

TO: Senate Special Committee on Medicaid Reform
FROM: David F. Vite
RE: Medicaid Pharmacy
DATE: December 13, 2010

Thank you for taking the time to thoroughly examine potential reforms to Medicaid. While many will offer you seemingly 'easy' suggestions, on behalf of the Illinois pharmacy community, I think it important to ensure you know how far Medicaid pharmacy has come through the years of its own and how much and how often the Illinois pharmacy community has...

The most important thing to remember today is the driving force in the growing cost of Medicaid in the 66 2/3% growth in the number of covered lives in the program. Since 2001, 1 million new people were added to the rolls.

In 2009, a report prepared by the Boston-based Lucas Group offered recommendations that would allegedly help the State of Illinois contain pharmacy costs. As pointed out by IRMA at that time, virtually all the recommendations had been considered, discussed, and rejected over the years because of the cooperative working relationship between the pharmacy community, the Department of Healthcare & Family Services and the representatives of the recipient community. This on-going relationship ensured access for recipients and appropriate reimbursement for pharmacy. The results of the

discussions over the years speak volumes as it relates to the cost of providing pharmacy benefits to the Medicaid program.

The Lucas Group indicated that Illinois Medicaid was spending “27% more on prescription drugs as a percent of acute care than the U.S. average”. Unfortunately, Medicaid costs are not limited to acute care. The true measure of the cost of the program should be the average prescription costs for both Medicaid and all other prescriptions.

In the most recent NACDS 2008-2009 Chain Pharmacy Industry Profile, the average prescription price paid for an Illinois Medicaid prescriptions when compared with other States and compared with all other average prescription costs, Illinois reflects very well. In that report, a copy of which is attached to this commentary, it shows that there are only three states in the nation where the average prescription price for Medicaid is lower than the average price of all prescriptions in the State. The average cost of all prescriptions in Illinois was \$74.87 in the most recent data available. The average price per Medicaid prescription is \$68.94 or 8% less! The average price for all prescriptions across the country is \$69.90 while the Illinois Medicaid program is lower at \$68.94. These are true measurements of all costs in this program.

The report indicated that “Medicaid in Illinois is paying pharmacy a fee to dispense prescription drugs to Medicaid beneficiaries of \$3.40 for brand name drugs and \$4.60 for generics.” Unfortunately, that does not tell the whole tale of the reimbursement that

pharmacies receive. For brand name drugs, pharmacies receive \$3.40 as a dispensing fee. However, we are required to collect a \$3.00 copayment on each brand prescription. Unfortunately, because of federal law, we cannot deny a recipient a prescription who does not have the \$3.00 for the copay. Copayments are collected on approximately 57% of our prescriptions, which means that the \$3.40 dispensing fee is effectively reduced by \$1.39 to account for copays which are not collected so the real number is \$2.01. For generics, we do get \$4.60 for filling generic prescriptions. That is intentionally higher than brands to incent pharmacies to move people from brands to generics. That has worked. Illinois has a 75% generic to brand ratio. This is one of the highest in the country and is essential to maintaining a viable cost structure in the system. Coincidentally, several years ago, the Commission on Government Forecasting and Accountability commissioned the Lewin Study to look at moving people to HMO's. In that study, they suggested that HMO's could achieve a 70% generic to brand ratio. Obviously, with the help of the pharmacy industry, we have exceeded that potential. While the report indicates we receive \$4.60 as a dispensing fee for generics. What is not stated in the report is the fact that the ingredient reimbursement formula of AWP minus 25% is only one of a menu of pricing mechanisms for Medicaid prescriptions. The real formula is the lesser of AWP minus 25%; usual and customary charges for that pharmacy (this is particularly important given the \$4.00 prescription benefits provided by many pharmacies throughout Illinois); the Federal Upper Limits or the Maximum Allowable Cost (MAC) administered by DHFS. The MAC is a vehicle for assigning a per dose price to categories of generic drugs irrespective of whether the specific brand of generics cited as the source of the price is available statewide or in

quantities enough to meet the needs of the Medicaid population. This is the most “draconian” pricing mechanism of all and is typically not used in other 3rd party programs.

