Role of Pharmaceuticals in U.S. Health Care Spending

Spending on health care is a large share of U.S. gross domestic product (GDP), which can crowd out the funds available to pay for other national priorities. Pharmaceuticals are around 10 percent of those health care costs. Medicines are one of the most efficient types of spending, because the effective use of medicines can prevent more expensive health care and because major price declines occur with patent expiration. Excessive restrictions on the use of pharmaceuticals run counter to achieving a high performing health care system because they can result in the unintended consequence of increasing long-term costs and limiting investments in the research and development of future treatments and cures.

Background

Prescription drugs are a relatively small portion of U.S. health care spending (9.3 percent) and not a major contributor to total health care spending growth. Over the last decade, medicines have accounted for 9 to 10 cents out of every dollar spent on health care, and they are expected to remain at about that level of spending for the next several years. Over the past 10 years (2014–2004), medicines grew more slowly than other parts of health care, despite very high growth rates in the first half of that ten-year period.1

Medicines are the only part of the health care system with built-in cost containment. The cost of care declines over time as generics become available, while at the same time, patent protection prior to generic availability provides an incentive to develop new medicines. Generics, which are significantly cheaper in the U.S. compared to other countries, accounted for 87.5 percent of prescriptions in 2014.2 This cycle of innovation and patent expiration has resulted in a significant decline in the cost of treating many high-incidence diseases — including heart disease, pain and depression — and will continue for cancer, rheumatoid arthritis and other disease areas.

Medicines are the only part of the health care system recognized by the Congressional Budget Office as reducing costs in other health care sectors.3 This is due to the growing body of evidence that demonstrates that effective use of medicines avoids hospitalizations and other types of preventable events. Greater adherence, improved diagnosis and broader use of vaccines represent significant sources of opportunity to improve health care efficiency through the effective use of medication.

For the next several years, most prescription drug–spending growth in the U.S. is expected to come from specialty medicines.4 These treatments tend to address a significant unmet need in a patient population with a high burden of disease and often few treatment alternatives. Because they represent a significant value and improvement over the existing standard of care, these medicines can be higher priced, just like other types of specialized health care. While innovation in these therapeutic areas has resulted in spending growth, overall they are a very small percentage of total health care spending and one that addresses a significant need in the health care system.

Key Facts and Figures

- Health care spending grew faster than GDP for the past 10 years; 32 percent of that average comes from hospital spending, 20 percent from physicians and 9 percent from prescription drugs.5
- In 2013, health care was 17.4 percent of GDP; if this growth were to continue, by 2024 nearly 20 percent of U.S. GDP would be spent on health care.
- While recent years had seen a reduction in health care spending growth, the government projects the growth rate will increase in 2015 and beyond.6 In the next 25 years, the major drivers of federal health care spending growth are aging, subsidies for expanded access to care in the Affordable Care Act, and growth in the cost of health care services.7
• A 1 percent increase in prescriptions filled by Medicare beneficiaries reduces Medicare spending on medical services by 0.2 percent.\(^8\)
• Specialty medicines have improved health at a lower cost than the existing standard of care.\(^9\)
• 10 mgs of atorvastatin, originally Lipitor, costs over 85 percent less now than it did in 2005. By comparison, the average hospital cost for some of the most common cardiovascular procedures including percutaneous coronary angioplasty (PTCA) grew around 46 percent from 2005 to 2012.\(^{10}\)

**Pfizer’s Position**

Ideally, health care spending growth will be managed by limiting inefficient and ineffective elements of health care, and through sustained or increased spending on high-value investments. While medicines are a relatively small share of all health care expenditures, they play a valuable and large role in improving and saving the lives of patients. Focusing on drug expenditures as the means to contain overall health care spending ignores other significant factors contributing to costs and runs the risk of reducing investment dollars for tomorrow’s medicines.

**How Patients and Health Care Professionals Benefit**

Medicines are often the lowest-cost, highest-value intervention, with significant benefits to the patients’ quality of life and longevity. Effective use of medicines can help physicians deliver better quality health care.

**How the Health Care System Benefits**

When used appropriately, medicines can help generate savings by improving health. Effective use of medicines can support a more sustainable and efficient health care system, which when coupled with other reforms, would allow society to continue to invest in health care as the demand grows from an aging population.

**What It Means for Pfizer**

In a health care environment where the incentives are aligned to value, health improvement and long term cost efficiency, Pfizer medicines that are supported by solid clinical and real-world evidence will be reimbursed and accessible to more patients.

**Related Pfizer Activities**

- Twelve million people in the U.S. take generic atorvastatin at a relatively low cost to the health care system,\(^{11}\) reaping benefit from Pfizer's significant investment in developing branded Lipitor.
- Pfizer is investing in and developing personalized medicines, which enable more focused and efficient spending. For example, Pfizer’s Xalkori (crizotinib) is indicated to treat a small portion of metastatic non-small cell lung cancer patients, those whose tumors are positive for a defect in the ALK gene as detected by a Food and Drug Administration–approved test. In a clinical trial, patients on Xalkori experienced a significant improvement in progression-free survival compared to those on standard chemotherapy.

---

2. IMS Institute for Healthcare Informatics, A Review of the Use of Medicines in the U.S. in 2014
5. CDC National health expenditures, average annual percent change, and percent distribution, by type of expenditure: United States, selected years 1960–2013. Available at: http://www.cdc.gov/nchs/data/hus/hus14.pdf#103
7. Congressional Budget Office, the 2015 Long Term Budget Outlook.
8. June 2013 the Congressional Budget Office (CBO) “Offsetting Effects of Prescription Drug Use on Medicare’s Spending for Medicare Services.”
10. Analysource, and HCUP Hospital Charge database 2005 and 2012.
11. SDI Total Patient Tracker, internal analysis of 2013 full year data.