

WHY ARE PRESCRIPTION DRUGS SO EXPENSIVE?

MINNESOTA COUNCIL OF HEALTH PLANS

Minnesotans get some of the best medical care in the nation—but that care is more and more expensive. For the more than four million people who have insurance through one of Minnesota’s nonprofit health plans, an average of 91 cents of every premium dollar goes *directly* to pay for medical expenses—which means that the increasing expense of medical care affects our daily lives.

According to data compiled by the Minnesota Council of Health Plans, one reason for the dramatic increase in our medical bills is our expenses for prescription drugs. To lower our premiums, we have to find ways of lowering our medical expenses—and to do that, we have to understand why drugs have become so expensive.

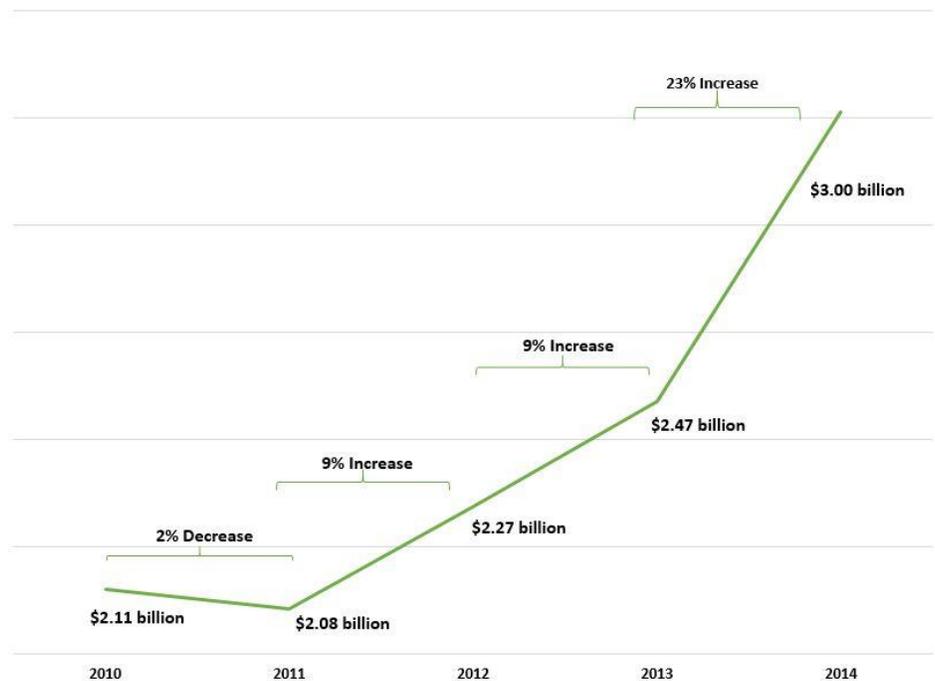
A CLOSER LOOK AT PRESCRIPTION DRUG EXPENSES IN MINNESOTA

Prescription expenses are particularly important in Minnesota, where prescription drugs account for 15 percent of overall health care expenses (compared to 11 percent nationwide).

Drugs aren’t just expensive when they’re administered in Minnesota’s hospitals and clinics—we’re paying more when we pick up our prescriptions at the pharmacy, too. From 2013 to 2014, expenses for drugs at retail pharmacies jumped an unprecedented 23 percent—and a startling 42 percent just since 2010—dramatically outpacing the overall growth of the economy.

The dramatic increase in drug spending is the result of two important trends: the rise of specialty medications and the repricing of generic drugs.

Minnesotans' Expenses for Prescription Medications and Supplies
2010 to 2014



Source: Minnesota Council of Health Plans

WHAT MAKES DRUGS SPECIAL?

SPECIALTY DRUGS are high-cost medications to treat complex, chronic, rare or hard-to-manage conditions. They require special handling, and people who take them need to be carefully monitored.

Many of these new drugs have a remarkable effect on the lives of Minnesotans. People who have lived with hepatitis C for decades can now be cured in months. Other drugs let some people with rheumatoid arthritis move without pain, combat cancers and slow the progression of multiple sclerosis. Specialty drugs like these are revolutionary—and extremely costly. They can easily cost tens of thousands of dollars each year.

In Minnesota, a specialty drug prescription costs nearly \$5,000 on average. While less than 1 percent of all prescriptions are for these drugs, they currently make up more than 30 percent of drug-related expenses.