The report suggested that the State could enhance its “purchasing power” through pooling and competitive networks. It suggests that the State, as a payor, should establish a network for all state employees, retirees, corrections, etc and encourage the negotiations on behalf of county and local governmental employees to join the pool. “The greater the bargaining power, the greater the value of the discounts will be.” This has been discussed over the years, and has been summarily rejected because the 15,500 pharmacists in this state provide a valuable network for, not only Medicaid recipients, but all citizens of Illinois. If there was a purchasing pool and if it was accomplished through preferred retail networks as suggested in the report, there would clearly be a lack of access to prescription drugs in rural areas, very poor urban areas, and certainly the competitive market place for non-governmental purchases of prescription benefits would be paying higher prices to offset the cost of government. Additionally, I find it interesting that the government of Illinois would be asked to pick and choose the winners and losers in the pharmacy community. When this has happened in other states like Washington, there have always been lawsuits, dislocations of store openings and accelerations of store closings or at least limitation on hours of operations, which limits access for all Illinoisans. This harms both public and private payors.

Throughout the report Medicaid prescription reimbursement were compared to private sector payors. This is unfair and irresponsible. Over the last six years, Illinois government has used the pharmacy community as the “venture capitalist” to finance the growth of Medicaid, Family Care and Kid Care. These costs were covered by extending the payment cycle from approximately 40 days in 2002 to what is now in excess of 150 days for most Illinois pharmacies.

Pharmacies, whether independent or chain, deserve to make some semblance of “bottom line” not only in the Medicaid program but in all prescription benefit programs. Also not mentioned in the report is the profit margin in the prescription business. According to Wolters, Kluwer, Health Pharmaceutical Added Suite, retail pharmacies net profit is 84 cents. The average prescription cost across all payors in 2007 of \$69.90. That means that pharmacy retains a net profit of less than 2% per prescription. Since our revenues are nearly \$1 less per prescription in the Illinois Medicaid program, clearly other prescription payors are helping to fund the Medicaid program in Illinois not only through their taxes but through increased prescription costs that must be shifted from the Medicaid program to other private payors.

Certainly, government could ratchet down the fees paid to Illinois pharmacies for bringing the first line of Medical care to Medicaid recipients. Doing so will, however, reduce access and shift costs. Reducing access will ensure that more people end up in the emergency room because either they didn't have a pharmacist to talk to about their problem or they didn't have the extra funds to take the CTA to their closest pharmacy.

DHFS has held pharmacy to very high standards by working with the professionals in the industry to structure a pricing scheme for generics through Myers and Stauffer. This plan incentivizes pharmacies to move patients from “brands” to “generics” which obviously saves enormous amounts of money on each script while allowing pharmacies to “stay alive”. This 75% ratio is one which should be praised for keeping Medicaid costs per prescription lower than all prescriptions in Illinois.

I would be happy to respond to any questions or provide further information as requested.

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Table 38. Average Price per Prescription, by State and Source of Payment, 2007*

(Table 38 continued)

