

Pharmaceutical Pricing

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Pharmaceuticals in the U.S.

- **Grew rapidly as share of spending in 1980s and 1990s**
 - In 1982 was 4.5% of all U.S. health care spending
 - By 2002 had risen to 9.7%
- **But this growth has slowed down substantially**
 - In 2013 (most recent year) was 9.4%
 - Driven by shift to generic drugs and few “blockbuster” drugs
 - Gilead’s Sovaldi a notable exception
- **Projections from CMS suggest only a modest increase**
 - By 2024 rising to 10.4%
 - Considerable uncertainty surrounds this estimate
- **Share paid out-of-pocket has fallen dramatically**
 - 72% in 1980 versus 17% by 2013
 - Pricing is opaque and varies substantially across payers

Reimbursement for Prescription Drugs

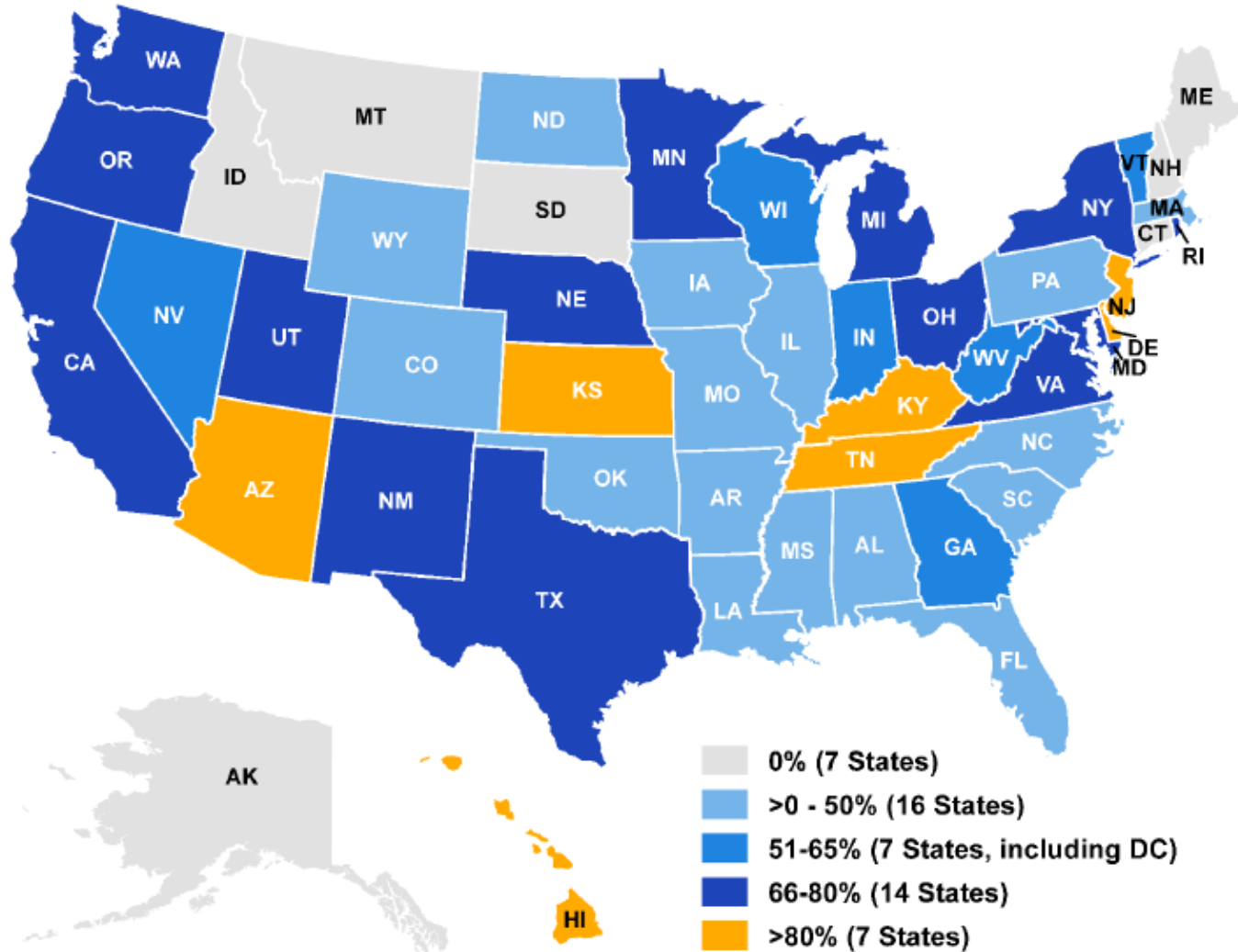
- **Private health insurance pays for 44%**
 - Medicare 28% and Medicaid 8% (other 3rd party 4%)
 - Out-of-pocket just 17%
- **Distortionary effects of Medicaid purchasing**
 - Duggan and Scott Morton (2006) look at Medicaid market share
 - Consider Zyprexa (\$400 per script) versus Zoloft (\$80)
- **Importance of Medicaid fell after Part D**
 - Dual eligibles' purchases moved from Medicaid to Part D plans
 - They represented about ½ of Medicaid RX spending
- **Medicare Part D lowered RX prices**
 - Duggan and Scott Morton (2010) stress role of plan bargaining power
- **Most Medicaid recipients now in managed care plans**
 - FFS reimbursement methodology less important