And the cost keeps increasing. Between 2014 and 2015 the cost of specialty drugs for Minnesotans rose dramatically:

- 13 percent for people with multiple sclerosis
- 24 percent for people with rheumatoid arthritis
- 26 percent for people with cancer
- 39 percent for people with hepatitis C

It's not only people with cancer, or with rare conditions, who encounter the expense of specialty drugs. Drug companies are now developing specialty medications to treat common conditions like high cholesterol. Two new drugs with price tags above \$14,000 a year have been approved to treat adults who have inherited a condition that raises bad (LDL) cholesterol, for whom other approved cholesterol drugs haven't worked. As pharmaceutical researchers develop more revolutionary treatments for ordinary ailments, the cost of specialty drugs will become even more relevant. With more than 700 specialty drugs currently in the development pipeline, three out of every five new drugs approved in the United States will fall into that high-cost category.

Drug companies also extend existing specialty drugs to treat more conditions. Humira, [the bestselling drug in the world in 2014](#), costs about \$3,500 a month. Approved in 2003 to treat the devastating inflammation that is common with rheumatoid arthritis, Humira has now been approved to treat nine conditions—with more uses under study.

While specialty drugs like Humira can save many lives, their expanded use to treat more common conditions raise urgent questions about whether these drugs' effectiveness justifies their immense cost. *As Health Affairs reports*, specialty drugs sometimes don't work any better than conventional medications—even though they cost much more.



PEOPLE WHO HAVE LIVED WITH HEPATITIS C FOR DECADES CAN NOW BE CURED IN MONTHS. OTHER DRUGS CAN LET PEOPLE WITH RHEUMATOID ARTHRITIS MOVE WITHOUT PAIN, COMBAT CANCERS AND SLOW THE PROGRESSION OF MULTIPLE SCLEROSIS. SPECIALTY DRUGS LIKE THESE ARE REVOLUTIONARY—AND EXTREMELY COSTLY. THEY CAN EASILY COST TENS OF THOUSANDS OF DOLLARS EACH YEAR.

GENERIC DOESN'T MEAN CHEAP

The U.S. patent on Humira expires in 2016, which will allow other companies to make generic versions of the drug. But that doesn't mean the price of the medication will drop significantly. The second trend behind rising prescription drug expenses doesn't show up in headlines as often: it's the increasing cost of generic drugs.

In order to defray the cost of research and development—and to sustain their industry's high profit margins—pharmaceutical companies often charge high prices for new drugs they have developed and patented. After a company's patent on a drug expires, other drug makers can begin to produce their own "generic" versions of it. Because makers of generics don't have to invest in the drug's initial development and testing, they can charge much lower prices to make and distribute it. That's why generic drugs used to be consistently much more affordable than their brand-name counterparts.

But recently, generic drugs have started becoming more expensive, too. Instead of the pennies per pill many of us are used to, some well-known generics are now being sold for many times what it costs their manufacturers to produce them. Three examples from health plan data:

- **Lidocaine patches** are approved by Medicare to treat pain caused by Shingles. The medication costs pennies to make, but when applied to adhesive patches that stick to the skin, this common medication costs between \$263 and \$554 a month.
- **Aripiprazole** helps treat people with severe mental illness. A brand-name version of the drug, Abilify, costs \$600 a month. A generic version of the medication is available—but the price is still \$530 to \$545 a month.
- **Epinephrine** is a medication people inject to treat life-threatening allergic reactions. In 2007 a two-pack of brand-name EpiPens cost \$114—it costs \$540 today. But people with allergies don't save much by choosing a generic version of this common and lifesaving medication: the generic version costs \$307.

WHAT'S AHEAD FOR MINNESOTANS

Pharmacy experts predict that it won't be long before prescription drugs accounts for one out of every four dollars we spend on medical care. Minnesotans feel the rising cost of prescription drugs when we pick up prescriptions for ourselves and our families and in the health insurance premiums we pay every month. Everyone who pays taxes or for health insurance pays for the rising expense of prescription drugs.

Health plans are working throughout the state to address the problem. They negotiate the best possible drug prices and pay attention how drugs are used to discourage waste and abuse. By working together with doctors, nurse practitioners, pharmacists and others health plans ensure Minnesotans have access to the most effective treatments at the best possible prices.



EVERYONE WHO PAYS FOR HEALTH INSURANCE PAYS FOR THE RISING EXPENSE OF PRESCRIPTION DRUGS.