State	Dollars	Medicaid		Overall		
		Prescriptions	Average Price	Prescriptions	Average Price	
Alabama	\$385,964,599	6,371,608	\$60.58	\$4,490,948,332	75,457,205	\$59.52
Alaska	\$48,877,343	538,705	\$90.73	\$400,830,432	4,848,620	\$82.67
Arizona	\$71,729,526	770,248	\$93.13	\$4,258,825,817	58,837,949	\$72.38
Arkansas	\$253,557,922	3,661,479	\$69.25	\$2,495,145,903	42,337,635	\$58.93
California	\$1,105,273,690	1,472,582	\$76.34	\$21,285,297,983	296,826,370	\$71.71
Colorado	\$200,217,935	2,366,586	\$84.60	\$2,847,697,588	40,281,279	\$70.70
Connecticut	\$226,092,819	2,140,128	\$105.64	\$3,283,409,415	41,266,247	\$79.57
Delaware	\$109,182,625	1,239,383	\$88.09	\$887,595,815	9,976,715	\$88.98
District of Columbia	\$70,507,567	550,678	\$128.04	\$683,051,054	7,554,876	\$89.76
Florida	\$884,349,421	10,526,191	\$84.01	\$16,146,647,061	218,375,484	\$73.94
Georgia	\$311,775,313	4,583,466	\$68.02	\$6,861,949,589	113,136,189	\$60.65
Hawaii	\$33,591,172	374,126	\$89.79	\$855,658,040	12,021,005	\$71.18
Idaho	\$95,621,139	1,263,935	\$75.65	\$1,070,224,714	15,613,884	\$68.54
Illinois	\$1,005,281,905	14,581,285	\$68.94	\$10,170,089,723	135,836,269	\$74.87
Indiana	\$247,814,292	2,969,269	\$83.46	\$4,908,909,592	75,886,174	\$64.69
Iowa	\$308,917,192	4,962,087	\$62.26	\$2,484,495,601	40,942,405	\$60.68
Kansas	\$146,092,447	1,673,680	\$87.29	\$2,362,340,300	35,226,287	\$67.06
Kentucky	\$409,125,762	6,530,601	\$62.65	\$4,268,219,308	69,452,580	\$61.46
Louisiana	\$541,249,877	7,473,456	\$72.42	\$4,514,368,164	68,090,934	\$66.30
Maine	\$171,485,728	2,739,030	\$62.61	\$1,049,497,497	16,257,506	\$64.55
Maryland	\$205,948,792	1,941,688	\$106.07	\$4,503,832,092	54,486,669	\$82.66
Massachusetts	\$512,829,431	6,746,974	\$76.01	\$5,142,560,692	76,100,989	\$67.84
Michigan	\$340,557,475	3,621,756	\$94.03	\$7,920,454,269	112,234,044	\$70.67
Minnesota	\$225,036,095	2,352,313	\$95.67	\$4,521,476,938	54,266,489	\$83.32
Mississippi	\$232,437,080	3,572,908	\$65.06	\$2,508,940,519	42,554,290	\$58.96
Missouri	\$543,294,586	7,031,288	\$77.27	\$5,415,144,732	78,728,616	\$68.78
Montana	\$50,477,462	640,277	\$78.84	\$450,857,127	10,593,475	\$61.44
Nebraska	\$169,247,965	2,242,784	\$75.46	\$1,694,360,756	22,664,043	\$74.76
Nevada	\$72,327,118	827,543	\$87.40	\$1,694,183,136	24,951,253	\$67.90
New Hampshire	\$77,849,614	1,036,585	\$75.10	\$920,117,102	14,254,037	\$64.55
New Jersey	\$876,462,707	7,913,859	\$110.75	\$8,262,682,123	96,970,352	\$85.21
New Mexico	\$11,249,790	178,071	\$63.18	\$1,182,683,063	17,311,553	\$68.32
New York	\$3,459,393,284	35,828,833	\$96.55	\$18,296,017,652	221,655,552	\$82.54
North Carolina	\$765,411,148	10,432,760	\$73.37	\$7,727,682,037	118,537,659	\$65.19
North Dakota	\$34,200,333	468,882	\$72.94	\$564,531,393	8,647,469	\$65.28
Ohio	\$405,530,211	5,134,923	\$78.97	\$8,496,890,658	136,099,985	\$62.43
Oklahoma	\$257,809,642	3,567,198	\$72.27	\$3,002,140,546	43,302,751	\$69.33
Oregon	\$110,302,351	1,291,364	\$85.42	\$2,352,644,712	36,954,612	\$60.39
Pennsylvania	\$389,804,255	5,554,123	\$70.06	\$10,078,586,872	159,200,023	\$63.31
Puerto Rico	\$3,282,354	40,153	\$81.75	\$34,621,363	515,787	\$67.12
Rhode Island	\$78,987,061	837,886	\$94.27	\$1,005,525,941	15,305,285	\$65.70
South Carolina	\$315,109,572	4,642,387	\$67.88	\$3,537,358,715	56,833,389	\$62.24
South Dakota	\$55,716,623	801,682	\$69.49	\$562,802,749	9,429,592	\$59.68
Tennessee	\$77,330,810	940,381	\$82.23	\$6,806,651,237	101,442,468	\$67.10
Texas	\$1,693,420,359	21,069,069	\$80.37	\$17,855,413,078	243,927,192	\$73.20
Utah	\$14,606,289	1,547,761	\$74.05	\$1,613,050,229	25,552,380	\$63.13
Vermont	\$84,656,143	1,160,396	\$72.95	\$489,387,345	7,380,575	\$66.31
Virginia	\$175,819,634	2,405,562	\$73.09	\$5,410,764,939	84,046,689	\$64.38
Washington	\$352,017,817	4,613,902	\$76.30	\$4,446,485,412	64,291,284	\$69.16
West Virginia	\$301,191,580	4,378,715	\$68.79	\$1,891,855,250	31,958,481	\$59.20
Wisconsin	\$353,850,621	4,388,205	\$80.64	\$4,819,052,560	64,532,568	\$74.68
Wyoming	\$12,470,073	174,198	\$71.59	\$344,096,272	5,484,258	\$62.74
Overall	\$18,985,331,517	234,182,949	\$81.07	\$239,078,091,037	3,420,436,422	\$69.90

