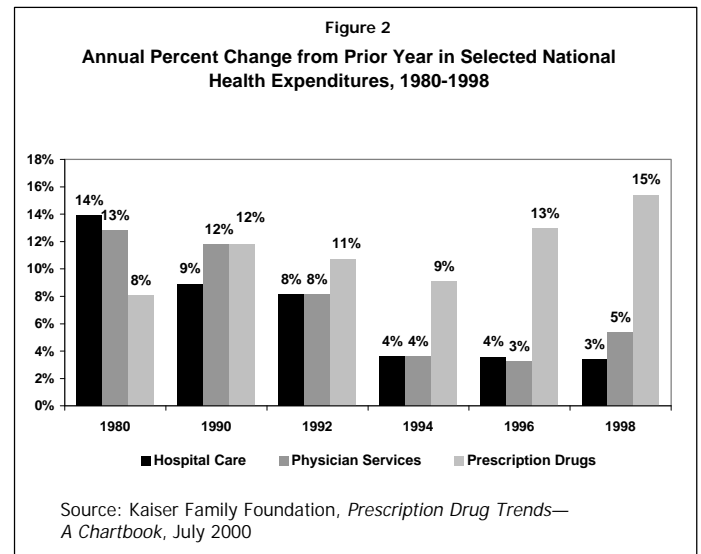
Almost a quarter (23%) of Americans under age 65 and almost a third (31%) of Medicare beneficiaries had no prescription drug coverage in 1996 (Figure 1). Most nonelderly Americans without drug coverage have no health insurance at all. Seniors lack drug coverage because Medicare does not cover outpatient prescription drugs or because they do not have a private policy or cannot afford to buy one.



Lack of drug insurance can have several effects. Drug prices paid by those without drug insurance are on average about 15% higher than for those with insurance (excluding separate rebates from drug manufacturers to health plans). A recent survey found that 30% of the uninsured under age 65 said they did not fill a prescription because of cost, compared to 12% of the insured. Medicare beneficiaries without drug coverage used fewer prescriptions in 1996 compared to those with drug coverage (an average of 16 vs. 21 prescriptions).

Rising Expenditures for Prescription Drugs

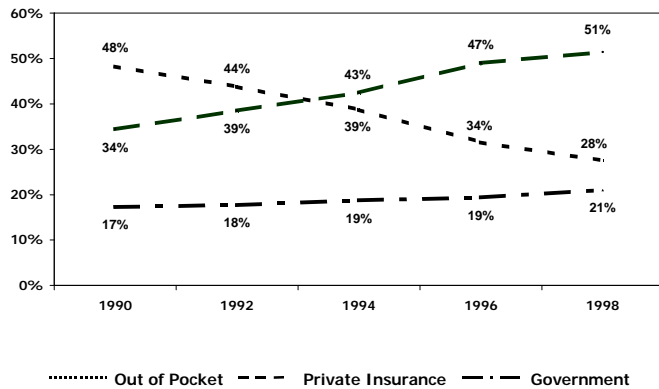
U.S. spending for prescription drugs was \$91 billion in 1998, more than doubling since 1990. Although prescription drug spending is a small proportion (9%) of personal health care spending, it is one of the fastest growing components, increasing at double-digit rates. National prescription spending increased 15% from 1997 to 1998, compared to a 5% increase for physician services and a 3% increase for hospital care (Figure 2).



Prescription drug costs are the most rapidly increasing expense for employer-based insurance, representing 40% of the premium increase from 1998 to 1999. 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 3).

Figure 3

Percent of Total National Prescription Drug Expenditures by Type of Payer, 1990-1998



Source: Kaiser Family Foundation, *Prescription Drug Trends—A Chartbook*, July 2000

Factors Driving Increases in Prescription Spending

Three main factors are driving the increases in prescription drug spending: *manufacturer price increases for existing drugs* (which was responsible for 18% of the overall increase in prescription spending from 1993-1998) had less effect than did the increasing *number of prescriptions* (accounting for 43% of the overall increase), or changes in the *types of drugs used with newer, higher-priced drugs replacing older, less-expensive drugs* (accounting for 39% of the increase). Among the key trends are:

- **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 6.7% a year since 1991, more than double the average inflation rate of 2.6%. Manufacturer prices (which reflect only price increases for existing drugs) grew less rapidly, an average of 2.8% a year since 1991.
- **Utilization.** From 1992 to 1998, the number of prescriptions purchased increased 37% (from 1.9 billion to 2.6 billion), compared to a U.S. population growth of 6%; the average number of prescriptions per person increased from 7.3 to 9.6. Although aging plays a large role in an individual's prescription use (those aged 65-74 use 4 times as many prescriptions as those aged 25-34), aging play a relatively minor role in the national increase in average prescriptions used.

- **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 \$7 billion in 1988 to \$21 billion in 1998, though R&D as a percent of sales (17% in 1998) has remained relatively flat since the mid-1980s. New drug use is also affected by the number of new drugs approved by the U.S. Food and Drug Administration (FDA), which increased from an average of 19 approvals a year in the early 1980s to 38 approvals a year in the late 1990s.

Both prescription use and shifts to higher-priced drugs are affected by advertising. Manufacturers spent \$8.3 billion for advertising in 1998, with \$7.0 billion directed toward physicians and other professionals, and \$1.3 billion directed toward consumers. Spending for direct-to-consumer advertising -- typically to advertise newer, higher-priced drugs -- has more than tripled since 1995. Spending for television advertising (\$664 million in 1998) is about 12 times greater than in 1995.

Pharmaceutical manufacturers remain the nation's most profitable industry, with 1999 profits (return on revenues) of 19% compared to 5% for all Fortune 500 firms.

Outlook for the Future

U.S. spending for prescription drugs is expected to continue to rise rapidly, reaching \$243 billion by 2008. 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.

For More Information

This Fact Sheet (#3057), the chartbook on which it is based (*Prescription Drug Trends—A Chartbook*, #3019), and the following papers 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: *Medicare and Prescription Drugs* (#1583), *Implications of Medicare Prescription Drug Proposals for Employers and Retirees* (#1598), *Analyzing Options to Cover Prescription Drugs for Medicare Beneficiaries* (#1596), *Side-by-Side Comparison of Selected Medicare Prescription Drug Coverage Proposals* (#1601), and *The Role of PBMs in Managing Drug Costs: Implications for a Medicare Drug Benefit* (#1543).