Prescription Medicines: Costs in Context

2022
We are in a New Era of Medicine Where Breakthrough Science is Transforming Patient Care

60 new medicines were approved by the FDA in 2021.

Cancer Treatments
Cancer mortality rates continue to decline amid ‘major progress’ in lung cancer early detection and treatment

Game Changer
Newly approved drug being called ‘game changer’ for people who suffer from hemophilia

Coronavirus Treatments
FDA authorizes new Covid antibody drug to fight omicron variant

Note: Due to lack of data availability, novel approvals are not inclusive of medicines approved by the Center for Biologics Evaluation and Research (CBER) in 2020.
Medicine Prices Fell and Medicine Spending Grew Under Inflation After Rebates and Discounts in 2020

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<th>Brand Medicine Prices</th>
<th>Medicine Spending</th>
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<td>- 2.9% decline</td>
<td>- 0.8% increase</td>
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Insurers and PBMs Have a Lot of Leverage to Hold Down Medicine Costs

Negotiating power is increasingly concentrated among fewer pharmacy benefit managers (PBMs).

Source: Drug Channels Institute, March 2022.

Insurers determine:

- **FORMULARY**
  - if a medicine is covered

- **TIER PLACEMENT**
  - patient cost sharing

- **ACCESSIBILITY**
  - utilization management through prior authorization or fail first

- **PROVIDER INCENTIVES**
  - preferred treatment guidelines and pathways

Top 3 Market Share:

- OptumRx (UnitedHealthGroup) 21%
- CVS Health (Caremark) 33%
- Express Scripts 26%
- All Other 20%
Spending on Retail and Physician-administered Medicines Represents Just 14% of Health Care Spending

Source: PhRMA analysis of CMS National Health Expenditures, Altarum Institute, and Berkeley Research Group data. May not sum to 100% due to rounding.

- 7% Brand Manufacturers
- 2% Generic Manufacturers
- 5% Supply Chain Entities

- Admin Costs
- Home Health & Nursing Home Care
- Prescription Medicines
- Physician & Clinical Services
- Other**
- Dental Services
- Hospital Care

Source: PhRMA analysis of CMS National Health Expenditures, Altarum Institute, and Berkeley Research Group data. May not sum to 100% due to rounding.
91% of All Medicines Dispensed in the United States are Generics

Medicine Spending is Projected to Grow in Line with Health Care Spending Through Next Decade

In 7 of the last 10 years, retail drug spending growth was below total health spending growth.

Projections show retail drug spending growth in line with overall health spending.

Source: CMS National Health Expenditures Report 2020
Note: Total retail sales include brand medicines and generics.
More than Half of Spending on Brand Medicines Goes to Entities Other Than the Manufacturers Who Developed Them

Rebates, discounts and other payments made by brand manufacturers reached $236B in 2021.

Percent of Total Spending on Brand Medicines Received by Manufacturers and Other Entities, 2020

- Brand Manufacturer: 49.5%
- Other Entity Received: 50.5%

Payments from brand manufactures to payers, middlemen, providers and other stakeholders tripled between 2012 and 2021.

Source: Drug Channels Institute, March 2022.
Insurers Increasingly Shift Costs to Patients Through Deductibles and Coinsurance

The number of plans with deductibles on prescription drugs doubled between 2012 and 2017.

The use of four or more cost-sharing tiers is becoming more common on employer plans.

Source: PWC, KFF
Too Often, Negotiated Savings Do Not Make Their Way to Patients at the Pharmacy Counter

Half of commercially insured patients’ out-of-pocket spending for brand medicines is based on the full list price.

Cost sharing for nearly 1 in 10 brand prescriptions is based on list price.

49%

34.3%

51.4%

14.3%

Copay
Deductible
Coinsurance

Patients Face High Out-of-pocket Costs at the Pharmacy Counter Even Though Total Spending on Other Parts of the Health Care System is Far Higher

Hospital spending is much higher than prescription drug spending.

Total U.S. Spending
- Hospital Care: $1,270B
- Retail Prescription Drugs: $348B

Total Patient Out-of-Pocket Spending
- Hospital Care: $33B
- Retail Prescription Drugs: $47B

Yet patients pay more out of pocket for medicines than for hospital care.

Hospitals Account for 1/3 of All U.S. Health Care Spending and Contribute to Patient Out-of-pocket Costs by Marking Up Medicines

Nearly one in five hospitals marks up medicine prices to 700% or more of their acquisition cost.

If a hospital purchased a medicine for $150, a 700% markup could result in patients being billed $1,050 for that medicine.

An analysis found that 320 hospitals mark up some medicine prices at least 1,000%.

Hospitals and Other Health Care Providers Use the 340B Drug Discount Program to Retain an Increasing Share of Medicine Spending

The amount of brand medicine spending retained by hospitals, pharmacies and providers grew 3x between 2013 and 2020.

Source: Berkeley Research Group.
Medicine Spending in the United States is In Line with Spending Around the World

Prescription Medicines as a Percentage of Total Health Care Spending

Note: Total health care spending includes hospital care, physician and clinical services, home health and nursing home care, government administration and net cost of private health insurance, dental, home health and other professional services as well as durable medical equipment.

Source: OECD Health Statistics Database (accessed February 2016); Altarum Institute, 2015, A ten year projection of the prescription drug share of national health expenditures including non-retail.
More Medicines are Available to U.S. Patients as Compared with Other Countries that Set Prices Artificially Low

The 5-year survival rate for all cancers is 42% higher for men and 15% higher for women in the U.S. than in Europe.

Source: PhRMA analysis of IQVIA Analytics Link and U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) and Japan’s Pharmaceuticals and Medical Devices Agency (PMDA) data. April 2021. Note: New active substances approved by FDA, EMA and/or PMDA and first launched in any country between January 1, 2011, and December 31, 2020. Many launched medicines are subject to additional government coverage restrictions.
PhRMA Created the Medicine Assistance Tool, or MAT, To Help Patients Navigate Medicine Affordability

MAT makes it easier for those struggling to afford their medicines to find and learn more about various programs that can make prescription medicines more affordable.

The Medicine Assistance Tool Includes:

- A search engine to connect patients with **900+** assistance programs offered by biopharmaceutical companies, including some free or nearly free options
- Resources to help patients navigate their insurance coverage
- Links to biopharmaceutical company websites where information about the cost of a prescription medicine is available
Common-sense, Patient-centered Reforms to Make Medicines More Affordable

### Modernize Medicare
- Improve affordability in Part D
  - Cap out-of-pocket costs
  - Lower cost sharing
  - Spread costs across the year
  - Pass savings onto patients
- Reduce costs in Part B
  - Bring prices in Medicare Part B closer to what commercial insurers pay

### Make Insurance Work Like Insurance
- Cover medicines from day one
- Make out-of-pocket costs more predictable
- Ensure cost-sharing assistance applies to deductibles
- Share the savings with patients at the pharmacy counter

### End Misaligned Incentives & Foster Competition
- Tie middlemen fees to the services they provide, not list price of a medicine
- Foster the competitive market for medicines while providing incentives for continued biopharmaceutical innovation

### Protect the Safety Net
- Maintain coverage of medicines in Medicaid
- Drive oversight and transparency of the 340B program to ensure it helps the patients it was intended for

Learn more at [phrma.org/betterway](http://phrma.org/betterway)