Source: Walters Kluwer Health Pharmaceutical Source* Audit Suite, data accessed 5/15/08.

*Local market conditions will determine average prices for prescriptions, the same as for any other product.

Prescription Drug Prices and Brand/Generic Mix

Generic drug utilization has increased in recent years, and will likely continue to do so due to the implementation of the Medicare Part D drug benefit. This increase continues to slow the overall growth of prescription drug prices, which increased only 4.4% in 2007. Table 39 shows the prices for brand-name drugs and generic drugs since 1990 as well as the mix of utilization. As the table illustrates, generic drugs accounted for more than 50% of prescriptions in 2007 and continue to grab market share.

Table 39. Prescription Drug Prices and Brand/Generic Mix, 1990–2007

Year	Brand	All Rx's	Generic	Percent Brand	Percent Generic	Generic Percent Prescriptions Including Mail Order
1990	\$27.16	\$22.06	\$10.29	69.8%	30.2%	—
1991	\$30.11	\$23.87	\$10.85	67.6%	32.4%	—
1992	\$33.68	\$26.33	\$11.78	66.4%	33.6%	—
1993	\$35.28	\$26.99	\$12.82	63.1%	36.9%	—
1994	\$37.37	\$28.37	\$14.18	61.2%	38.8%	—
1995	\$40.22	\$30.01	\$14.64	59.8%	40.2%	—
1996	\$45.11	\$32.86	\$15.71	58.3%	41.7%	—
1997	\$47.55	\$35.72	\$16.95	57.6%	42.4%	—
1998	\$53.51	\$38.43	\$17.33	58.3%	41.7%	—
1999	\$60.66	\$42.42	\$18.16	57.1%	42.9%	—
2000	\$65.29	\$45.79	\$19.33	57.6%	42.4%	—
2001	\$69.75	\$50.06	\$21.72	59.0%	41.0%	—
2002	\$77.49	\$55.37	\$24.89	57.9%	42.1%	—
2003	\$85.57	\$59.52	\$27.69	55.0%	45.0%	56.7%
2004	\$91.80	\$62.64	\$28.23	54.1%	47.5%	54.2%
2005	\$97.65	\$63.87	\$29.21	50.6%	51.3%	49.9%
2006	\$107.48	\$66.97	\$31.39	46.8%	53.2%	46.0%
2007	\$119.51	\$69.91	\$34.34	41.8%	58.2%	41.6%

Source: IMS HEALTH, NDCHealth, and NACDS Economics Department.
Excludes mail-order prescriptions

Inflation

The rate of inflation in prescription drug prices at the manufacturer level continues at its lowest levels since the mid-1970s. The reduced rate can be attributed to increased generic drug utilization as well as increased cost-sharing amounts. However, pharmaceutical manufacturers' prices for brand-name drugs still tend to outpace general inflation, and the retail market continues to observe price increases greater than those reported at the manufacturer level, although the increase in 2007 did not fit this pattern for the first time since 1995.