Reflections on the Medi-Cal Program

- **Now insures 1-in-3 CA residents**
 - Versus 24% just 2 years ago
 - Due to Affordable Care Act changes
- **Role of Medi-Cal as a purchaser has therefore increased**
 - Increase of 4 million in # insured by the program since 2013
 - 90% federal match for those newly eligible for the program
- **But limited by Medi-Cal managed care contracting**
 - More than 3-in-4 Medi-Cal recipients in MMC plan
- **Those who remain in fee-for-service are high utilizers**
 - Many aged and disabled Medi-Cal recipients still in FFS
- **Total 2013 RX spending by Medi-Cal FFS = \$3.9 billion**
 - About 5% of state Medi-Cal spending

Variation Across States in Use of Managed Care

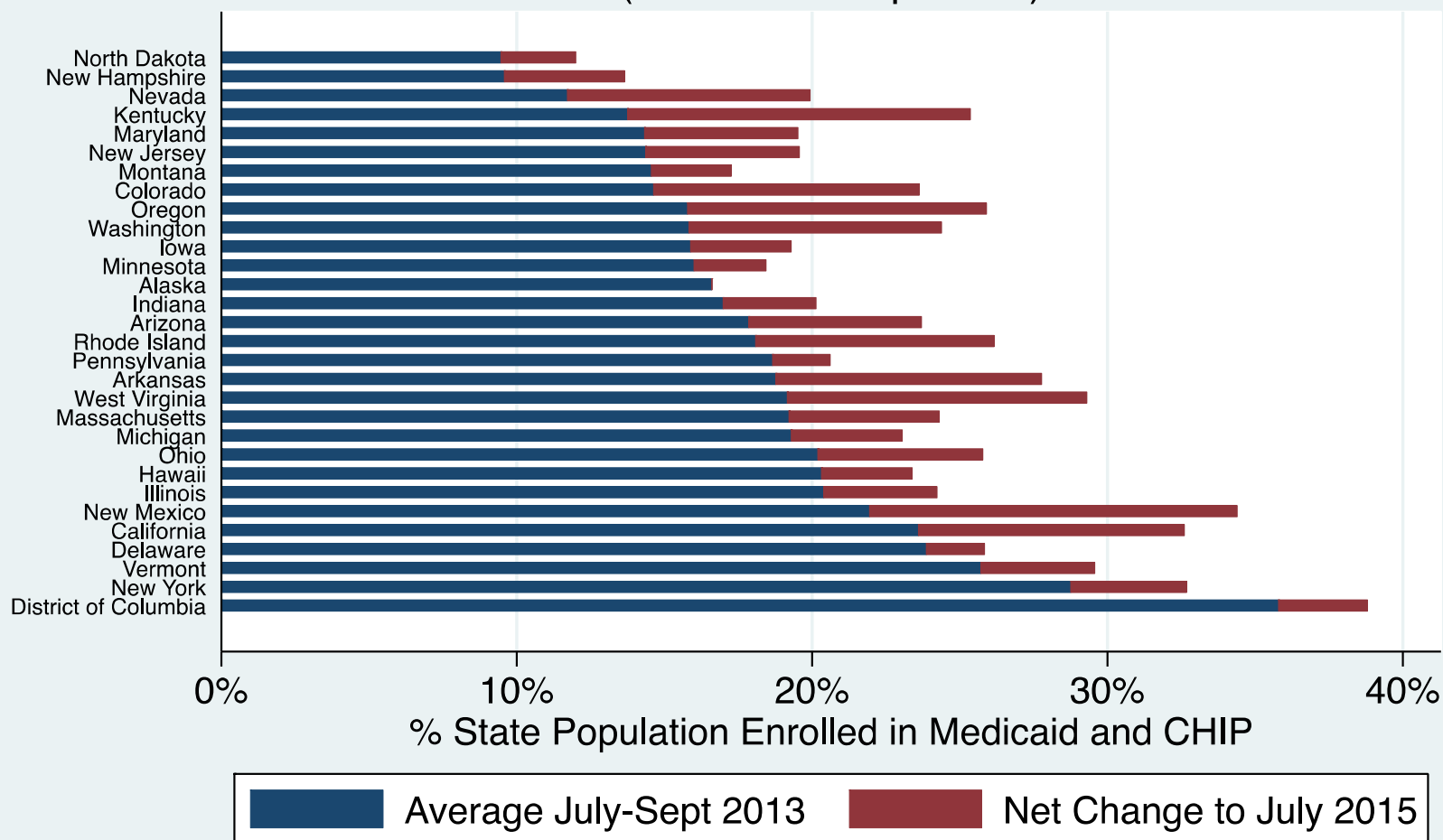
State Comprehensive Medicaid Managed Care 2013



