



March 19, 2019

## **Prices for and Spending on Specialty Drugs in Medicare Part D and Medicaid**

Presentation for Congressional Staff  
March 19, 2019

Anna Anderson-Cook, Jared Maeda, and Lyle Nelson  
Health, Retirement, and Long-Term Analysis Division

# Study Objectives

- Examine the prices of specialty drugs, net of rebates and discounts, in Medicare Part D and Medicaid over the 2010–2015 period.
- Determine the contribution of specialty drugs to the growth of total drug spending in Medicare Part D and Medicaid.
- Examine average annual spending and out-of-pocket costs on specialty drugs among Medicare Part D enrollees who use such drugs.

# Key Findings

- Brand-name specialty drugs accounted for just 1 percent of prescriptions and about 30 percent of net drug spending in both Medicare Part D and Medicaid in 2015.
- Net spending on specialty drugs in Medicare Part D more than tripled between 2010 and 2015, rising from \$8.7 billion to \$32.8 billion.
- Net spending on specialty drugs within Medicaid doubled over the period, reaching \$9.9 billion in 2015.
- Medicaid pays substantially lower net prices for brand-name specialty drugs than Medicare Part D because average rebates are much larger in Medicaid.

# Key Findings

- Within both Medicare Part D and Medicaid, shifts in use toward higher-priced drugs, especially new drugs, explained much of the increase in the average net price of a prescription for a brand-name specialty drug between 2010 and 2015.
- In Medicare Part D, after adjusting for inflation, net spending per beneficiary who used a brand-name specialty drug tripled between 2010 and 2015, reaching \$33,460.
- For Medicare Part D, after adjusting for inflation, annual out-of-pocket costs doubled for beneficiaries who used a brand-name specialty drug but received no cost-sharing subsidies, reaching \$3,540 in 2015.

# Definition of Specialty Drugs

- CBO used a definition of specialty drugs that was developed by IQVIA (formerly IMS Health).
- By that definition, a specialty drug treats a chronic, complex, or rare condition and has **at least four of the following seven characteristics**:
  - Costs at least \$6,000 per year in 2015,
  - Is initiated or maintained by a specialist,
  - Is administered by a health care professional,
  - Requires special handling in the supply chain,
  - Is associated with a patient payment-assistance program,
  - Is distributed through nontraditional channels (such as a specialty pharmacy), or
  - Requires monitoring or counseling.

# Data

- **Medicare Part D:** Beneficiary-level claims data for the entire Part D population and confidential data on manufacturer rebates and other discounts by drug for the 2010–2015 period.
- **Medicaid:** Drug utilization and pharmacy payment data by drug for both fee-for-service and managed care purchases combined with confidential data on statutory rebates by drug for the 2010–2015 period.
- **IQVIA (formerly IMS Health):** List of specialty drugs on the market in 2015.
- **Red Book:** Drug characteristics including an active ingredient identifier and brand/generic identifier by National Drug Code.

# Approach to Identifying Specialty Drugs

- Drugs that had the same active ingredient(s) as a drug on IQVIA's specialty drug list were labeled as specialty drugs.
- Red Book data were used as a crosswalk to match IQVIA's list of specialty drugs with the Medicare Part D and Medicaid data by active ingredient.

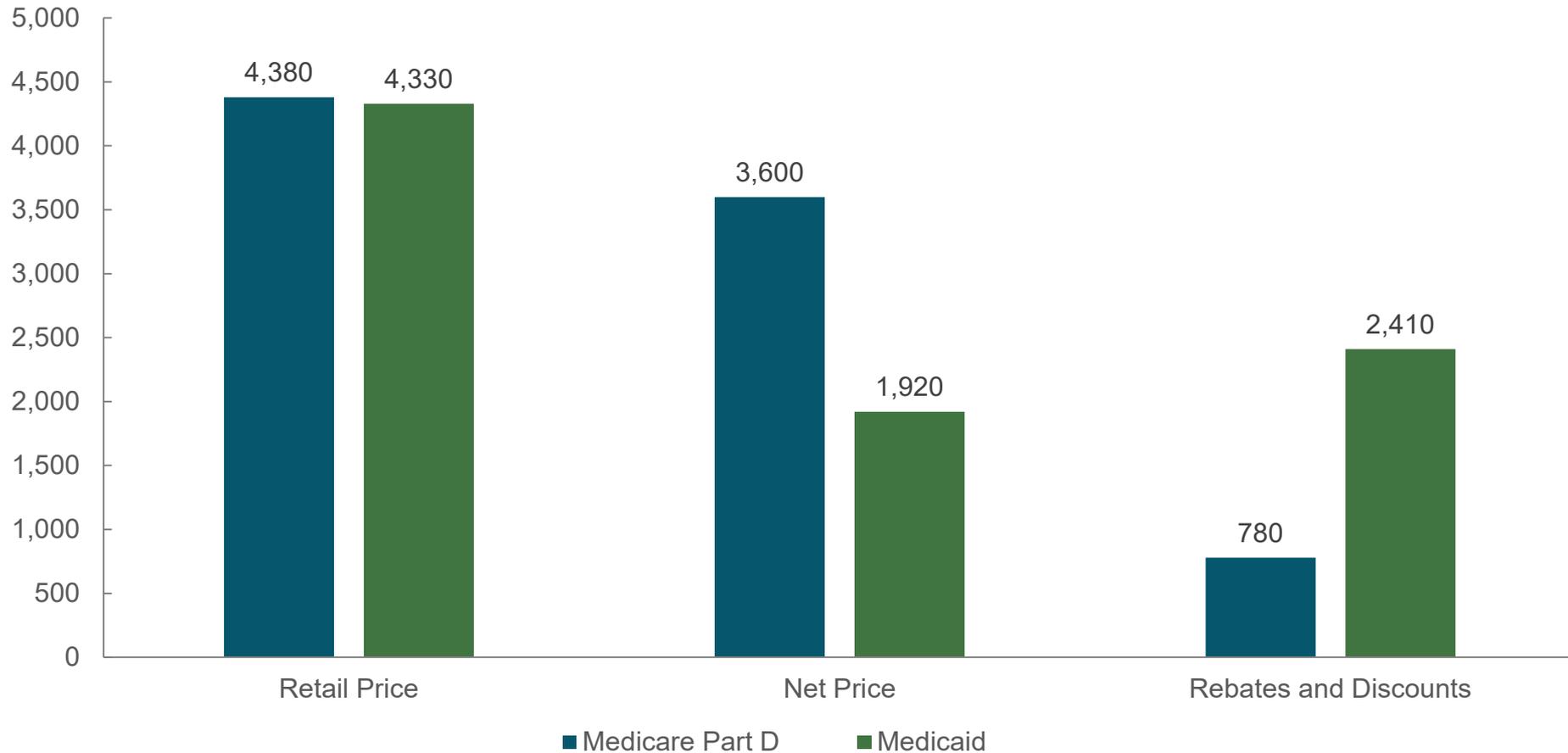
# Prices of Specialty Drugs in Medicare Part D and Medicaid in 2015