Figure 9 shows the increase in Consumer Price Index for all items (CPI-U), Consumer Price Index for Prescription Drugs, and increase in Prescription Drug Expenditures from 1992–2007.

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1998	\$53.51	\$38.43	\$17.33	58.3%	41.7%	—
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2000	\$65.29	\$45.79	\$19.33	57.6%	42.4%	—
2001	\$69.75	\$50.06	\$21.72	59.0%	41.0%	—
2002	\$77.49	\$55.37	\$24.89	57.9%	42.1%	—
2003	\$85.57	\$59.52	\$27.69	55.0%	45.0%	56.7%
2004	\$91.80	\$62.64	\$28.23	54.1%	47.5%	54.2%
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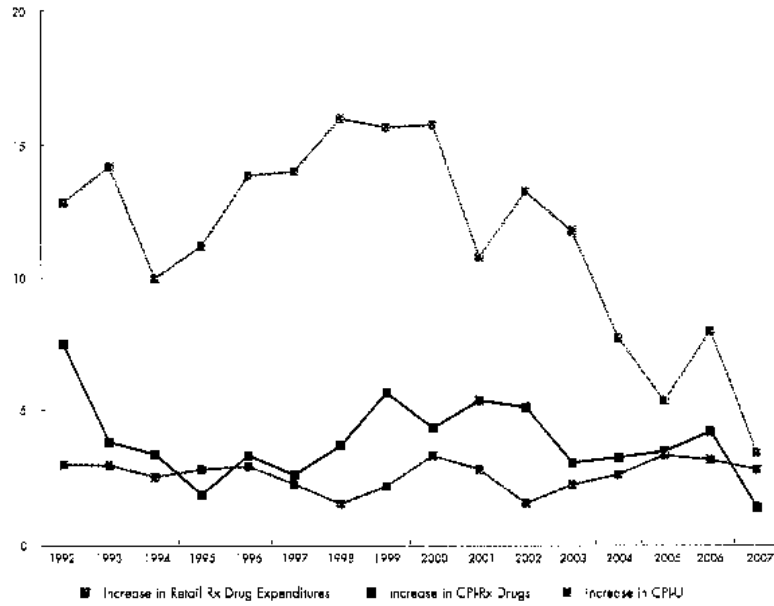
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Figure 9 shows the increase in Consumer Price Index for all items (CPI-U), Consumer Price Index for Prescription Drugs, and increase in Prescription Drug Expenditures from 1992–2007.

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Figure 9. Prescription Drug Consumer Price Index vs. Consumer Price Index for All Items



Source: U.S. Bureau of the Census, Bureau of Labor Statistics, and IMS HEALTH.

Demographics and Prescription Utilization

Identifying which patient groups have the highest prescription drug utilization is important for many reasons. It helps manufacturers project prescription volume for particular drugs and also helps them identify specific marketing opportunities. Lastly, knowing which demographic uses which types of drugs helps drug plans/insurers assess contracts, especially risk contracts.

The National Ambulatory Medical Care Survey (NAMCS) collects this information on an annual basis and publishes data relating to prescriptions written as a result of physician visits. Since these data are released two years after they are collected, the most recent information is from 2006.

Table 51 compares prescriptions mentioned at outpatient visits by age and sex in 2006. Females continue to get more prescriptions than males in almost every age group measured. Females account for nearly 60% of all drug mentions at physician visits. Overall, on an annual basis, an average female discusses 6.5 prescriptions with her physician and an average male discusses 4.3 prescriptions. Individuals age 75 and older discuss 18.9 prescriptions per year, more than double the number of those between the ages of 55 and 64.

