
Federal Spending on Brand Pharmaceuticals

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Summary

Avalere Health estimates that manufacturers of brand-name prescription drugs will receive about \$777 billion in revenues from the sales of outpatient prescription drugs to Medicare and Medicaid beneficiaries between 2011 and 2019. This amount represents slightly less than 8 percent of total federal Medicare and Medicaid spending over that time frame.

Estimates

Estimated federal spending on outpatient prescription drugs for Medicare and Medicaid was approximately \$86 billion in 2010.

After excluding administration and distribution costs (payments retained by plans, wholesalers, physicians, hospitals, and pharmacies), manufacturers of brand-name drugs received approximately 66 percent of outpatient drug spending, or \$57 billion.

Between 2011 and 2019, manufacturers of brand-name outpatient prescription drugs are projected to receive about \$777 billion in revenues from the sales of these drugs to Medicare and Medicaid beneficiaries.

During the same period, the federal government will spend an estimated \$9.9 trillion on the Medicare and Medicaid programs. Federally-derived revenues for manufacturers of brand-name outpatient prescription drugs will represent about 8 percent of total federal payments for healthcare services.

Table 1: Estimated Federal Spending on Outpatient Prescription Drugs

\$ in billions	2010		2011-2019	
	Outpatient Rx Drug Spending	Brand Manufacturer Share	Outpatient Rx Drug Spending	Brand Manufacturer Share
Medicare	70	46	970	648
Part B	15	11	191	137
Part D	55	36	779	511
Medicaid	17	10	204	129
Total	86	57	1,174	777

Note: Numbers may not add due to rounding

Methodology

Federal Spending on Outpatient Prescription Drugs for Medicare and Medicaid in 2010

Based on data from the Medicare Trustees Report, the National Health Expenditures (NHE) Accounts, the Centers for Medicare & Medicaid Services (CMS) and other sources, the federal government spent an estimated \$86 billion on outpatient prescription drugs covered by Medicare and Medicaid in calendar year 2010:

- **Medicaid:** \$17 billion
- **Medicare Part B:** \$15 billion
- **Medicare Part D:** \$55 billion

These figures do not include prescription drugs used during inpatient hospital stays or drugs provided through Medicaid managed care plans. The figure for Part D includes spending by Medicare Advantage plans that offer drug coverage and spending on the retiree drug subsidy (RDS). The Medicaid figure does not include the state share of Medicaid drug spending, and contains a portion of physician-administered medical benefit drugs. The Medicare Part B estimate does not include payments for medical benefit drugs provided to Medicare Advantage enrollees. Finally, the figures do not include the impact of any beneficiary premiums for Medicare Parts B and D, which would reduce the net impact to the federal government.

Federal Spending on Brand-Name Drugs and Revenues Collected by Manufacturers in 2010

Manufacturers of brand-name drugs received about \$10 billion from drugs sold to Medicaid beneficiaries in 2010:

- NHE estimates federal 2010 Medicaid prescription drug spending was \$17 billion.
- The NHE data for Medicaid prescription drug spending excludes the estimated amount of rebates paid to states under the Medicaid rebate program.
- We estimate 76 percent of Medicaid spending was for brand-name drugs and 24 percent was for generics.¹
- CBO estimates that manufacturers receive about 85 percent of Medicaid payments

1 Bruen, Brian and Laura Miller, "Changes in Medicaid Prescription Volume and Use in the Wake of Medicare Part D Implementation," Health Affairs, January/February 2008, pages 196-202.

2 See Congressional Budget Office, Medicaid's Reimbursement to Pharmacies for Prescription Drugs, December 2004.

on brand-name drugs and 30 percent of spending on generics; the remaining 15 percent and 70 percent go to wholesalers and pharmacies.²

Manufacturers of brand-name drugs received about \$36 billion from drugs sold to Medicare Part D plans in 2010:

- NHE estimates federal Medicare spending on prescription drugs was \$62 billion.
- Approximately 89 percent of federal Medicare spending on prescription drugs was for the Part D program; the remaining 11 percent was for Part B drugs provided in the hospital outpatient department, dialysis centers, and other non-physician office settings.
- The Medicare Trustees Report estimates that plan administrative costs were about 13 percent of total Part D spending in 2010.³
- Prior CMS analysis of Part D claims indicates that about 75 percent of drug spending by Part D is for brand-name drugs and 25 percent is for generic drugs.

Manufacturers of brand-name drugs received about \$10 billion from drugs sold to Medicare Part B beneficiaries in 2010:

- This spending includes drugs provided in physician offices (65 percent of total)⁴, hospital outpatient departments (19 percent of total)⁵, and dialysis facilities (16 percent of total)⁶.
- We estimate that brand-name drugs represent a higher share (80 percent) of Part B spending due to limited generic availability of biologics.
- We estimate that manufacturers receive a higher portion of the payments for Part B drugs – 90 percent – as the spending figures cited above do not include the costs of administering those drugs, which Medicare pays for separately.
 - Medicare average sales price (ASP) calculations include some bona fide fees that are not received by manufacturers but exclude discounts or rebates given to purchasers.
 - Since Medicare reimburses providers at ASP plus a percentage (e.g. 6 percent for physicians, 5 percent for hospitals), we removed this amount as well.

³ Boards of Trustees, 2010 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, Published August 10, 2010.

⁴ Avalere Health analysis of 2009 Medicare Physician/Supplier Procedure Summary file

⁵ CMS-1504-FC Medicare Program; Changes to the Hospital Outpatient Prospective Payment System and CY 2011 Payment Rates. Published November 24, 2010.

⁶ CMS-1418-F Medicare Program; End-Stage Renal Disease Prospective Payment. Published November 2, 2010.

Federal Spending on Medicare and Medicaid in 2010

Based on NHE estimates, total federal spending on Medicare and Medicaid was approximately \$820 billion in 2010. Of this spending, hospitals comprised 41 percent of the total, or \$333 billion. Physicians, including a modest amount of reimbursement for office-administered drugs, received \$157 billion in Medicare and Medicaid payments in 2010. The NHE-calculated estimate for prescription drugs is not comparable to our estimates, as NHE prescription drug estimates include payments for pharmacies, distributors, plans, and other intermediaries.

Estimated Federal Spending on Outpatient Prescription Drugs for Medicare and Medicaid Between 2011 and 2019

We estimate total federal drug spending between 2011 and 2019 to be approximately \$1.2 trillion: about \$204 billion for Medicaid (representing the federal share only), \$191 billion for Part B, and \$779 billion for Part D.

Of this total, we estimate manufacturers of brand-name drugs will receive approximately \$777 billion: about \$129 billion for Medicaid, \$137 billion for Part B drugs, and \$511 billion for Part D drugs.

These estimates use our 2010 estimates along with NHE estimates for the growth in federal spending on prescription drugs, the historical growth and expected program changes for Medicare Parts B and D, and the expansion of Medicaid coverage in 2014 due to the Affordable Care Act. The Part D estimates include the impact of the change in the coverage gap amounts as well as any expected changes in RDS enrollment and spending.

We assumed the relationship between total federal spending and amounts received by brand pharmaceutical companies would remain steady over this time frame. Actual experience could differ from that assumption (either higher or lower) for any number of reasons.

Federal Spending for Medicare and Medicaid Between 2011 and 2019

Based on NHE estimates, the federal government will spend \$6.3 trillion on Medicare and \$3.6 trillion on Medicaid over the 2011 – 2019 period. These estimates include the impact of coverage changes under the ACA, but do not include any federal costs associated with a modification to the Medicare physician fee schedule beyond 2011.

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