For 50 top-selling brand-name specialty drugs in Medicare Part D:

- The average retail price per prescription in 2015 was \$4,380 in Medicare Part D and was similar in Medicaid.
- Net of rebates and discounts, the average price per prescription was nearly twice as high in Medicare Part D as in Medicaid (\$3,600 versus \$1,920).
- The average net price was much higher in Medicare Part D because the rebates and discounts were much smaller.
- Rebates and discounts averaged 18 percent of the retail price in Medicare Part D and 56 percent of the retail price in Medicaid.

# Weighted Average Prescription Price for 50 Top-Selling Brand-Name Specialty Drugs, 2015

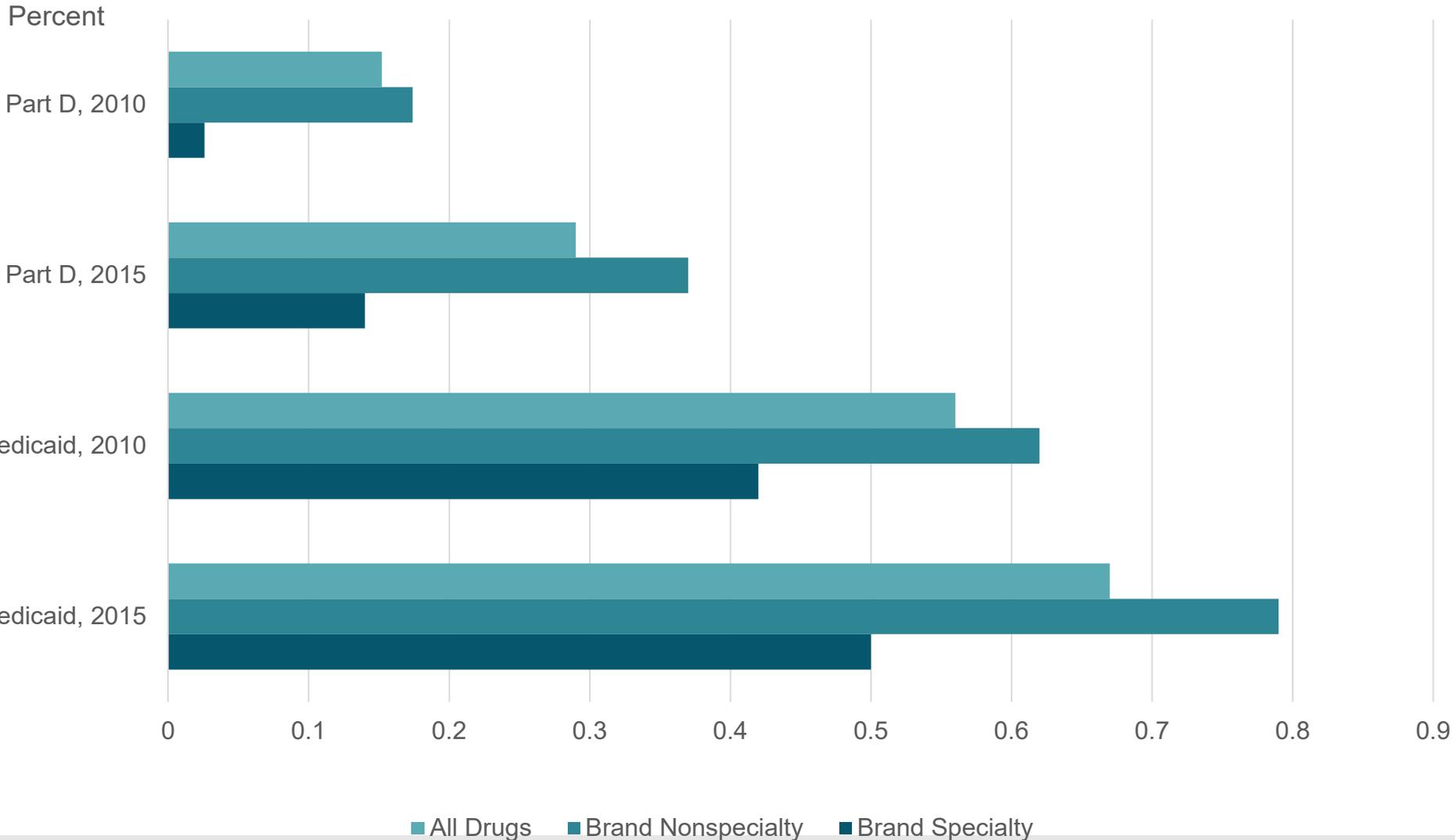
Dollars



# Price Concessions for Brand-Name Drugs Grew in Medicare Part D and Medicaid Over the 2010–2015 Period

- In Medicare Part D, average manufacturer rebates and other price concessions across all brand-name drugs increased from 15 percent to 29 percent from 2010 to 2015.
  - Those price concessions are estimated as a share of the total amount paid to pharmacies—the retail price.
- In Medicaid, average statutory rebates on brand-name drugs increased from 56 percent to 67 percent over the 2010–2015 period.
  - Those rebates are estimated as a share of the average price that manufacturers charge to pharmacies—about 95 percent of the retail price.
- In both Medicare Part D and Medicaid, rebates and other price concessions were much smaller on average for brand-name specialty drugs compared with brand-name nonspecialty drugs.