Table 51. Prescription Mentions at Outpatient Physician Office Visits, by Age and Sex, 2006

Age Group	Male	Female	Overall
<5	4.67	3.75	4.20
5-14	1.88	1.70	1.79
15-24	1.10	2.27	1.69
25-34	1.39	3.31	2.34
35-44	2.52	4.58	3.53
45-54	4.45	6.73	5.56
55-64	7.13	11.03	9.01
65-74	12.36	17.75	14.83
75+	12.15	29.27	18.88
Overall New Prescriptions	4.34	6.51	5.40
Total Prescriptions per Person per Year (refill=48%)	—	—	10.39
Total Physician Visits	368,662,151	530,292,074	901,954,225
Total Prescription Mentions	651,912,145	937,999,399	1,589,911,544
Percent	41.00%	59.00%	—

Source: National Ambulatory Medical Care Survey, 2006; Wallers Kluwer Pharmaceutical Audit Suite; NACDS Economics Department.

The remaining utilization information provides indications about methods of payment. The number of prescription mentions from patients with private insurance fell from 47.7% (in 2005) to 43.8% in 2006.

Table 53. Number of Prescription Mentions per Physician Visit, by Type of Payment, 2006

Age Group	Private Insurance/ HMO	Medicare	Medicaid	Worker's Compensation	Self-Pay	Other	Total
<5	0.99	0.54	1.08	0.00	1.23	—	—
5-14	0.91	0.95	1.05	0.92	1.07	—	—
15-24	0.97	1.43	1.05	0.50	0.96	—	—
25-34	1.06	1.57	1.48	0.82	1.19	—	—
35-44	1.38	2.97	2.53	0.60	1.24	—	—
45-54	1.73	2.72	2.48	0.82	1.70	—	—
55-64	2.27	2.76	2.73	0.82	2.10	—	—
65-74	2.57	2.58	2.91	2.50	2.20	—	—
75+	2.31	2.67	2.48	5.52	1.85	—	—
Total Physician Visits	456,649,643	193,268,957	126,391,978	15,084,366	35,655,610	74,505,364	901,555,918
Total Prescription Mentions	696,005,565	504,536,663	209,621,952	12,277,493	51,463,139	115,499,727	1,589,404,539
Percent	43.8%	31.7%	13.2%	0.8%	3.2%	7.3%	100.0%

Source: National Ambulatory Medical Care Survey, 2006.

More detailed analysis of MEPS data shows that prescription utilization appears to decline with increases in income. For example, as shown in Table 59, in older age groups there is a relatively consistent decline in the number of prescriptions per year as income increases.

Table 58. Prescription Utilization by Age and Sex, 2005

Prescriptions Filled at Retail Pharmacies			
Age Group	Male	Female	Overall
<5	3.23	2.76	3.00
5-14	3.11	2.20	2.66
15-24	2.00	4.10	3.02
25-34	2.41	6.22	4.38
35-44	5.32	9.00	7.17
45-54	10.68	16.29	13.53
55-64	17.66	21.56	19.69
65-74	23.88	28.53	26.32
75+	26.21	34.04	31.09
Overall Retail Prescriptions	8.09	12.10	10.13
Total Prescriptions	1,173,871,427	1,827,643,340	3,001,414,767
Percent	39.11%	60.89%	—

Source: Medical Expenditure Panel Survey, 2005; NACDS Economics Department.

Table 59. Prescription Utilization by Age and Income Group, Prescriptions Filled at Retail Pharmacies, 2005

Age Group	Income Group								
	<\$5,000	<\$5,000	≥\$10,000	>\$15,000	<\$20,000	>\$30,000	≥\$40,000	>\$50,000	>\$75,000
<5	2.2	9.7	13.1	7.9	*	*	*	*	*
5-14	2.6	14.1	*	*	*	*	*	*	*
15-24	2.8	3.1	3.4	3.4	3.0	3.3	3.1	4.2	*
25-34	5.1	5.6	4.6	3.7	3.8	4.9	4.4	3.9	3.3
35-44	8.6	15.3	13.2	6.7	5.7	5.8	7.1	5.0	4.9
45-54	18.2	24.4	20.5	12.0	12.6	12.8	11.8	10.3	9.4
55-64	23.1	31.8	27.4	20.9	17.0	15.6	14.4	17.1	14.8
65-74	25.4	31.8	32.4	30.2	25.2	22.0	23.4	20.5	18.4
75+	32.5	34.0	33.3	25.4	31.1	32.0	30.0	25.3	25.2

Source: Medical Expenditure Panel Survey, 2005; NACDS Economics Department.
* Cell size not large enough to report.

