

# Benefits Insights

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## Prescription Drug Pricing Trends

As prescription drug costs continue to increase, it's important for employers to understand the trends behind the rise and what they can do to better manage their expenses.

This article provides context for why prescription prices are rising and offers cost-cutting solutions for employers.

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### Prescription Drug Cost Drivers

In 2022, the United States spent over \$400 billion on prescription drugs, according to the most recent data from the Centers for Medicare and Medicaid Services (CMS). Although prescription drug spending has historically been a small proportion of national health care costs compared to hospital and physician services, it has grown rapidly in recent years.

A multitude of factors led to this steady rise in prescription drug costs, including the following.

#### Influx of Specialty Drugs

Specialty medications account for a smaller portion of U.S. prescriptions than nonspecialty drugs; yet, they now command over half of the pharmaceutical market—55% of prescription drug spending in 2022 was for specialty drugs, according to a Segal report. Specialty medications often require special handling and administration, and they can be more complex and expensive to develop, which adds to the cost.

Specialty drug spending is projected to experience rapid growth over the next several years due to pricing increases. In 2023, experts predict a 13.5% increase in specialty drug prices, compared to a 3.2% rise in nonspecialty drug prices, according to the same Segal report. Insurers often cite these drug price increases as reasons for rising insurance premiums.

#### Price Inflation

Specialty drugs are not only commanding the pharmaceutical market; they are replacing lower-cost therapies. According to a separate Segal report, 40% of new products recently launched by drug manufacturers were specialty medications. These drugs are now being pushed at a higher rate than nonspecialty drugs, contributing to price inflation. And there is little recourse for anyone seeking a cheaper alternative to these specialty pharmaceuticals.

There are currently more than 40 biosimilar drugs (similar to the specialty drug's composition, but not identical) that can be used in place of specialty medications. As more of these drugs gain traction, drug manufacturers have been developing strategies to secure their market share, such as price matching and negotiating more favorable rebates with plan sponsors.

#### Failure to Follow Physician Orders

Reductions in drug utilization may mean patients aren't adhering to the drug treatments recommended by their doctors. A failure to fill prescriptions can have serious effects on patient health and lead to more costly medical problems down the road. One study found that 31% of prescriptions go unfilled and individuals over the age of 52 were more likely to fill their prescriptions than their younger counterparts. Women were more likely to fill their prescriptions than men, and, unsurprisingly, drugs with higher copayments were less likely to be filled.

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### Prescription Drug Trend Projections

According to a JAMA Network analysis, by 2028, prescription drugs will comprise 9% of the total U.S. health expenditure, approximately \$863 billion.

Additionally, the CMS predicts that new specialty drugs will enter the market during this period, and fewer generic drugs will be launched.

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## Cost Control Strategies

Below are several tactics that insurers, employers and consumers have implemented in an effort to curb rising prescription drug expenses.

### Usage Management

Many health plans have responded to rising costs by creating drug formularies, which exclude certain drugs from coverage, and step therapy requirements, which require individuals to try more cost-effective treatments before “stepping up” to more costly drugs. In addition, some insurance plans have increased patients’ out-of-pocket responsibilities by imposing separate prescription deductibles and requiring certain medications to have prior authorization. Prior authorization may be required when an insurer believes a less expensive drug may work just as well as the more expensive drug the doctor prescribed.

### Other Payment Methods

Using generic drugs is a well-known way to save money on prescriptions without sacrificing quality, but a lesser-known option may be using cash to buy prescriptions instead of using insurance. No longer bound by gag clauses as of 2018, pharmacists can now tell an individual if they’ll save money by not using insurance and paying with cash instead.

### Rebates and Discounts

Some businesses have elected to partner with organizations known as pharmacy benefit managers to negotiate with pharmaceutical manufacturers to receive rebates and discounts on prescription drugs based on factors like volume and market share. Similarly, some employers have joined together to create prescription drug purchasing pools in order to increase their purchasing power when negotiating lower prices for prescription drugs.

### Employee Awareness

Employers are not the only ones seeking to reduce costs for pharmaceuticals. As employees’ out-of-pocket responsibilities continue to grow, more people are asking for cheaper or generic versions of drugs rather than paying for a brand name. Consumers are also using the internet and phone apps to make price comparisons between local pharmacies and to locate available coupons. Some consumers are also looking to mail-order pharmacies to obtain 90-day supplies of their medications, which often offer lower drug prices.

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## Summary

Cutting prescription drug expenses may not be easy, but it’s becoming more and more of a necessity for employers.

Contact George Belcher Evans & Wilmer today for help with developing strategies to manage your employees’ prescription drug costs.

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