U.S. Overall = 56%

Expansion States: +6% population covered (20% => 26%)

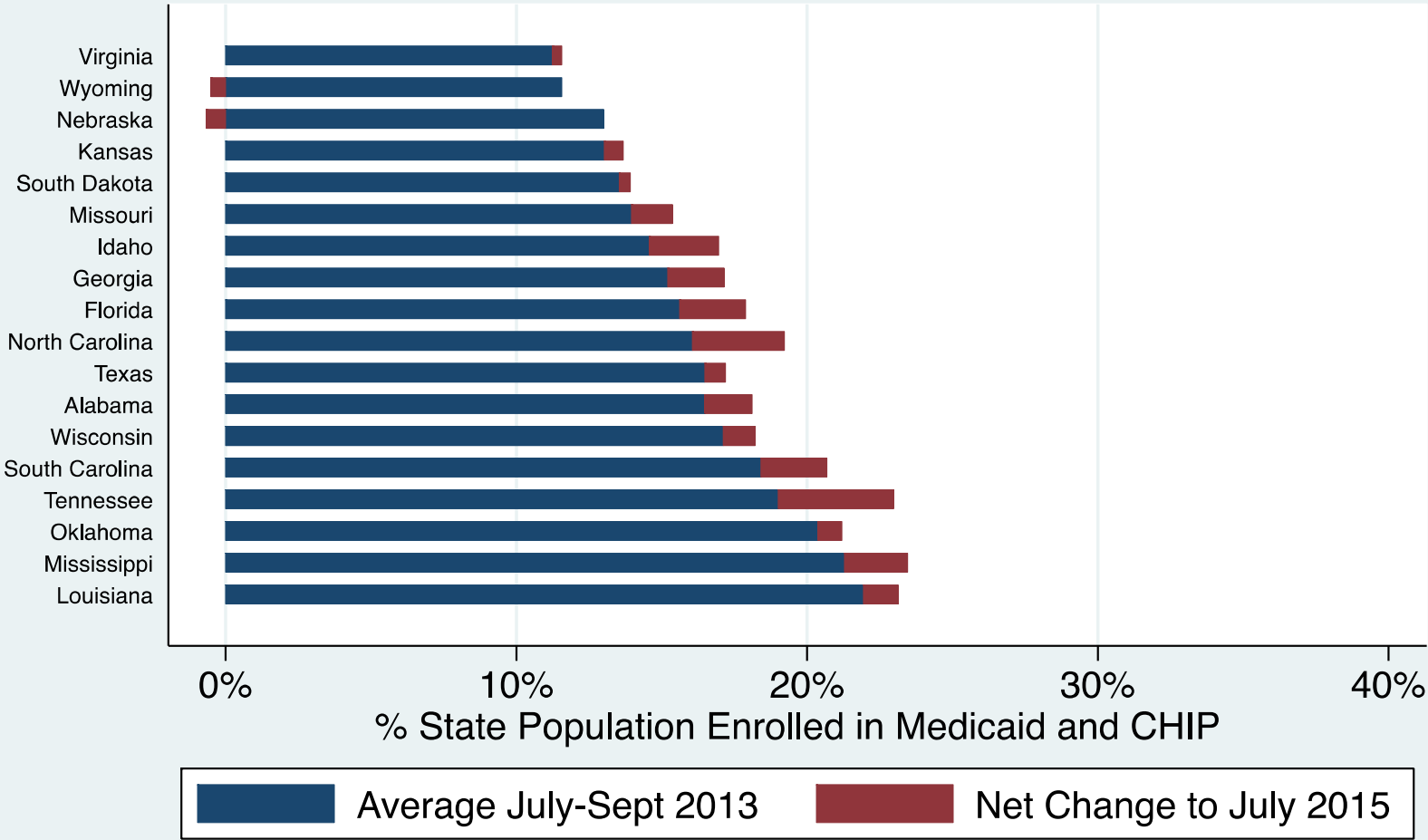
Percent of State Population Enrolled in Medicaid and CHIP (States that Expanded)



