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## Pharmaceutical cost management and access to psychotropic drugs: The U.S. context

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### Abstract

In recent years, prescription drug expenditures in the United States have increased rapidly. In 2003, spending on prescription medications totaled \$179.2 billion dollars, or approximately 11% of national health expenditures [Smith, C., Cowan, C., Sensenig, A., Catlin, A., & the Health Accounts Team. (2005). Health spending growth slows in 2003. *Health Affairs*, 24 (1) 185–194]. In response to rapid increases in prescription drug expenditures, both public and private payers of health care services have adopted strategies to try to contain drug costs, including drug formularies, prior authorization programs, cost sharing and utilization management. In this paper, I provide a background on prescription drug spending trends, financing, and access to medications; describe some of the tools used most commonly to manage prescription drug utilization; present results from the literature on the impact of these tools; and discuss some implications of this information for the new Medicare prescription drug benefit to be implemented in 2006 as well as for future prescription drug innovation.

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In recent years, prescription drug expenditures in the United States have increased rapidly. In 2003, spending on prescription medications totaled \$179.2 billion dollars, or approximately 11% of national health expenditures (Smith, Cowan, Sensenig, Catlin, & Health Accounts Team, 2005). Expenditures rose 10.7% from the previous year, and 2003 was the fifth straight year of double-digit growth in prescription drug spending (Smith et al., 2005). In response to rapid increases in prescription drug expenditures, both public and private payers of health care services have adopted strategies to try to

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contain drug costs, including drug formularies, prior authorization programs, cost sharing and utilization management.

The past few decades have represented a period of rapid innovation for the treatment of mental illness. Several important psychotherapies were developed, but many of the key innovations were psychotropic drugs, including medications used to treat depression, schizophrenia and bipolar disorder. Not surprisingly, these advances have been accompanied by increases in expenditures on psychotropic medications. From 1996 to 2001, spending on psychotropic drugs almost tripled from \$5.9 million to \$14.7 million (Zuvekas, 2005). There is some evidence that spending for psychotropic drugs has increased more rapidly than spending for many other classes. For example, from 2000 to 2001, retail sales for antidepressants grew faster than retail sales for any other therapeutic class (National Institute for Health Care Management, 2002).

Although traditionally payers have been reluctant to restrict access to psychotropic medications because of their importance in the treatment of mental illness and because of clinical literature that suggests that patients often respond differently to different medications, payers are increasingly applying pharmacy cost management techniques to psychotropic medications (Huskamp, 2003). However, there is reason to believe that these techniques, including formularies and prior authorization programs, will be less effective at controlling utilization and spending for psychotropic medications than for many other therapeutic classes (Huskamp, 2003).

There is a growing literature on the impact of some of these techniques on medication use and spending. However, only a small subset of these studies report results for classes of psychotropic medications. Below I provide background on prescription drug spending trends, financing, and access to medications. I describe some of the tools used most commonly to manage prescription drug utilization and I present results from the literature on the impact of these tools. Finally, I discuss some implications of this information for the new Medicare prescription drug benefit to be implemented in 2006 as well as for future prescription drug innovation.

## **1. Background on drug expenditure trends, financing and access to psychotropic medications**

There are three main factors driving the recent increases in prescription drug spending: 1) increases in the number of prescriptions filled; 2) changes in the types of drugs used (i.e., increased use of newer, more expensive drugs instead of older, less-expensive medications); and 3) price increases for existing drugs (Kaiser Family Foundation, 2004). From 1993 to 2003, the number of prescriptions filled increased 70% and the average number of prescriptions per person increased from 7.8 to 11.8 (Kaiser Family Foundation, 2004). Increases in the number of prescriptions filled were considered to be responsible for 42% of the overall increase in prescription drug spending from 1997 to 2002. Retail prescription prices have increased an average of 7.4% a year from 1993 to 2003, which is more than twice the average inflation rate of 2.5% (Kaiser Family Foundation, 2004). Increases in prices for existing drugs were responsible for 25% of the spending increase, while changes in the types of drugs used were responsible for another 34% (Kaiser Family Foundation, 2004).

In 2003, approximately 46% of prescription drug expenditures were paid for by private insurance, 30% were paid out-of-pocket, 19% were paid by the Medicaid program (the public insurance program that covers more than 50 million low-income individuals in the U.S.), 2% were paid by Medicare (the public insurance program that covers approximately 41 million elderly and disabled Americans) and 4% were

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