



Prescription for Rate Hikes

How Rising Pharmaceutical Drug Prices Affect
Massachusetts Residents

July 11th, 2017
MASSPIRG
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July 11th, 2017

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Rising pharmaceutical prices have disproportionate impacts on Massachusetts health care premiums

Rising prescription drug prices are leading to higher healthcare costs for Massachusetts residents. It's not only patients who rely on prescription drugs who pay more at the pharmacy counter—we all shoulder the burden through higher insurance premiums, higher costs for Massachusetts businesses, and higher costs for taxpayers and the state budget. An analysis of Massachusetts health insurance data reveals that prescription drug costs are contributing to rising healthcare premiums for Massachusetts residents.

As state lawmakers discuss means to alleviate rising drug prices, including “*An Act to promote transparency and prevent price gouging of pharmaceutical drug prices*” (SB 652)¹, this report highlights the urgent need for action to protect Bay Staters from the impact of skyrocketing prescription drug costs.

The following is based on a review of health insurance and prescription drug data compiled by the Massachusetts Health Policy Commission (HPC) and the Center for Health Information and Analysis (CHIA). We looked at both private healthcare plans (also known as commercial full-claim) as well as Massachusetts' public plan, MassHealth MCO. Currently, the Health Policy Commission estimates that 31% of Massachusetts residents are on a public plan and 65% are on a commercial plan. All of the information referenced here can be found in the HPC's 2016 Cost Trends Report² and the CHIA's 2016 Annual Report³.

Key Findings

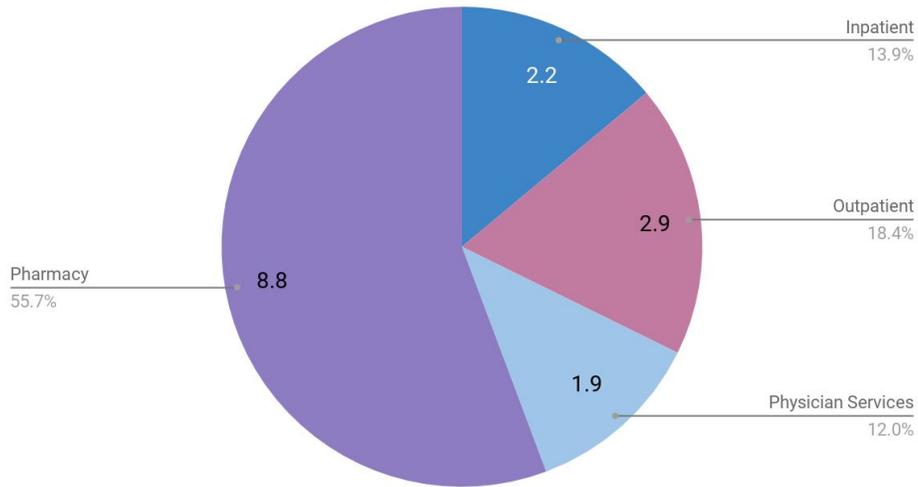
- For commercial health plans, pharmacy cost increases outpaced all other medical cost increases from 2014 to 2015 *combined*. Pharmacy costs rose over 300% faster than did the second largest expense, outpatient services. Specifically, pharmacy costs increased 8.8% per member per month (PMPM) compared to outpatient services, at 2.3% (see chart below).

¹ The bill's full text and progression through the State House can be tracked at <https://malegislature.gov/Bills/190/S652>