Note: Population estimates for 2014 from US census

Non-Expansion States: +1.5% population covered (16%=>17.6%)

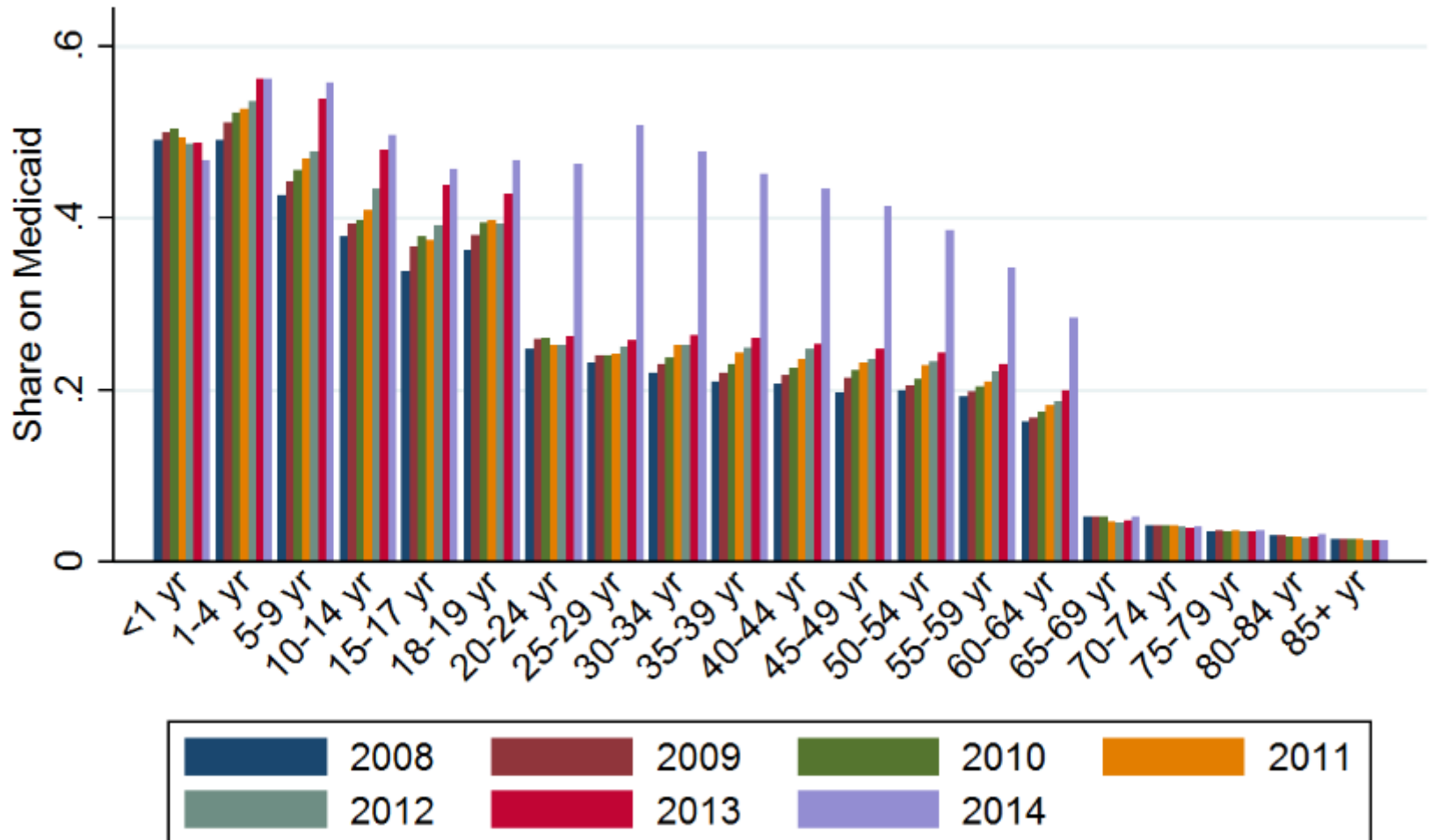
Percent of State Population Enrolled in Medicaid and CHIP (States that Did Not Expand)