# Average Rebates and Discounts for Brand-Name Drugs in Medicare Part D and Medicaid



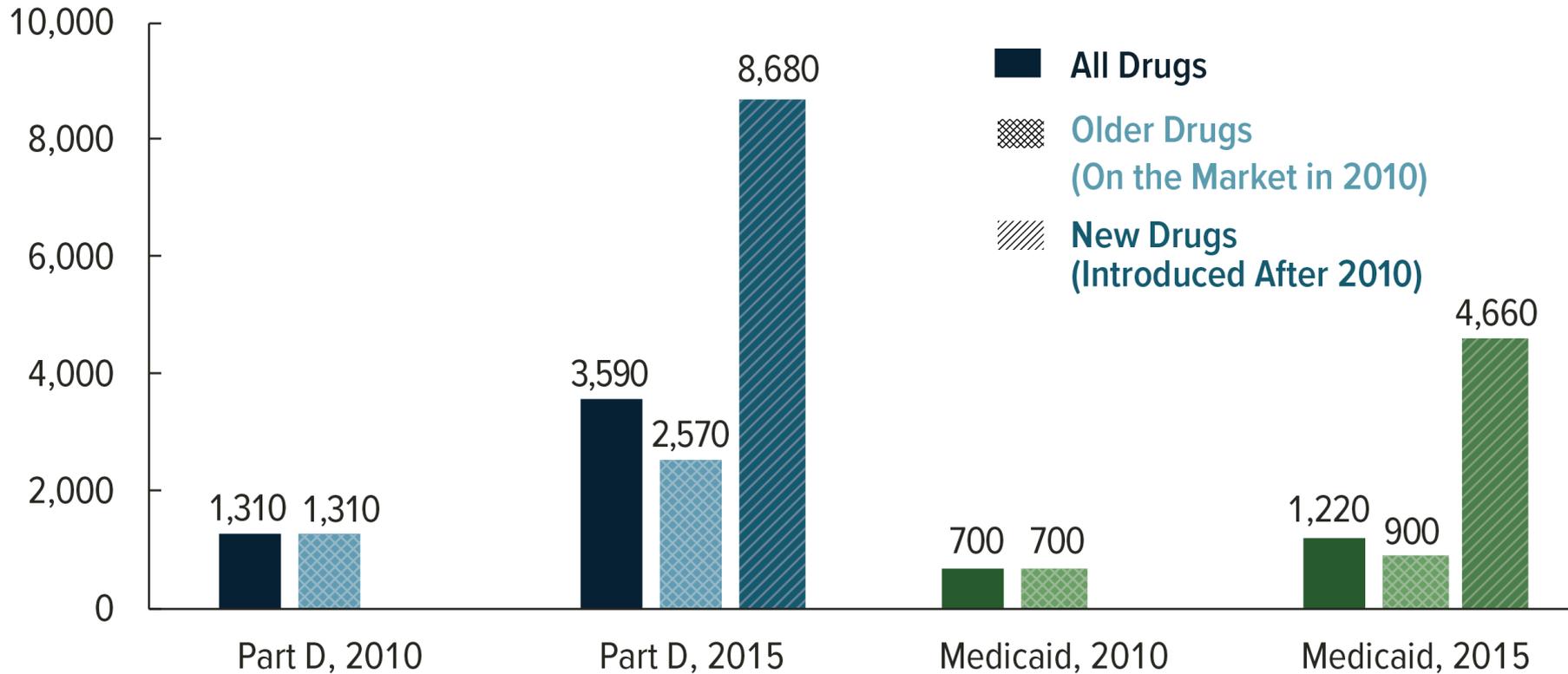
For Medicare Part D, rebates and discounts are expressed as a share of the retail price. For 2015, estimates include the 50 percent discount in the coverage gap. For Medicaid, the statutory rebates are expressed as a share of the average manufacturer price.

# Price Growth for Brand-Name Specialty Drugs in Medicare Part D and Medicaid, 2010 to 2015

- The average net price per prescription of a brand-name specialty drug in Medicare Part D grew at an average annual rate of 22 percent from 2010 to 2015 (increasing from \$1,310 to \$3,590 in 2015 dollars).
- During that period, the average net price per prescription of a brand-name specialty drug in Medicaid grew at an average annual rate of 12 percent (from \$700 to \$1,220 in 2015 dollars).
- Those estimates account for increases in the prices of individual drugs over time as well as shifts in the mix of drugs used between years.
- In each program, most of the price growth was attributable to a change in the mix of drugs toward those with higher prices, especially new specialty drugs (which in 2015 had an average prescription price of \$8,680 in Medicare Part D and \$4,660 in Medicaid).