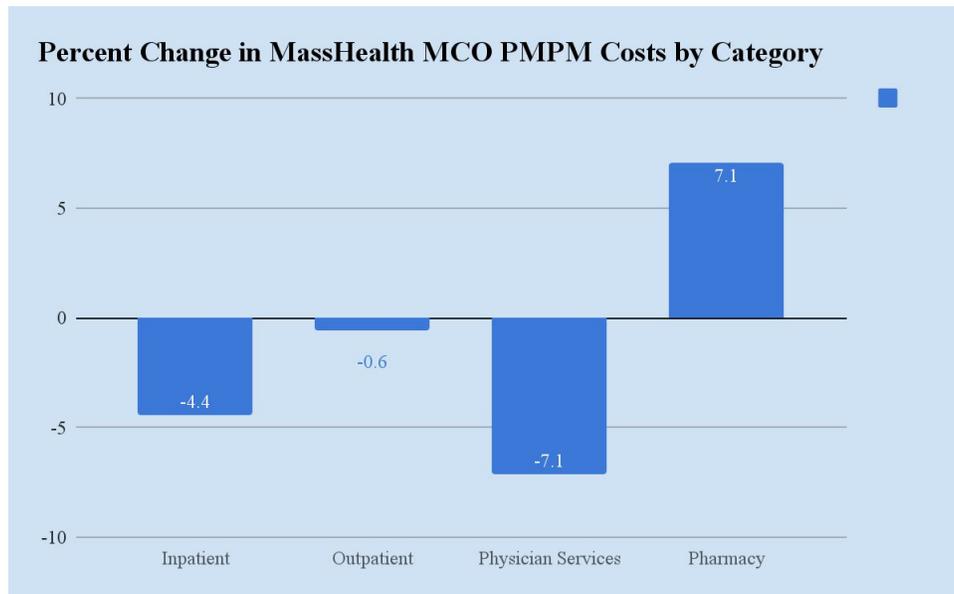
² Massachusetts Health Policy Commission, *2016 Cost Trends Report*, page 36, February 2017.

³ Center for Health Information and Analysis, *2016 Annual Report*, page 25, September 2016

Proportion of Percent Change in Commercial PMPM Costs



- For MassHealth MCO plans during the same period, pharmacy costs rose by 7.1% even though all other costs actually *decreased* during the same period (see below).



- Spending on brand-name prescription drugs Per Member Per Year (PMPY) increased more than twice as much as spending on generic prescription drugs from 2012 to 2014.

The Solution: An Act to Promote Transparency and Prevent Price Gouging of Pharmaceutical Drug Prices (SB 652)

SB 652 would, for the first time, provide real transparency and accountability for prescription drug pricing practices. Specifically, the bill would charge the CHIA with investigating the ten most expensive drugs by insurer and per treatment, the ten drugs with largest price increases, and other drugs whose cost has increased significantly over the past five years. The bill would allow the HPC and the Attorney General to take action against drug manufacturers whose prices are excessive. Finally, the Attorney General would gain the authority to regulate excessive pricing as an unfair practice, and use rebates to fund state pharmacy programs for children, seniors, and low-income populations. By taking a critical first step to contain skyrocketing prescription drug costs, SB 652 would begin to drive down health insurance costs for Massachusetts consumers and taxpayers.

Methodology

To produce this analysis, we reviewed data from the Massachusetts Health Policy Commission's 2016 Cost Trends Report⁴ and the Center for Health Information and Analysis' 2016 Annual Report⁵.

The CHIA report collected insurance payer submissions from all eligible Massachusetts providers to compile its analysis of PMPM spending. While the associated rate review filings are publicly available in Massachusetts, the specific submissions the CHIA used to break them down by spending category are not.

The MHPC's report regarding changes in PMPY spending was compiled from the Massachusetts All-Payer Claims Database, which is not public information.

Note: the data above do not reflect prices with rebates, as with-rebate data was unavailable for most Massachusetts healthcare plans.

⁴ Massachusetts Health Policy Commission, *2016 Cost Trends Report*, February 2017, available at <http://www.mass.gov/anf/budget-taxes-and-procurement/oversight-agencies/health-policy-commission/publications/2016-cost-trends-report.pdf>

⁵ Center for Health Information and Analysis, *2016 Annual Report*, September 2016, available at <http://www.chiamass.gov/assets/2016-annual-report/2016-Annual-Report-rev-1.pdf>

Data

Figure 1 : Percent change in PMPM costs by category, 2014-2015⁶

<i>Insurance Category</i>	<i>Service Category</i>	<i>Percent Change</i>
<u>Comm. Full Claim</u>	Inpatient	2.2
	Outpatient	2.9
	Physician Services	1.9
	Pharmacy	8.8
<u>MassHealth MCO</u>	Inpatient	-4.4
	Outpatient	-0.6
	Physician Services	-7.1
	Pharmacy	7.1

