

# Potential Impact of New Pharmaceuticals on Medicaid and Other Health Care Costs

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Specialty pharmaceuticals represent the fastest growing prescription medications in terms of growth and cost. These types of medications are a relatively new class of drugs that have important treatment implications for people with chronic and progressive diseases. These diseases include multiple sclerosis, hepatitis C, hemophilia, rheumatoid arthritis and certain types of cancer. With [spending](#) increasing at double digit rates, far exceeding cost growth in other health care benefits, there has been a great deal of focus on both the promise of these medications as well as their cost.

The IMS Institute for Healthcare Informatics, in a recently released [report](#) entitled, *Medicine Use and Shifting Costs of Healthcare: A Review of the Use of Medicines in the United States in 2013*, noted how the total dollars spent on medications in the U.S. reached \$329.2 billion last year, an increase of 3.2 percent from the previous year. The primary factors driving cost increases include the reduced impact of expiring patents, overall price increases, and higher spending on innovative new medicines that treat specific diseases

including oncology, hepatitis C and HIV, with a large number of new molecular entities launched in 2013. Recently, there has been increased focus on one of these medications, Sovaldi, used to treat hepatitis C. Sovaldi is an example of a new drug that holds great promise for treatment of a disease but also comes with significant expense. The list pricing for Sovaldi of \$84,000 for a standard 12-week treatment, for example, is expected to add incredible cost pressure to health care programs across all payers.

Spending on prescription drugs in Medicaid totaled \$19.6 billion in 2012 and is expected to grow significantly in the future. Cost pressures from new medications such as Sovaldi are surfacing in state Medicaid programs as well as in other state health care costs such as in budgets for corrections. In assessing the impact on state Medicaid programs, there may be differences across states depending on various factors including the use of supplemental rebates, clinical protocols, and patient adherence protocols. The National Association of Medicaid Directors (NAMD) is monitoring



developments with Sovaldi and has shared resources with its members. These include the U.S. Department of Veterans Affairs [supplement](#) to its hepatitis C guidelines to assist in clinical decision-making on hepatitis C treatment and the California Technology Assessment Forum [report](#). The report by the California Technology Assessment Forum also contained cost projections for California across all payers, and found that expenditures would increase \$22 to \$33 billion in one year if Sovaldi replaced existing medications in the current care guidelines.

Additionally, the Medicaid Health Plans of America (MHPA) has raised this issue and sent a [letter](#) to the Office of Management and Budget (OMB) requesting a separate Sovaldi analysis in OMB's Mid-Session review. The letter notes that considering the high cost of Sovaldi and the fact that hepatitis C disproportionately affects the Medicaid population, the separate analysis in OMB's Mid-Session Review of Sovaldi's projected cost across all federal programs should shed light on how much the drug will cost the government.

State Medicaid programs are assessing the use of Sovaldi,

with recent news coverage on related developments in states including Florida, New York, and Oregon. Oregon, for example, plans to [limit](#) the use of the drug to a small fraction of the 20,000 Oregon Health Plan members afflicted by the liver disease. Oregon operates through a special waiver that allows the state to consider cost and efficacy in treatment decisions. Florida Medicaid officials have reportedly decided to give an extra [payment](#) to managed-care plans to cover the unexpected cost of this new treatment. In New York, the state has put together a hepatitis C work [group](#) that includes clinical experts, managed care plan medical directors, and policy and fiscal analysts to develop clinical criteria for usage of new hepatitis C drugs and to explore the fiscal implications for Medicaid and Medicaid managed care plans.

While Sovaldi has received enormous national attention, there are other drugs in the pipeline that promise to deliver great benefits and also significant costs. For states, the impact will be not only on the Medicaid program but also on other state health care costs, including in the corrections system and in state employee costs. NASBO will continue to keep you posted on these developments.

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*If you would like additional information, please contact Stacey Mazer ([smazer@nasbo.org](mailto:smazer@nasbo.org) or 202-624-8431) or Scott Pattison ([spattison@nasbo.org](mailto:spattison@nasbo.org) or 202-624-8804).*