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35-44	5.32	9.00	7.17
45-54	10.68	16.29	13.53
55-64	17.66	21.56	19.69
65-74	23.88	28.53	26.32
75+	26.21	34.04	31.09
Overall Retail Prescriptions	8.09	12.10	10.13
Total Prescriptions	1,173,871,427	1,827,543,340	3,001,414,767
Percent	39.11%	60.89%	—

Source: Medical Expenditure Panel Survey, 2005; NACDS Economics Department.

Table 59. Prescription Utilization by Age and Income Group, Prescriptions Filled at Retail Pharmacies, 2005

Age Group	Income Group								
	<\$5,000	≥\$5,000 <\$10,000	≥\$10,000 <\$15,000	≥\$15,000 <\$20,000	≥\$20,000 <\$30,000	≥\$30,000 <\$40,000	≥\$40,000 <\$50,000	≥\$50,000 <\$75,000	≥\$75,000
<5	2.2	9.7	13.1	7.9	*	*	*	*	*
5-14	2.6	14.1	*	*	*	*	*	*	*
15-24	2.6	3.1	3.4	3.4	3.0	3.3	3.1	4.2	*
25-34	5.1	5.6	4.6	3.7	3.8	4.9	4.4	3.9	3.3
35-44	8.6	15.3	13.2	6.7	5.7	5.8	7.1	5.0	4.9
45-54	18.2	24.4	20.5	12.0	12.6	12.8	11.8	10.3	9.4
55-64	23.1	31.8	27.4	20.9	17.0	15.6	14.4	17.1	14.8
65-74	25.4	31.8	32.4	30.2	25.2	22.0	23.4	20.5	18.4
75+	32.5	34.0	33.3	25.4	31.1	32.0	30.0	25.3	25.2

Source: Medical Expenditure Panel Survey, 2005; NACDS Economics Department.

* Cell size not large enough to report.

SECTION 3

Source of payment is also important. Table 60 shows the number of prescriptions per year by primary expected source of payment. Cash customers spend less and get fewer prescriptions than either Medicaid or other third-party payment customers. They also (on average) spend less per prescription.

Table 60. Prescription Utilization by Age and Primary Payment Type, Prescriptions Filled at Retail Pharmacies, 2005

Age Group	Prescriptions/Year			Dollars/Year			Dollars/Prescription		
	Cash Customers	Medicaid ¹	Other 3rd Party	Cash Customers	Medicaid	Other 3rd Party	Cash Customers	Medicaid	Other 3rd Party
<5	2.9	5.7	6.5	\$128.46	\$327.81	\$316.53	\$44.03	\$57.78	\$49.01
5-14	2.5	7.4	5.8	\$97.47	\$561.63	\$617.59	\$39.74	\$75.62	\$106.33
15-24	3.7	7.4	6.9	\$222.84	\$565.38	\$455.47	\$60.23	\$76.52	\$65.91
25-34	5.1	14.9	8.4	\$284.31	\$1,242.81	\$532.96	\$55.41	\$83.47	\$63.46
35-44	6.9	32.1	11.4	\$379.00	\$2,331.61	\$928.67	\$55.30	\$72.65	\$81.82
45-54	11.7	45.4	18.8	\$897.05	\$3,512.80	\$1,393.36	\$76.83	\$77.33	\$73.95
55-64	16.8	59.0	23.6	\$1,164.93	\$4,070.17	\$1,730.50	\$69.53	\$69.04	\$73.30
65-74	22.5	51.9	28.8	\$1,417.98	\$3,132.23	\$1,945.01	\$63.14	\$60.39	\$67.43
75+	29.7	44.6	33.3	\$1,781.28	\$2,542.75	\$2,438.83	\$60.04	\$57.04	\$73.20
Overall	11.1	21.7	16.7	\$702.28	\$1,514.36	\$1,218.09	\$63.16	\$69.75	\$72.97
		Cash Customers ²	Medicaid ³	Other 3rd Party ³					
Percent of Prescriptions		14.9%	15.0%	70.0%					
Percent of Prescription Dollars		13.3%	14.8%	72.0%					
Percent of Prescription Customers		21.5%	11.1%	67.3%					

¹ Cash customers were defined as those paying 90% of total prescription spending out of pocket.