Note: Population estimates for 2014 from US census

Evidence from CA Hospital Discharge Data

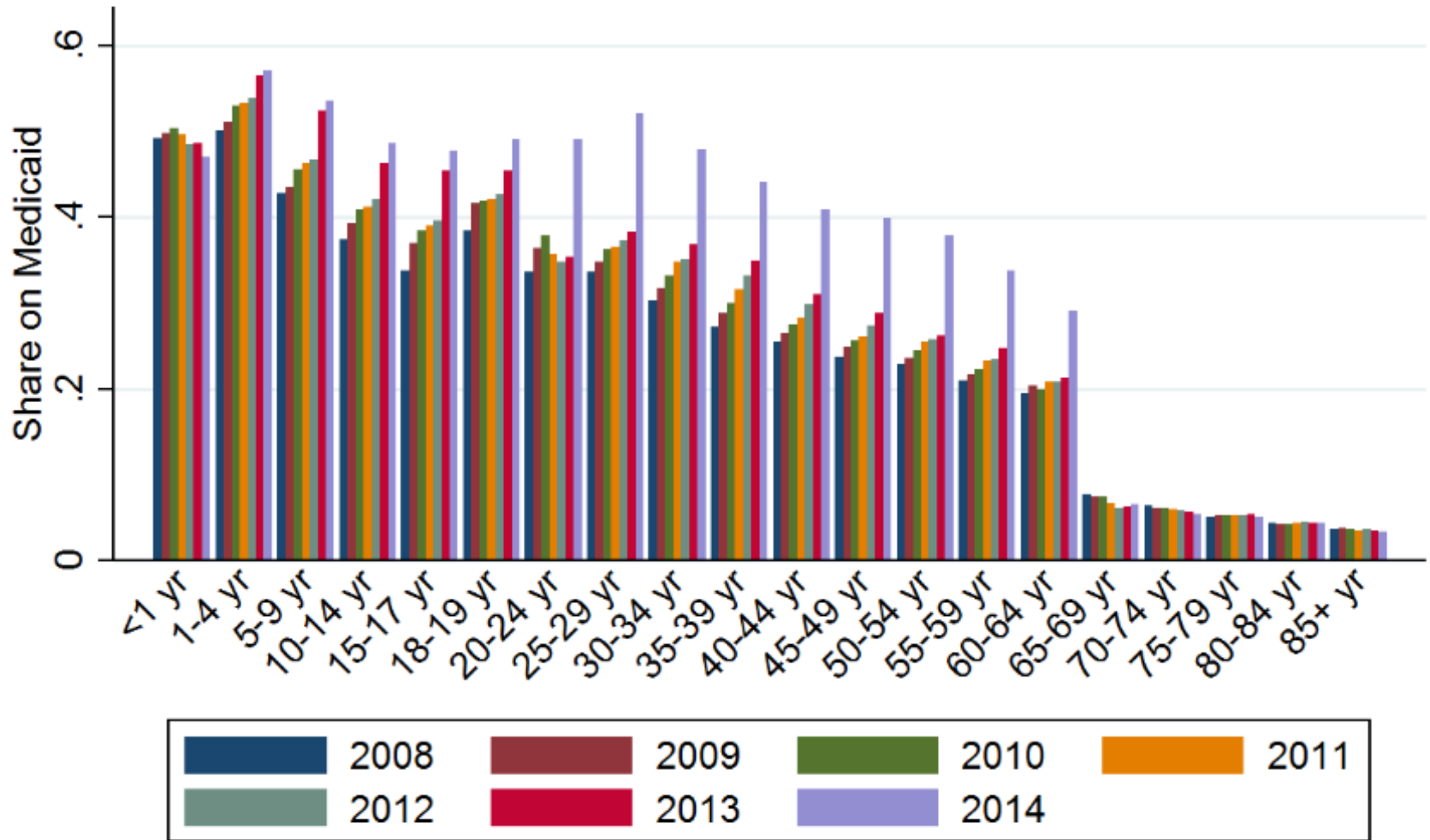
Share on Medicaid by Age & Year Male



Excludes Deliveries

Largest Increase in Medicaid Coverage for Non-Elderly Adults

Share on Medicaid by Age & Year Female



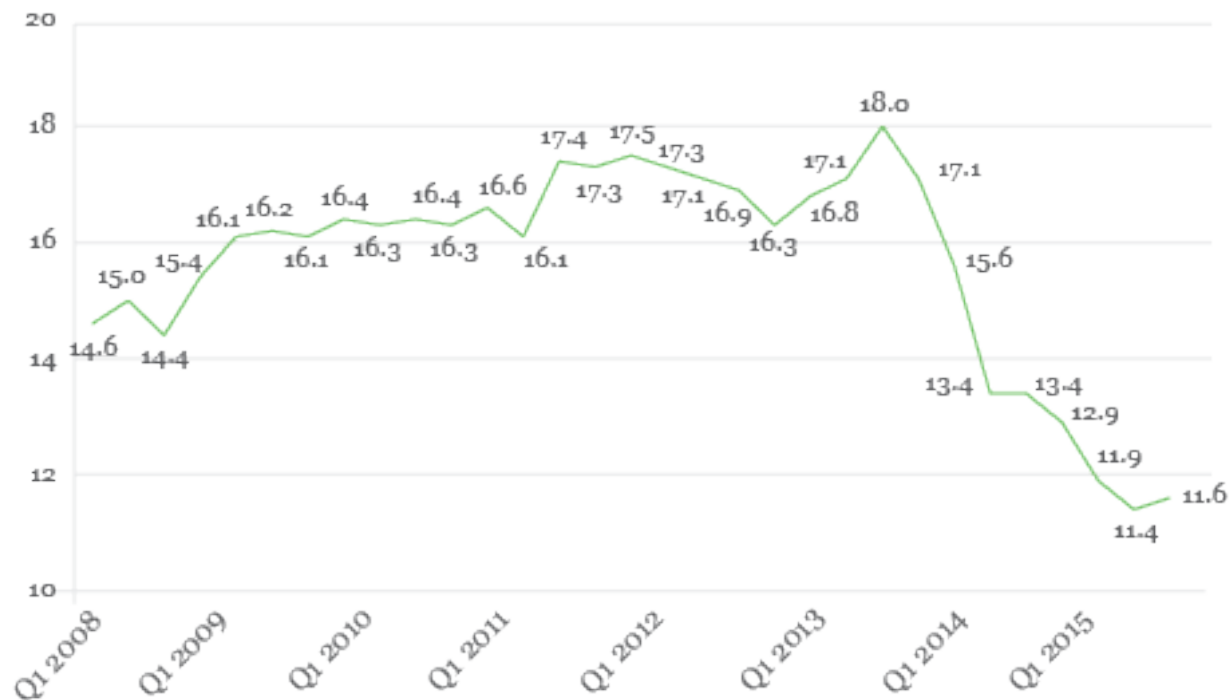
Excludes Deliveries

Large Decline in % Uninsured Since Late 2013

Percentage Uninsured in the U.S., by Quarter

Do you have health insurance coverage?
