

**NEW YORKERS WOULD SAVE \$4.6 BILLION (35 PERCENT)
ON BRAND NAME PRESCRIPTION DRUGS IN 2004
BY PAYING FEDERAL SUPPLY SCHEDULE PRICES**

2004 UPDATE

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Findings

Prescription drug spending in New York State is projected to total \$19.5 billion dollars in 2004. This includes retail and mail order spending, and also payments for prescription drugs in hospitals, nursing homes, and other non-retail settings.

After subtracting out spending on generic prescription drugs (about \$2.0 billion), brand name prescription drugs are projected to reach \$17.5 billion in 2004, or some 90 percent of the total payment.

Relying on the latest estimates from the National Association of Chain Drug stores, some 74.6 percent of the sum expended on prescription drugs at the retail level is paid to manufacturers.

Manufacturers will therefore garner a projected \$13.1 billion on prescription drugs sold in New York State in 2004 (line 3 of Exhibit 1). This is an increase of 72 percent from the \$7.6 billion paid only four years ago in 2000.

Payments to manufacturers reflect existing discounts and rebates of \$1.5 billion (line 2 of Exhibit 1).

Without these existing discounts and rebates, gross payments to manufacturers would have been expected to total \$14.5 billion this year (line 1 of Exhibit 1).

If all who bought prescription drugs in New York State paid prices that reflected the Federal Supply Schedule's average discount, New Yorkers would save an additional \$4.6 billion this year (line 4 of Exhibit 1). This discount has averaged some 42 percent of prices.

This \$4.6 billion would amount to a saving of 35.1 percent of projected actual payments to manufacturers of \$13.1 billion (line 3 of Exhibit 1). This \$4.6 billion in additional savings is also shown in Exhibit 2 as the distinct, separated slice of 2004 prescription drug spending.

(Winning Federal Supply Schedule prices does not save fully 42 percent because most payers already obtain some discounts. The saving of 35.1 percent registers the effects of giving each payer a 42 percent discount.)

Earning Federal Supply Schedule discounts would bring New Yorkers' payments for prescription drugs down to \$8.4 billion in 2004 (line 5 of Exhibit 1). This reflects the 35.1 percent savings.

Exhibit 1

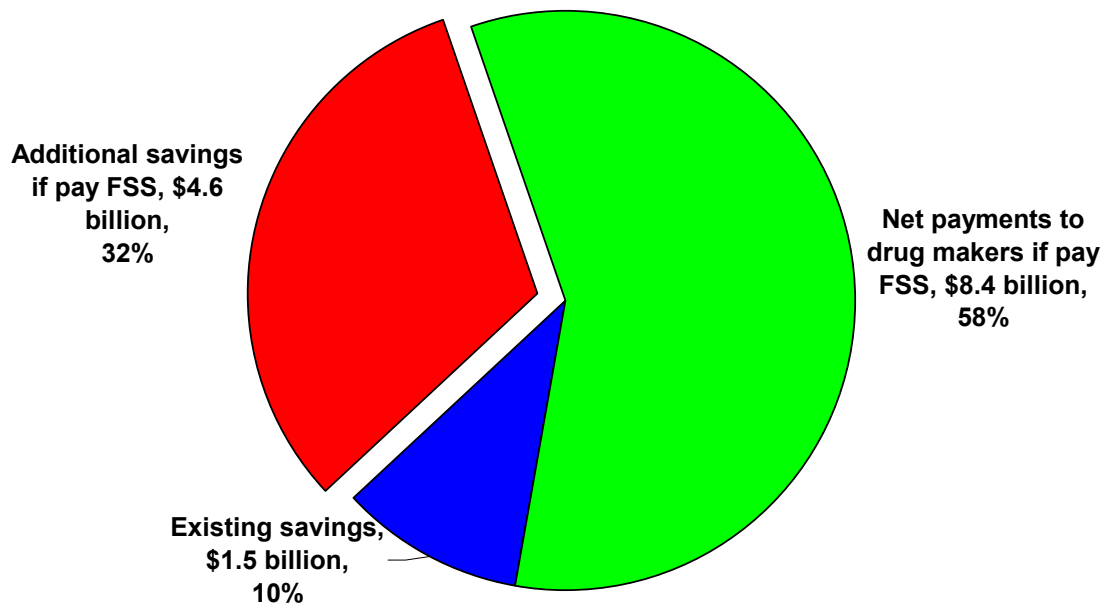
***New Yorkers' Payments to Manufacturers for
Brand Name Prescription Drugs,
Reflecting Existing Savings and
Savings By Paying Federal Supply Schedule Prices,
2004 (with 2000 comparisons)***

