

PRESCRIPTION DRUG PRICES - BACKGROUND MEMORANDUM

Senate Concurrent Resolution No. 4027 (attached as Appendix A) provides for a Legislative Council study of:

- The prices of prescription drugs.
- Possible mechanisms to lower the costs of prescription drugs for consumers and the state.
- The establishment of a state program to provide assistance in the purchase of prescription drugs, based upon the income of the purchaser.

The resolution cites as reasons for the study:

1. Prescription drugs are responsible for 44 percent of increases in health care costs.
2. Medicaid drug expenditures in North Dakota are estimated to increase from \$47.1 million for the 1997-99 biennium to over \$80 million for the 2001-03 biennium.
3. The escalating cost of drugs is an important issue for seniors because costs for the top 50 drugs used by elderly citizens have increased at a rate that outpaced inflation nearly 2 to 1.
4. The escalating cost of drugs is an important issue for rural residents because rural residents typically have lower income, limited access to pharmacies, and pay more for prescription drugs than urban residents.
5. Inadequate access to affordable prescription drugs results in increased medical expenses.
6. Several states, including Maine and Indiana, have initiated programs to address the affordability of prescription drugs.
7. Several other states, including Illinois, Michigan, Minnesota, and Ohio, have considered legislation to address the issue of affordability of prescription drugs.

PRIOR LEGISLATIVE STUDIES

There have been no recent legislative studies in North Dakota on the cost of prescription drugs or the establishment of a state program to assist in the purchase of prescription drugs. However, the following health care-related studies have been conducted by the Legislative Council.

1991-92 Health Care Committee

The 1991-92 Health Care Committee conducted a study of the feasibility of establishing a state program to provide health insurance to the state's uninsured and underinsured citizens, pursuant to 1991 Senate Concurrent Resolution No. 4002. As a result of the study, the committee recommended Senate Bill No. 2038, which included a general fund appropriation

of \$11 million to establish a program to provide health services to pregnant women and children up to age 18. Senate Bill No. 2038 failed to pass.

1993-94 Health and Communications Committee

The 1993-94 Health and Communications Committee conducted studies of:

- The feasibility and desirability of allowing all North Dakota residents to participate in the uniform group insurance program (Senate Concurrent Resolution No. 4042).
- The feasibility and desirability of pooling all sources of funding for health care benefits, in conjunction with a study by the North Dakota Health Task Force relating to the control of health care costs and the improvement of access to health care (Senate Concurrent Resolution No. 4061).

As a result of the studies, the committee recommended House Bill No. 1050, which provided legislative intent that the Department of Human Services expand Medicaid coverage to include children and pregnant women. The bill also created North Dakota Century Code Section 23-01-03.2 to provide that the State Health Council shall:

- Monitor the cost and quality of health care in North Dakota.
- Recommend to the appropriate interim legislative committees changes to the health care system in North Dakota.
- Publish an annual report on health care in North Dakota.

Reports prepared by the State Department of Health have not dealt specifically with the cost of prescription drugs in North Dakota.

The committee also recommended Senate Bill No. 2065 to expand the uniform group insurance program administered by the Public Employees Retirement System to allow voluntary participation for persons who meet medical underwriting requirements. Senate Bill No. 2065 failed to pass.

RELATED 2001 LEGISLATION

House Bill No. 1116 - This bill, which failed to pass, would have authorized the Department of Human Services to require prior authorization before providing medical assistance coverage for medical services and certain outpatient prescription drugs. The department estimated the bill would have generated general fund savings of \$180,300 for the 2001-03 biennium.

House Bill No. 1382 - This bill, which failed to pass, would have provided an income tax credit for prescription drugs. The fiscal note indicated a 2001-03 biennium general fund cost of \$15.4 million.

House Concurrent Resolution No. 3058 - This resolution directs the Legislative Council to study current and 5-, 10-, 25-, and 50-year projections of the delivery of health care services in the state. This study was not prioritized by the Legislative Council for study during the 2001-02 interim.

House Concurrent Resolution No. 3062 - This resolution directs the Legislative Council to study issues relating to the cost of prescription drugs in the United States, inequitable prescription drug pricing, and possible methods of containing prescription drug costs. This study was not prioritized by the Legislative Council for study during the 2001-02 interim.

