Generic Drugs Keep Health Cost Spiral in Check

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Overall health spending growth for 2005 was 6.9%—the lowest since 1999, largely because of a continuing slowdown in retail prescription drug sales and an increased use of generic drugs, according to the Centers for Medicare and Medicaid Services in January.

The CMS report, the official government tally, that overall health care spending grew 6.9% in 2005, compared with 7.2% in 2004 and 8.1% in 2003.

“It is unclear whether this is temporary or indicative of a longer-term trend,” lead author Karen Davis, a CMS economist, said in a statement.

Even with the slowdown, the United States spent seven times more per capita on health care than the people of any other country—$6,322 per person. The percentage of personal income devoted to health care is rising as well.

Out-of-pocket spending grew from $215 billion in 2004 to $249 billion in 2005, with prescription drugs accounting for 20% of that expense.


The biggest spender, accounting for $34 billion of the D drug benefit, which did not begin until 2006.

Medicare spent $311 billion in 2005, a 7.2% increase from the previous year. But that growth rate was on par with 2004, when spending rose 7.5%.

Cost containment efforts by the Medicare program helped hold down the nation's overall drug bill, according to the report.

For Medicaid, drug spending grew only 2.8% in 2005. The nation’s total drug tab in 2005 was $208 billion, an increase of 5.8% over the previous year, when drug spending rose 8.6%.

Most drugs—73%—were covered by private sources in 2005. Private spending grew only 6%, down from 7.2% in 2004.

Drug price increases remained stable from 2004 to 2005, at about 3.5% over all and 6% for brand names.

The pharmacy benefit management industry took credit for helping to keep a lid on spending, noting that industry tools such as formularies, rebates, generic drugs and mail service are being used by both private and public payers.

“PBMs have played a huge role in helping to drive prescription trends to an historic low,” Mark Merritt, president of the Pharmaceutical Care Management Association, said in a statement.

Both CMS and America’s Health Insurance Plans said that increasing use of multiple-tariff drug formulas—which require consumers to pay more for higher-cost medicines—also contributed to the slowdown in 2005.

Spending on physician and clinical services hit $421 billion in 2005, which made it the second biggest category of spending, after hospitals. That represented a 7% increase from 2004, when spending rose 7.4%.

Medicare, spent 9.5% more on physician services in 2005, which was a slight decline from the 10.4% growth in 2004.

Hospital spending grew about 8% in 2005 and 2004, hitting $611 billion.

Consumers are taking a big hit on health costs, according to Karen Davis, president of the Commonwealth Fund, a private nonpartisan foundation that is working toward a health system that offers better quality and more access.

“Even the slower spending growth of 6.9% continues to outpace inflation and growth in wages for the average worker in the United States,” Ms. Davis said in a statement.