(All Figures in Billions of Dollars)

	2004	2000
1. Gross payments to manufacturers	\$14.5	\$8.4
2. Savings from existing discounts + rebates	\$1.5	\$0.8
3. Projected actual payments to manufacturers	\$13.1	\$7.6
4. Additional savings if N.Y.S paid F.S.S. prices	\$4.6	\$2.7
5. Projected payments to manufacturers at F.S.S. prices	\$8.4	\$4.9

Exhibit 2

**HOW MUCH WOULD NEW YORKERS SAVE BY PAYING
FEDERAL SUPPLY SCHEDULE PRICES FOR
BRAND NAME DRUGS IN 2004?**



Discussion

Exhibit 2 displays graphically the \$4.6 billion in savings that New Yorkers would win in 2004 by paying Federal Supply Schedule prices—for the volume of prescription drugs they now purchase.

This sum appears to represent a reduction in revenue to drug makers. But, in practice, the lowering the prices of brand name drugs would mean a substantial rise in the quantity of drugs that patients would buy. This would replace much or most of the revenue initially lost by drug makers owing to lower prices. Further, if state government chose, it could capture some or all of the rest of the money saved by lowering prices and use it to buy needed medications for patients who are unable to purchase them today. If state government paid drug makers the very small incremental cost of manufacturing more pills, all New Yorkers would be able to afford all the medications their doctors prescribed, at a tiny added

cost—and drug makers ability to finance needed research and even their profits would be restored to their current levels. We estimate this incremental cost at five percent of retail prices, on average.

Can states actually secure Federal Supply Schedule prices? One state, West Virginia, is currently considering legislation to (HB4084) that is aimed at securing Federal Supply Schedule prices in the state. Backed by the governor, this bill has passed the state's House and has moved on to the Senate.

But it is one thing to enact legislation and another to find ways to actually obtain the lower prices. This will be a matter of continued debate and contention between drug makers worried about their businesses and patients, citizens, voters, and legislators who are worried about their ability to afford needed medications.

Given the high level of avoidable suffering, illness, and loss of insurance coverage caused by high drug prices, it is appropriate and even vital for state governments to act to win lower drug prices.

State action to lower prices for all brand name drugs make it easier to improve insurance coverage—and without restrictive drug lists that can hurt some patients. Lowering prices also buys time to develop better information on which drugs are most effective.

Federal action would be ideal, but states can't wait for Congress to move forward. Indeed, the law creating Medicare's new prescription drug program prohibits Medicare from using its buying power to win lower drug prices.

Methods

New York State prescription drug spending is projected for 2004 by trending forward the state's reported 1998 spending, in proportion to documented national increases for 1999-2002 (Office of the Actuary, Centers for Medicare and Medicaid Services, reported annually in *Health Affairs*), and in proportion to projected annual national increases for 2003-2004 (Office of the Actuary, Centers for Medicare and Medicaid Services, "National Health Care Expenditures Projections: 2002-2012, <http://www.cms.hhs.gov/statistics/nhe/projections-2002/proj2002.pdf>, access confirmed 26 January 2004. Projections for 2003 and for 2004 are raised by 1.0 percentage points to align with the actual 2001-2002 reported national experience.)

For complete background on the methods employed to estimate existing discounts and rebates—as well as those won by paying Federal Supply

Schedule prices—and for documentation of other methods, please refer to two documents:

Alan Sager and Deborah Socolar, *Affordable Medications for All New Yorkers, without Spending More Money or Harming Drug Research*, Testimony on Senate 6068-B and Senate 7674, New York Senate Hearing, 31 May 2000, posted at www.healthreformprogram.org.

Alan Sager and Deborah Socolar, *A Prescription Drug Peace Treaty—Cutting Prices to Make Prescriptions Affordable for All and to Protect Research—with State-by-State Estimates*, Boston, Health Reform Program, Boston University School of Public Health, 5 October 2000, posted at www.healthreformprogram.org.