# Change in Average Net Price of Brand-Name Specialty Drugs, 2010 to 2015

Price per Prescription in 2015 Dollars



# Price Growth for Specialty Drugs in Medicare Part D, Controlling for Changes in the Mix of Drugs

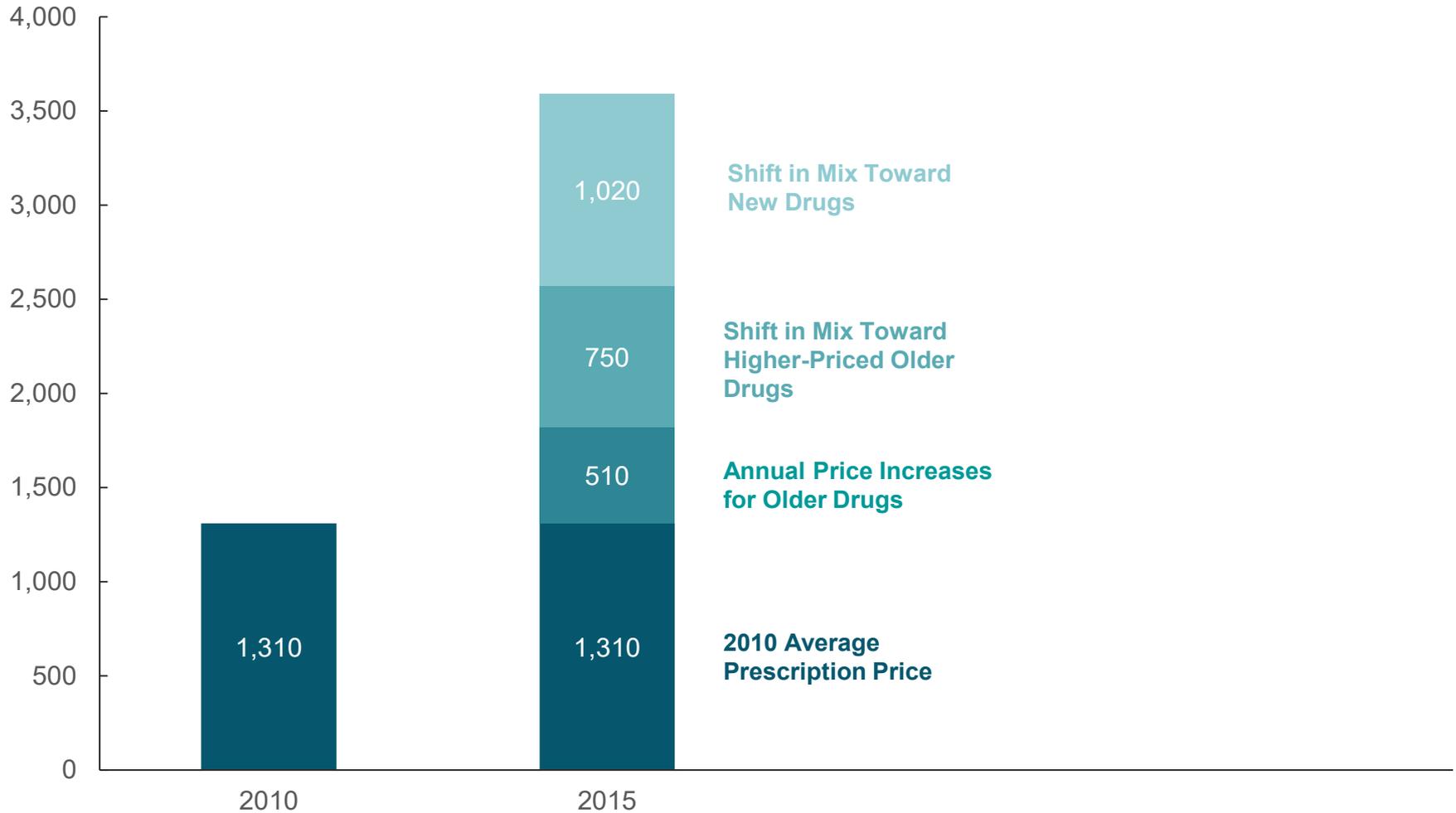
- After controlling for changes in the mix of drugs (using a price-index approach), the net price of brand-name specialty drugs in Part D grew at an average annual rate of 5.8 percent from 2010 to 2015 (in 2015 dollars).
- Using the same price-index approach, the net price of brand-name nonspecialty drugs in Part D grew at an average annual rate of 7.4 percent from 2010 to 2015 (in 2015 dollars)—somewhat higher than the rate for specialty drugs.