PRESCRIPTION DRUG EXPENDITURES, PRICES, AND UTILIZATION

Expenditures

Although comprising only a small percentage of total consumer spending (about 1 percent nationally, based on 1998 data), the amount spent on prescription drugs has increased significantly in recent years, causing concern about the resulting impact on health care costs and the affordability of medications for the uninsured.

Each year from 1990 to 1998 spending for prescription drugs increased at a higher annual percentage rate than expenditures for hospital care and physician services, the two largest components of health care costs. The annual increase in prescription drug expenditures ranged from 8.6 percent to 15.4 percent during that time period. The trend has not reversed since 1998. Spending on outpatient prescription drugs rose 18.8 percent from 1999 to 2000 alone. The annual percentage increases in prescription drug expenditures, hospital care, and physician services from 1990 to 1998 are shown on the graph attached as Appendix B.

Prescription drug costs are still a relatively small percentage of total health care costs when compared to hospital care or physician services, but the percentage is increasing. From 1990 to 1998, hospital care and physician services decreased as a percentage of total health care costs, from 41.7 percent to 37.6 percent and from 23.8 percent to 22.5 percent, respectively. During that same time period, prescription drugs increased from 6.1 percent to 8.9 percent of total health care expenditures.

Demographic trends play a role in prescription drug expenditures. On average, older consumers spend more on pharmaceuticals than do younger consumers. Based on 1998 data, the average United States consumer spent \$346 for out-of-pocket expenses for prescription and nonprescription drugs. However,

significant differences exist when comparing expenditures by age group. For those under age 25, average drug expenditures were \$79 per year. For those age 65 and older, drug expenditures averaged \$670 per year. On average, people over age 75 use 11 prescriptions per year, compared to two prescriptions per year for those in their 20s and 30s. The correlation between age and prescription drug usage will result in future increases in drug expenditures as the population ages. The median age of the United States population has increased from 31.1 years in 1984 to 35.2 years in 1998.

Prices

Drug expenditures are affected by changes in either prices paid for individual prescription drugs or prescription drug utilization. From 1991 to 1998, the average price per prescription increased from \$23.68 to \$37.38, an average annual increase of 6.7 percent compared to 2.6 percent for the consumer price index for all items during that time period and 4.6 percent for the consumer price index for medical care. A significant factor contributing to the increase in the average price per prescription is the purchase of new, more expensive drugs which are more effective than previous drugs or which provide treatment for diseases for which pharmaceutical treatments were not previously available. In 1998 the average price per prescription for new drugs (those introduced after 1992) was \$71.49, more than twice the average price of \$30.47 for older drugs (those introduced prior to 1992). Prices for older drugs have increased only 4.2 percent annually from 1993 to 1998.

Consumer demand for new drugs results in part from advertising directed at consumers. The 10 most heavily advertised drugs in 1998 accounted for 22 percent of the total increase in drug spending from 1993 to 1998. Name brand drugs are more expensive than generic drugs, which are offered for sale by competing pharmaceutical firms after patent protection expires on the name brand drug. In 1998 the average retail price of name brand drugs was \$54.78; the average retail price of generic drugs was \$15.98. Changes in average retail prescription drug prices from 1991 through 1998 are shown on the graph attached as Appendix C.

A factor contributing to the high price of newly introduced drugs is the extensive period of research and development required to obtain Food and Drug Administration approval. Current estimates of drug development time are up to 15 years. United States pharmaceutical companies spent approximately \$21.1 billion on research and development in 1998, more than twice the amount spent in 1990, and 10 times the amount spent in 1980.

Utilization

Utilization has also played a part in increased drug expenditures. As discussed above, consumer advertising, the availability of new drugs, demographic changes, and other factors all play a role in increasing utilization of prescription drugs. From 1992 to 1998, the number of prescriptions purchased in the United States increased approximately 40 percent, from 1.9 billion to 2.6 billion, while the United States population increased only approximately 6 percent. That amounts to an increase in prescriptions per capita from 7.3 prescriptions per year in 1992 to 9.6 prescriptions in 1998.