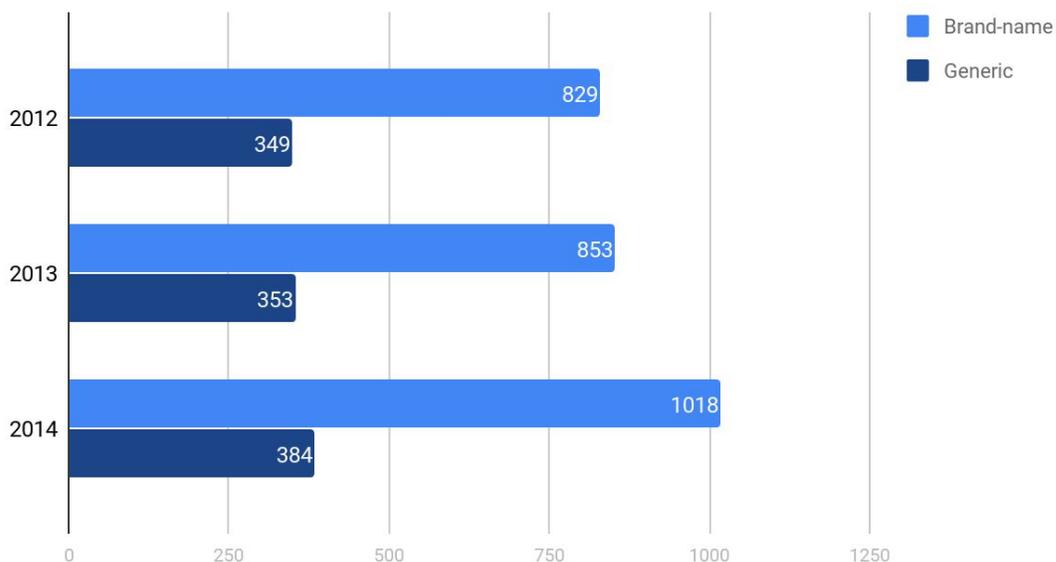
Total Comm. Full Claim PMPM percent cost increase: $2.2 + 2.9 + 1.9 + 8.8 = 15.8$ percent
Of which pharmacy: $8.8/15.8 = 0.557 = 55.7$ percent
Pharmacy relative to outpatient (second highest): $8.8/2.9 = 3.034 = 303.4$ percent

Total MassHealth MCO percent cost change: $7.1 - 7.1 - 0.6 - 4.4 = -5$ percent
Of which pharmacy: 7.1 percent
Price change excluding pharmacy: $-7.1 - 0.6 - 4.4 = -12.1$ percent
Pharmacy price change relative to all others (absolute value): $7.1/12.1 = 0.5591 = 55.91$ percent

⁶ Payer-reported data, CHIA 2016 Annual Report, Page 25

Figure 2: Changes in average PMPY spending, 2012-2014⁷

PMPY Average Prescription Drug Spending (Dollars)



Change in generic prescription drug spending from 2012 to 2014: $384 - 349 = 35$
Percent change = $35/349 = 0.1003 = 10.03$ percent

Change in brand-name prescription drug spending from 2012 to 2014: $1018 - 829 = 189$
Percent change = $189/829 = 0.2280 = 22.80$ percent

Overall change in brand-name spending relative to generic spending: $189 - 35 = 154$
(Brand-name prescription drug spending increased by 154 dollars more than generic prescription drug spending)

Percent change in brand-name spending relative to generic spending: $22.80/10.03 = 2.273$
 $= 227.3$ percent
(Brand-name prescription drug spending increased 227% more than did generic prescription drug spending)

⁷HPC analysis of Massachusetts All-Payer Claims Database, HPC 2016 Cost Trends Report, Page 36

Sources

Massachusetts Health Policy Commission, *2016 Cost Trends Report*, February 2017.
Center for Health Information and Analysis, *2016 Annual Report*, September 2016