# Factors Increasing the Average Cost of a Brand-Name Specialty Prescription, 2010 to 2015

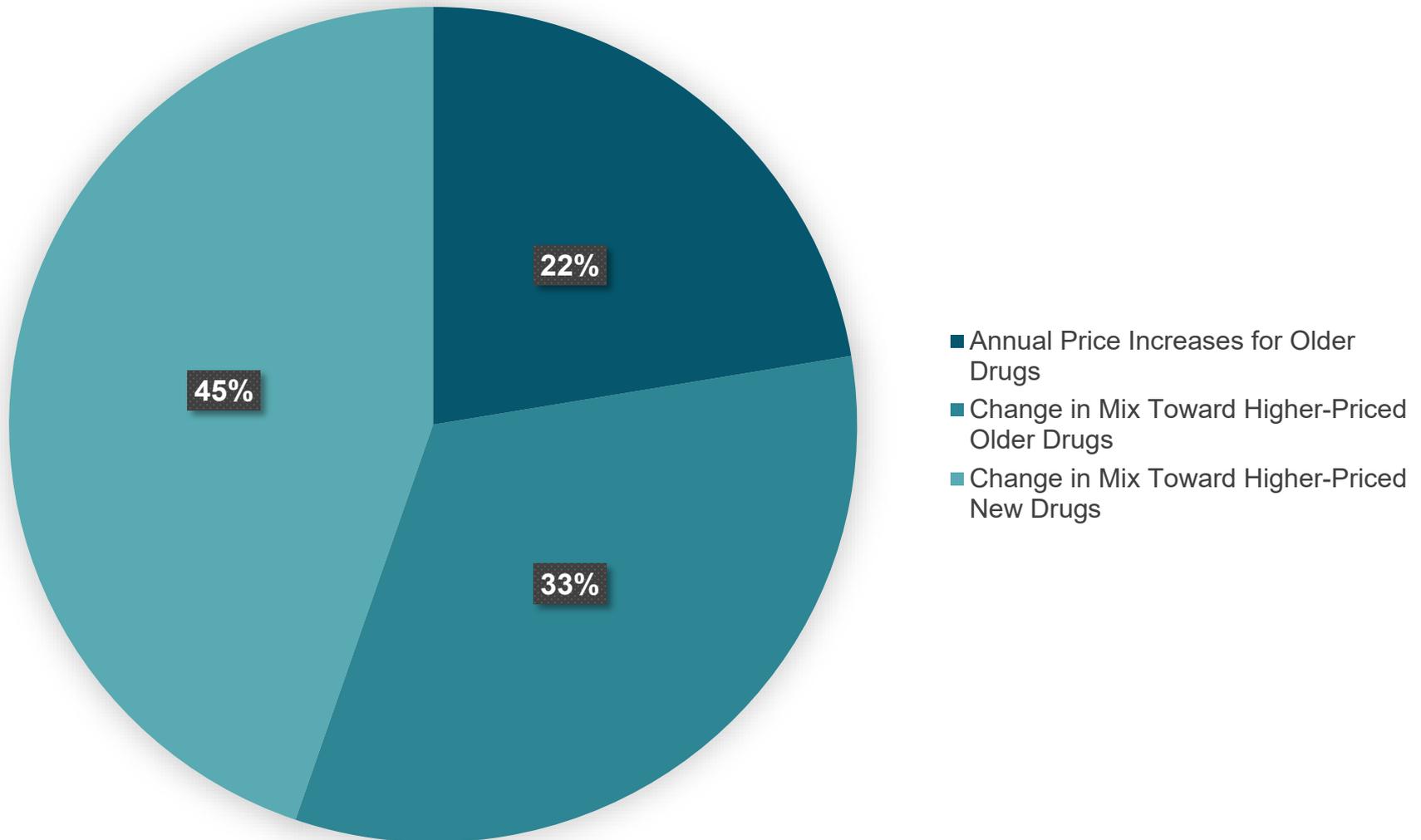
- The average annual net price increase over the 2010–2015 period for drugs that were on the market throughout that period was 6.8 percent.
  - That factor raised average prescription costs by \$510 over the 2010–2015 period for brand-name specialty drugs.
- The shift in mix toward higher-priced drugs within the existing (or older) group of drugs increased the average cost of a brand-name specialty prescription by \$750.
- The shift in mix toward innovative new drugs that were not on the market in 2010 increased the average cost of a brand-name specialty prescription by \$1,020.

