Drug Slowdown Reduces Increase in Health Costs

BY ALICIA AULT
Associate Editor, Practice Trends

Overall health spending growth for 2005 hit its lowest level since 1999, largely because of a continuing slowdown in retail prescription drug sales and an increased use of generic drugs, according to a report issued by the Centers for Medicare and Medicaid Services in January.

The CMS report, the official government tally, found 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 Aaron Catlin, a CMS economist, said in a statement.

Even with the slowdown, the United States spent slightly more per capita on health care in 2005—$6,697 per person—than in 2004, when expenditures were $6,322 per person. The percentage of personal income devoted to health care is rising as well. Out-of-pocket spending grew from $235 billion in 2004 to $249 billion in 2005, with prescription drugs accounting for 20% of that expense.

Total spending in 2005 hit $2 trillion, according to CMS, which published its findings in two articles in the January/February issue of Health Affairs (Health Affairs 2007;26:142-53, and Health Affairs 2007; 26:249-57).

Medicare was the biggest spender, accounting for $342 billion of the $2 trillion total. The figure does not include the Part D drug benefit, which did not begin until 2006. Medicaid 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%.

Out-of-pocket spending grew from $235 billion in 2004 to $249 billion in 2005, with prescription drugs accounting for 20% of that expense.

Cost-containment efforts by the Medicaid 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 $200 billion, an increase of 5.8% over the previous year, when drug spending rose 8.6%.

Most drugs—about 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% overall 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 drug trends to an historic low," said Pharmaceutical Care Management Association president Mark Merritt in a statement.

Both CMS and America's Health Insurance Plans said that increasing use of multi-tiered drug formularies—which require consumers to pay more for higher-cost medicines—also contributed to the slowdown in drug spending.

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, however, 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.

The fastest growing component of health spending was freestanding home health care, rising 11% in 2005 to $47.5 billion. At least three-quarters of home care is covered by public payers.

Spending for nursing home care grew 6% in 2005 to $121 billion. That was a larger increase than in the previous year, when spending rose 4%. Though Medicaid is the largest payer, accounting for 44% of funding for nursing home care, its expenditures increased by only 4% in 2005, compared to Medicare's 12% rise.

Growth in the cost of health insurance premiums also declined. In 2005, premiums increased 6.6%, compared with 7.9% in 2004. It was the third consecutive year that premium increases dropped. However, the CMS researchers noted employees are still paying more for their health care through higher co-insurance and deductibles and other out-of-pocket costs.

Consumers are taking a big hit on health costs, agreed Karen Davis, president of the Commonwealth Fund, a private nonpartisan foundation that is working towards 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," said Ms. Davis in a statement. ■