From 1993 to 1998, the average price per prescription increased 40.5 percent, and the utilization of all pharmaceuticals increased by 31.1 percent; however, significant differences exist among the various therapeutic categories for which drugs are available, as shown below:

Type of Drug	Share of Total 1998 Sales	Change in Average Price 1993 to 1998	Change in Utilization 1993 to 1998
Antidepressants	7.6%	61.1%	111.5%
Cholesterol reducers	5.6%	12.4%	161.6%
Antulcerants	7.1%	29.8%	31.9%
Antihistamines	2.4%	18.6%	500.2%
Diabetes (oral)	2.7%	33.8%	133.6%
HIV antivirals	1.6%	77.9%	544.9%
Antibiotics	6.7%	27.2%	0.0%
Total all drugs	100.0%	40.5%	31.1%

INSURANCE COVERAGE FOR PRESCRIPTION DRUGS

The Medicaid program is the largest source of public coverage for prescription drugs and is the primary source of prescription drugs for low-income and disabled persons. In 1996 Medicaid provided prescription drug benefits to 11 percent of Americans. However, Medicare, the federal health insurance program for the elderly, does not provide coverage for most outpatient prescription drugs. Based on 1996 data, 77 percent of the non-Medicare population has health insurance coverage for prescription drugs, compared to 69 percent of the Medicare population.

The burden of paying for prescription drugs has shifted over time from primarily out-of-pocket payments by the purchaser of the prescription drug to primarily private insurance companies, as shown in the following table and the graph attached as Appendix D:

Year	Private Insurance	Out-of-pocket Payments	Medicaid	All Other Sources
1965	3.5%	92.6%	0.0%	3.9%
1970	8.8%	82.4%	7.6%	1.2%
1975	12.2%	75.4%	10.8%	1.6%
1980	20.1%	66.0%	11.7%	2.2%
1985	29.9%	55.4%	11.8%	2.9%
1990	34.4%	48.3%	13.5%	3.8%
1995	46.8%	33.9%	15.8%	3.4%
1996	48.8%	31.6%	16.1%	3.5%
1997	50.8%	29.1%	16.5%	3.6%
1998	52.7%	26.6%	17.1%	3.6%

MEDICAID DRUG EXPENDITURES IN NORTH DAKOTA

General fund expenditures for Medicaid prescription drugs in North Dakota have increased significantly and are anticipated to continue to do so. Estimated general fund expenditures for the 2001-03 biennium are 78 percent more than actual expenditures during the 1997-99 biennium, as shown in the following table:

Biennium	General Fund	Federal Funds	County Funds	Total
1997-99 (actual)	\$13,769,111	\$32,989,263	\$385,554	\$47,143,928
1999-2001 (estimated expenditures)	\$19,284,532	\$45,446,981		\$64,731,513
2001-03 (estimated expenditures)	\$24,563,951	\$56,987,556		\$81,551,507

PRESCRIPTION DRUG ASSISTANCE OR COST CONTROL PROGRAMS IN OTHER STATES

A total of 26 states have authorized some type of pharmaceutical assistance program. Of those 26 states, 22 have enacted laws to create the program, and four states have programs authorized by executive branch action only. As of June 2001, 24 states have programs in operation, and two states have newly authorized programs not yet in operation. The schedule attached as Appendix E, which was prepared by the National Governors' Association, provides information on each of the 26 state pharmaceutical assistance programs, including enrollment, state funding sources, and eligibility requirements.

PROPOSED STUDY PLAN

The following is a study plan the committee may want to consider in its study of prescription drug prices:

1. Receive information from Blue Cross Blue Shield of North Dakota (Noridian Mutual Insurance Company), the Public Employees

- Retirement System, the Department of Human Services, and other interested organizations and entities regarding factors contributing to changes in prices, utilization, and total expenditures for prescription drugs in North Dakota.
2. Monitor methods used in other states to lower the cost of prescription drugs.
 3. Monitor various state programs which provide assistance in the purchase of prescription drugs, based upon the income of the purchaser.
 4. Receive information from interested organizations, entities, and individuals regarding the costs and benefits, including reduced hospital and physician costs, of increased usage of prescription drugs.
 5. Receive information from interested organizations, entities, and individuals regarding possible mechanisms to lower the costs of prescription drugs and to provide state assistance in the purchase of prescription drugs.
6. Develop recommendations and related bill drafts regarding:
 - a. Possible mechanisms to lower the costs of prescription drugs for consumers and the state.
 - b. The establishment of a state program to provide assistance in the purchase of prescription drugs, based upon the income of the purchaser.
 7. Prepare a final report to the Legislative Council.

ATTACH:5