# Factors Increasing the Average Prescription Price of Brand-Name Specialty Drugs in Part D

In 2015 Dollars



# Factors Contributing to the Higher Average Cost of a Brand-Name Specialty Prescription, 2010 to 2015

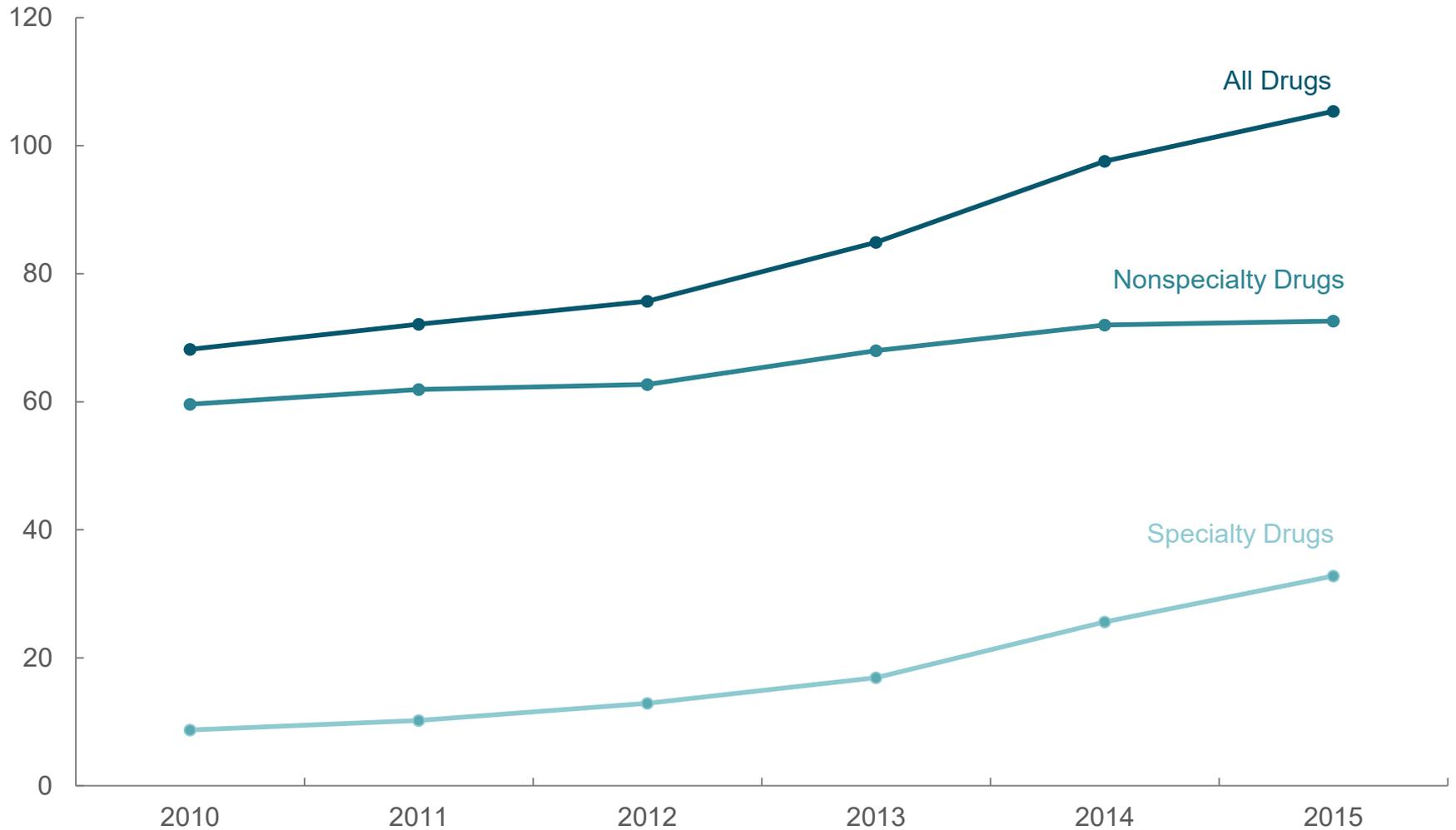


# Net Spending on Specialty Drugs

- In Medicare Part D, net spending on specialty drugs rose from \$8.7 billion in 2010 to \$32.8 billion in 2015, an average annual increase of 31 percent.
- In Medicaid, net spending on specialty drugs rose during that period from \$4.7 billion to \$9.9 billion, an average annual increase of 16 percent.
- During that time, the share of net spending accounted for by specialty drugs rose from 13 percent to 31 percent in Medicare Part D and from 25 percent to 35 percent in Medicaid.
- Net spending for brand-name specialty drugs in the catastrophic phase of the Part D benefit increased from \$5.4 billion to \$26.1 billion from 2010 to 2015. (The corresponding amounts for all drugs are \$14 billion and \$43 billion, respectively.)

# Net Drug Spending in Medicare Part D

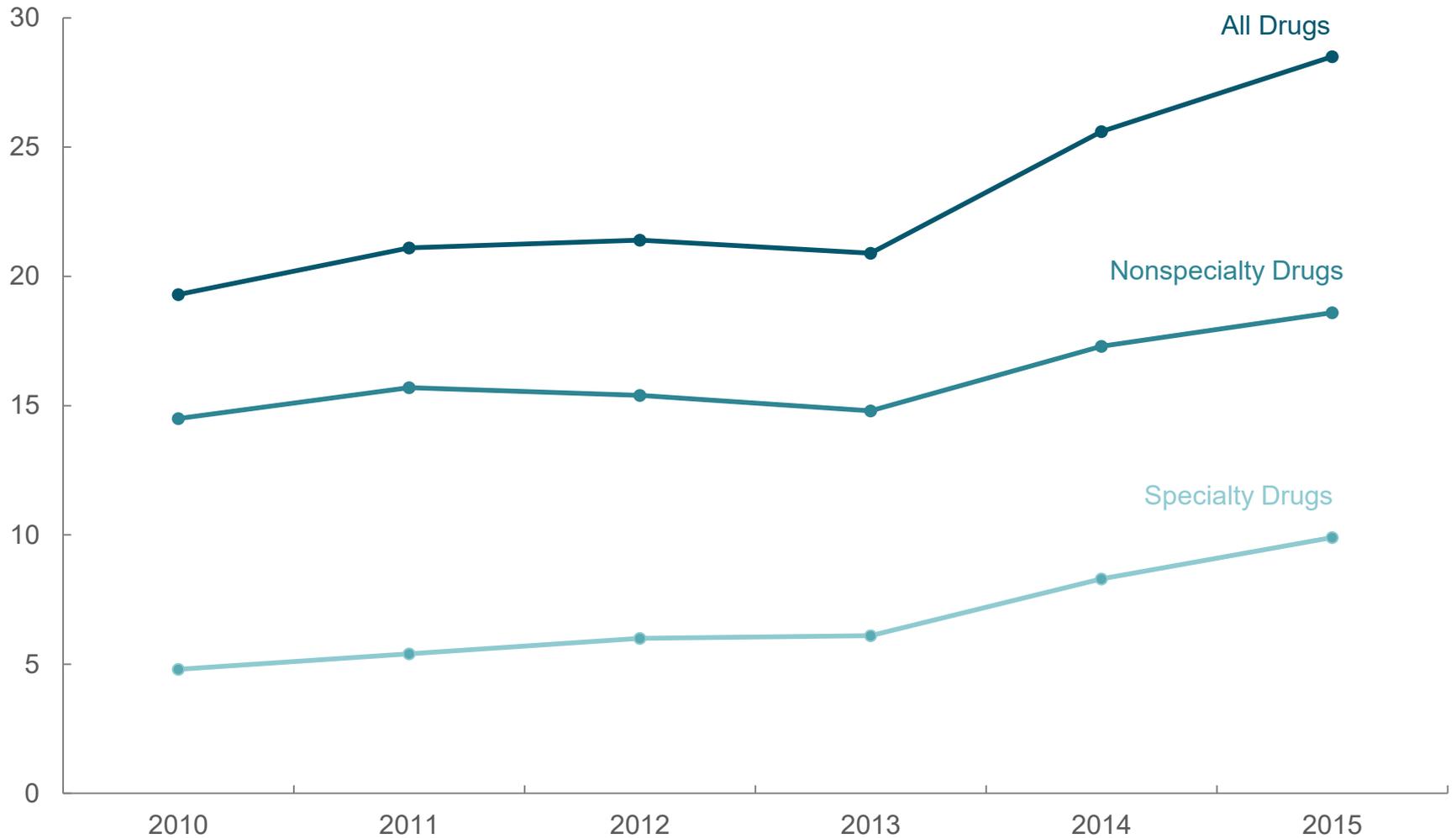
Billions of Dollars



Estimates have not been adjusted to remove the effects of general inflation.

# Net Drug Spending in Medicaid

Billions of Dollars



Estimates have not been adjusted to remove the effects of general inflation.