Among adults aged 18 and older

■ % Uninsured



Quarter 1 2008-Quarter 3 2015
Gallup-Healthways Well-Being Index

GALLUP

Coverage Gains Vary By State

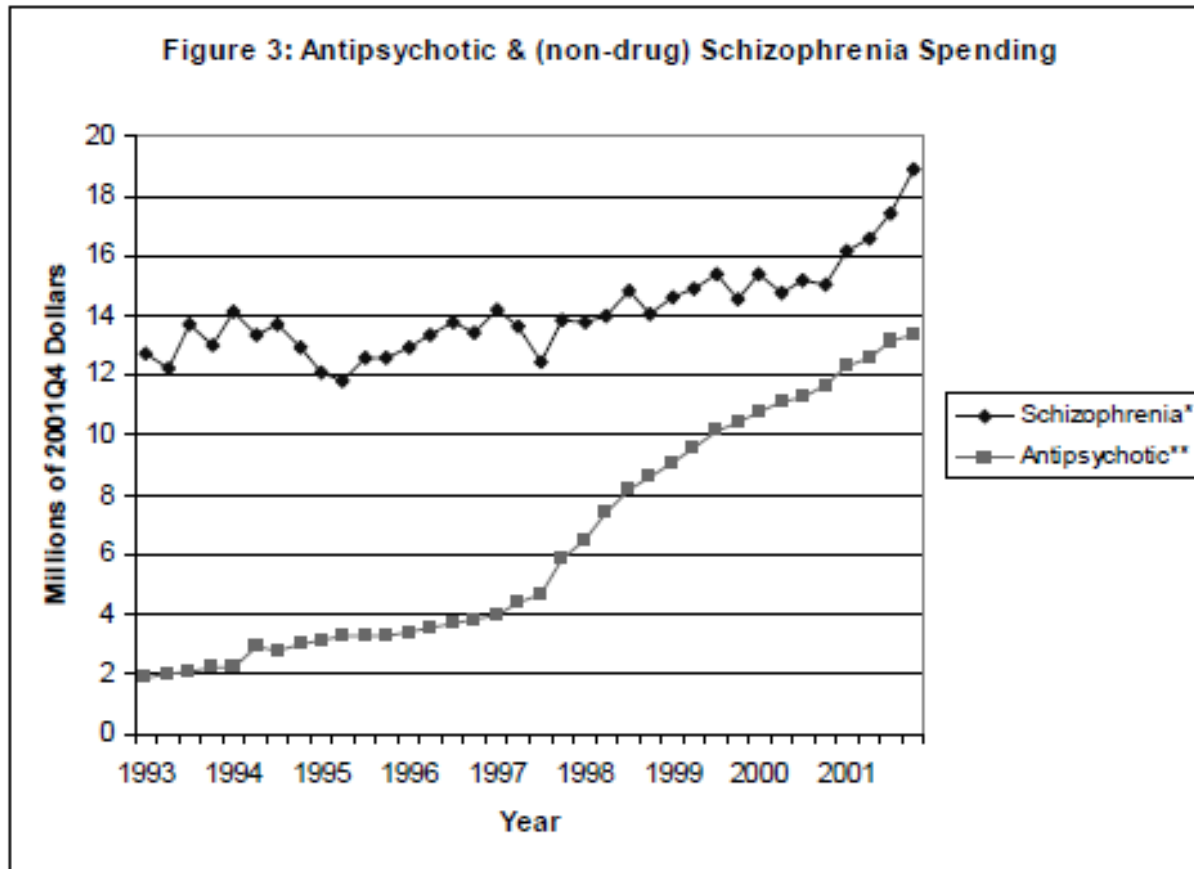
Ten States With Largest Reductions in Percentage of Uninsured, 2013 vs. First Half of 2015

"Do you have health insurance?" (% No)

State	% Uninsured, 2013	% Uninsured, first half of 2015	Change in uninsured (pct. pts.)	Medicaid expansion and/or state/partnership exchange in 2014
Arkansas	22.5	9.1	-13.4	Both
Kentucky	20.4	9.0	-11.4	Both
Oregon	19.4	8.8	-10.6	Both
Rhode Island	13.3	2.7	-10.6	Both
Washington	16.8	6.4	-10.4	Both
California	21.6	11.8	-9.8	Both
West Virginia	17.6	8.3	-9.3	Both
Alaska	18.9	10.3	-8.6	Neither
Mississippi	22.4	14.2	-8.2	One
North Dakota	15.0	6.9	-8.1	One

Gallup-Healthways Well-Being Index

Easy to “Telescope In” on Specific Categories



* Spending on inpatient and outpatient care with a primary diagnosis of schizophrenia

** Spending on antipsychotic drugs