² Medicaid customers were defined as those paying more than 50% from Medicaid sources.

³ Other third-party customers were the remaining group.

Source: Medical Expenditure Panel Survey and NACDS Economics Department.

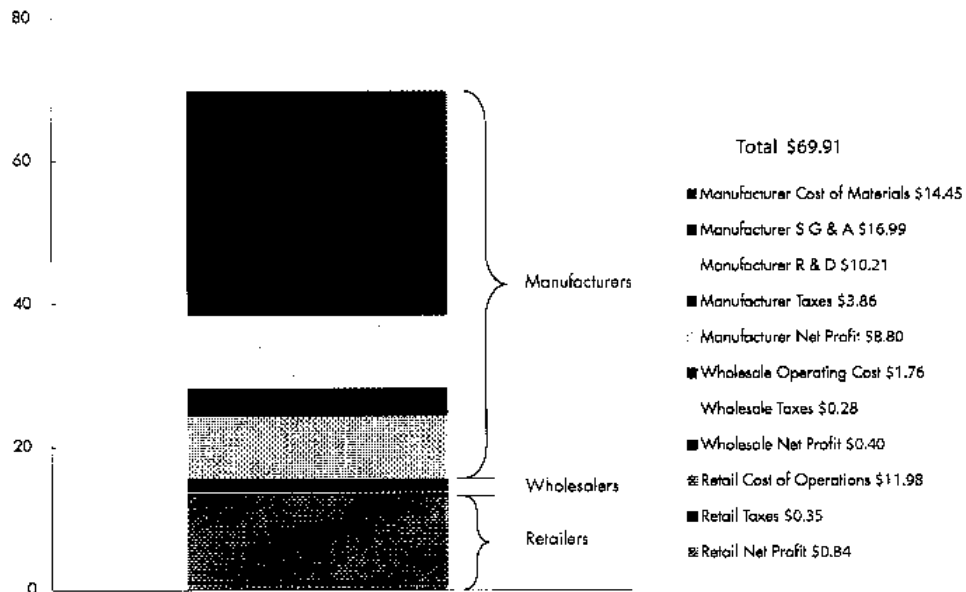
Patients with high blood pressure spend the most per year, more than any other patients with other given diagnoses. Table 61 lists annual prescription drug spending per person, for a given diagnosis. Patients with high blood pressure (essential hypertension) spent an average of \$2,146 in 2005. Patients with high cholesterol (diseases of lipid metabolism) spent an average of \$2,426 in 2005. These numbers could vary from year to year, however, depending on the number of generic therapeutic equivalents that are on the market for a given diagnosis.

Many of the top diagnoses are what are termed comorbid conditions – that is, the patient has more than one condition. To illustrate this, we show the top products for patients with the top four diagnoses in terms of spending. All of the top diagnoses have drugs that are used to treat other conditions in the top 10 by prescriptions.

Revenue From a Prescription

The average pharmacy reimbursement across all payers in 2007 was \$69.91 per prescription. Of this amount, about 80% (\$56.06) represents the amount that the pharmacy pays to the manufacturer or a wholesaler to purchase the drug. The remaining 20% (\$13.85) is used by the pharmacy to pay for operating and overhead costs such as salaries, rent, utilities, computer systems, complying with state and federal regulations, and other expenses. From this amount, pharmacy retains a net profit of less than 2% (\$0.84) per prescription.

Figure 10. Where Revenue From a Prescription Goes, 2007



Source: *Walters Kluwer Health Pharmaceutical Audit Suite, NACDS Economics Department.*