# Share of Net Spending on Brand-Name Specialty Drugs

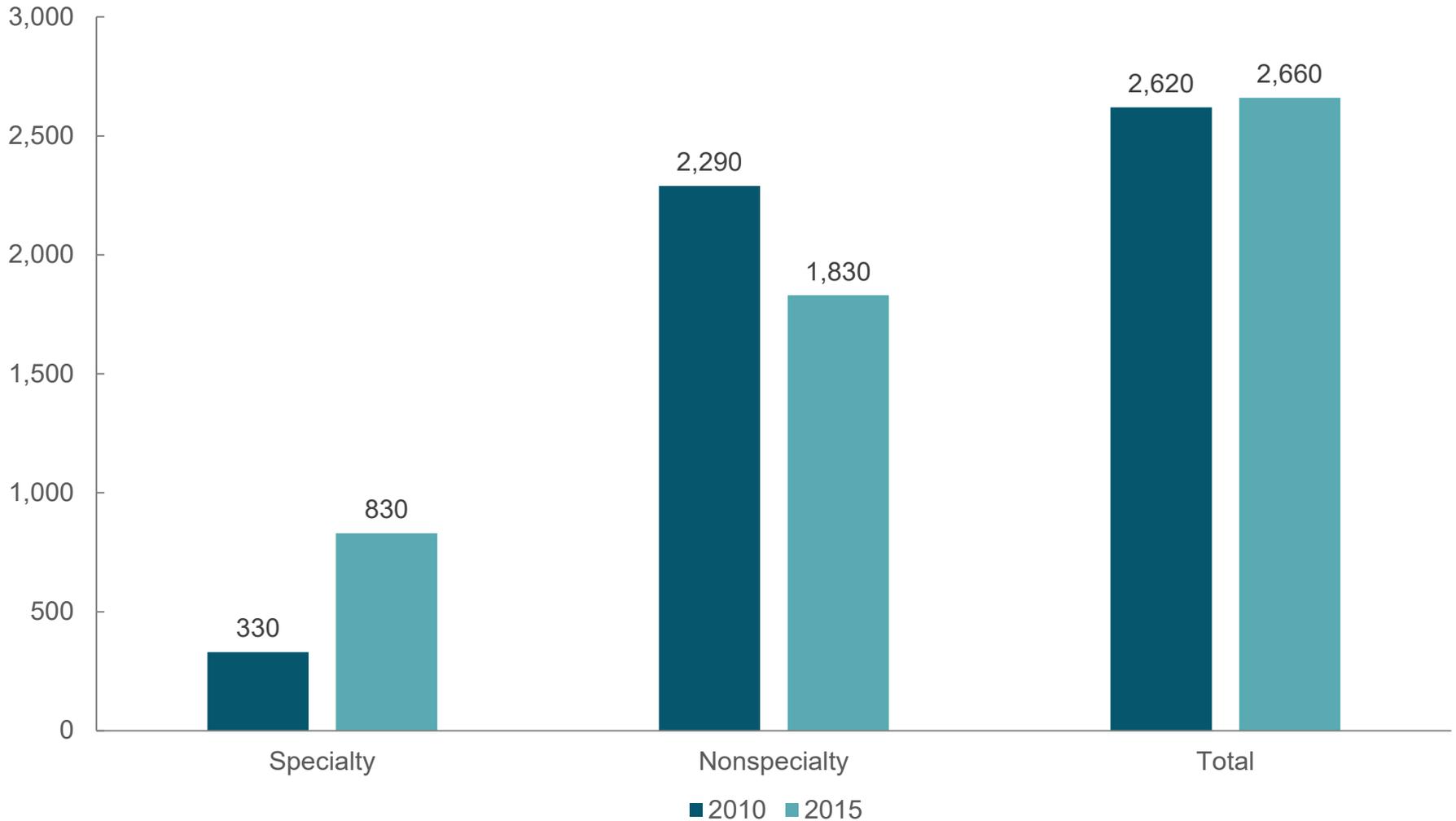
- Brand-name specialty drugs accounted for about 1 percent of prescriptions and 30 percent of net drug spending in Medicare Part D and Medicaid in 2015.
- Brand-name specialty drugs accounted for about 95 percent of all specialty drug spending in both programs.

# Growth in Real Net per Capita Spending on Specialty Drugs in Medicare Part D, 2010 to 2015

- Real (inflation-adjusted) net spending on a per capita basis did not increase much over the 2010–2015 period because the increased spending on specialty drugs was nearly offset by the decline in spending on nonspecialty drugs.
- On a per capita basis, net spending for specialty drugs grew at an average annual rate of 20 percent per year in real terms over the 2010–2015 period.
- Almost all of that growth can be explained by growth in the average price of a prescription for brand-name specialty drugs, which grew at a similar rate.
- In contrast, real net per capita spending on nonspecialty drugs in Medicare Part D declined at an average annual rate of 4 percent.

# Net per Capita Spending in Medicare Part D

Per Capita Spending in 2015 Dollars



# Factors Limiting Growth in Net per Capita Drug Costs in Medicare Part D, 2010 to 2015

- Real net per capita spending on all brand-name drugs declined slightly from \$1,870 to \$1,840 between 2010 and 2015.
  - The increase in real per capita spending for brand-name specialty drugs was offset by a decline in spending for nonspecialty brand-name drugs, largely because of patent expirations.
- The market share for generic drugs increased over the 2010–2015 period from about 75 percent to over 85 percent.
- After adjusting for inflation, the average net cost of a prescription for all drugs in Medicare part D declined from \$53 in 2010 to \$50 in 2015.
- The quantity of prescriptions taken per beneficiary increased slightly from 4.1 to 4.4 prescriptions per month.

## **Increases in Per Capita Spending in the Catastrophic Phase of the Part D Benefit**

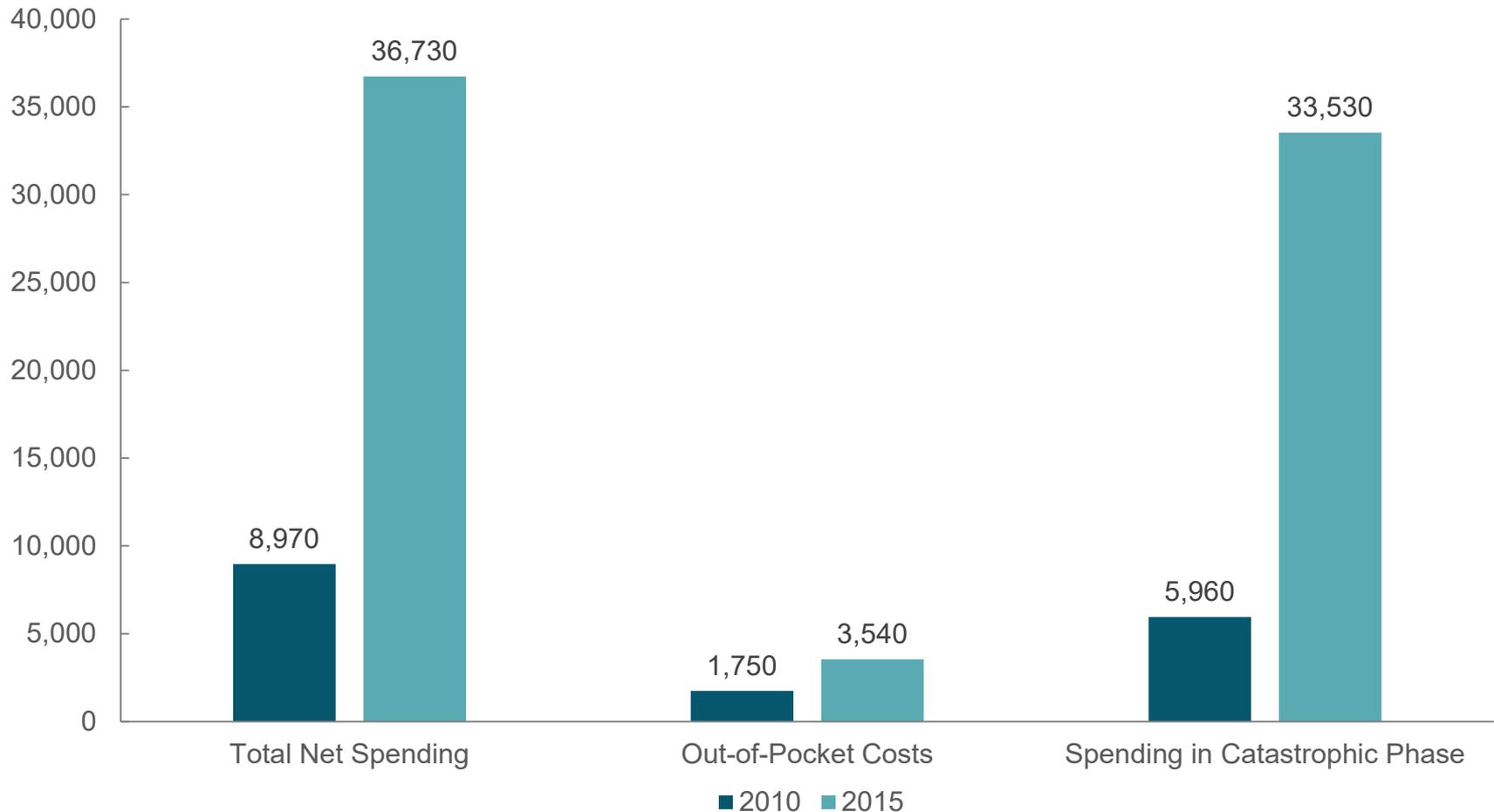
- On an inflation-adjusted per capita basis, net spending in the catastrophic phase of the benefit doubled, increasing from \$550 in 2010 to \$1,080 in 2015.
- Spending on specialty brand-name drugs accounted for just over 80 percent of that increase in net per capita spending in the catastrophic phase of the benefit.
- All of the increase in net per capita spending in the catastrophic phase of the benefit on brand-name specialty drugs can be attributed to the increase in the average price of a brand-name specialty drug over the 2010–2015 period.
  - On a per capita basis, the quantity of brand-name specialty drugs taken per beneficiary declined slightly over the period.

# Net Spending on Brand-Name Specialty Drugs Among Medicare Part D Users of Such Drugs

- The percentage of Medicare beneficiaries taking a brand-name specialty drug declined from 2.8 percent to 2.4 percent over the 2010–2015 period.
- Among Part D enrollees who used a brand-name specialty drug and received no cost-sharing subsidies, the average annual net spending on such drugs rose fourfold in real terms, from \$8,970 in 2010 to \$36,730 in 2015.
- Most of that increase occurred in the catastrophic phase of the Part D benefit.
- The average out-of-pocket cost for brand-name specialty drugs among Part D enrollees who used such drugs and had no cost-sharing subsidies doubled in real terms, from \$1,750 in 2010 to \$3,540 in 2015.

# Annual Net Spending on Brand-Name Specialty Drugs Among Users Without Cost-Sharing Assistance

Spending per User in 2015 Dollars



## How Costs Increased per Beneficiary Using a Brand-Name Specialty Drug

- Among all Part D enrollees who used a brand-name specialty drug, the average annual cost of brand-name specialty drugs per user of such drugs increased from \$11,330 to \$33,460.
- The average number of brand-name prescriptions per enrollee who took a brand-name specialty drug increased slightly from 8.6 to 9.3 over the 2010–2015 period.
- The increase in the average cost of a brand-name specialty prescription accounted for about 90 percent of the increase in spending per user of a brand-name specialty drug between 2010 and 2015.

# Notes

- For this analysis, only new molecular entities or biologic products that appeared on the list of novel drug approvals published by the Food and Drug Administration from 2011 to 2015 were included in the category of new brand-name drugs.
- Because of data limitations, an analysis of the change in per capita drug spending was not conducted for Medicaid.
- Beneficiaries covered by Medicare Part D are age 65 or older or disabled, whereas beneficiaries covered by Medicaid's drug benefit are mostly adults under age 65 or children in low-income households.
- Drug spending per beneficiary is much higher in Medicare Part D than in Medicaid. For example, in 2015, average net drug spending per beneficiary was \$2,660 in Medicare Part D and about \$500 in Medicaid.