HIT Think The rising urgency to rein in national drug spending

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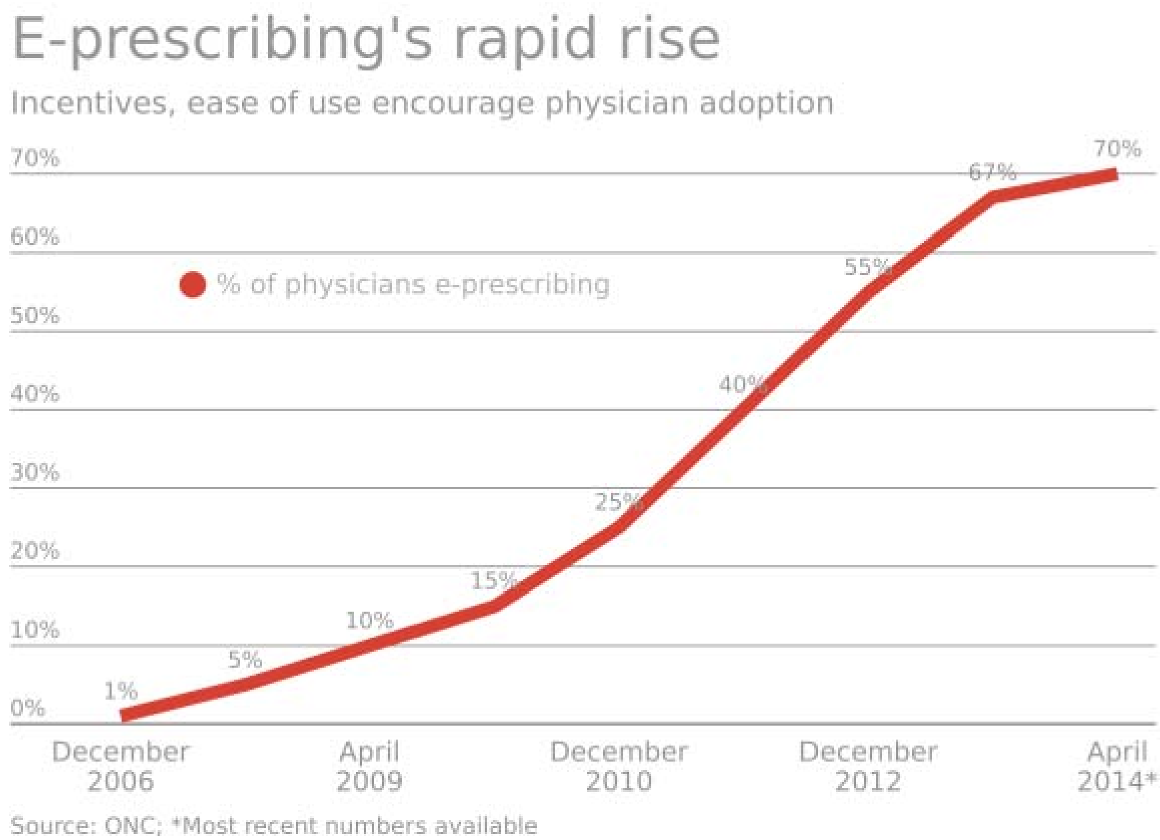
Although overall healthcare cost inflation remains relatively small, healthcare spending just passed 18 percent of the nation's gross domestic product at the end of 2015. Because of the size of healthcare as a component of the nation's expenditures, this continued increase in spending is unsustainable and threatens our economy.

While hospital spending makes up the largest slice of healthcare spending at 32 percent of all healthcare expenditures, drug costs have risen as a component and now account for 20 percent of that total. In addition, for all categories of healthcare spending tracked by the Alatarum Institute's Center for Sustainable Health Spending, drug costs increased at the fastest rate, rising 12.1 percent from November 2014 to November 2015.

Many factors lead to this increased spending on pharmaceuticals. One is that the use of prescription drugs has grown dramatically. A recent article by Elizabeth Kantor in the Journal of the American Medical Association documented the increase in medication use from 51 percent of U.S. adults in 1999-2000 to 58 percent in 2011-2012. In addition, Kantor reported that polypharmacy—the use of five or more drugs—rose from 8.2 percent of U.S. adults to 15 percent over that same period.

Interestingly, this increase in medication prescribing coincides with the expansion of the use of e-prescribing applications and EMRs driven by the funding from the HITECH act. Although no evidence exists confirming cause and effect, the ease of writing and filling prescriptions afforded by HIT cannot be dismissed as a contributing factor to the increased prescribing of pharmaceuticals.



In particular, electronic prescribing has risen dramatically in clinical practice. Only 7 percent of physicians prescribed electronically in 2008. Now, it's reported that 70 percent of physicians were e-prescribing using an EHR in 2014.

Of course, there are many other factors playing into the increase in drug spending. The expansion of Medicare prescription drug coverage in 2004, Medicare Part D, provided subsidies to Medicare beneficiaries to cover both prescription drug costs and prescription drug insurance premiums. The law also included a provision that prevents the Federal government from negotiating prices with pharmaceutical manufacturers. Unlike other countries, the U.S. government is prohibited from obtaining bulk pricing on medications, leaving that responsibility to individual Medicare plans.

High drug prices not only impact Medicare beneficiaries, but all U.S. residents taking medications. The staggering difference in some common drug prices in other developed countries and the U.S. highlights this price burden. Celebrex, commonly prescribed for pain, costs $51 per month in Canada and between $139 and $431 a month in the U.S. Gleevec, an important drug used to treat several types of cancers, costs just $989 per month in New Zealand, $1,141 in Canada, and from $5,482 to $11,007 per month in the U.S.

Often pharmaceutical companies drive revenue, not through the expansion of sales, but through increases in drug prices. The increase in prices extends to generic drugs, where it's not unusual for some crafty investors to scoop up sleepy generic drug makers who have a manufacturing monopoly on a small number of widely prescribed drugs, then then increase prices significantly solely to drive profits.

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There was a time that the release of blockbuster drugs drove revenue for pharmaceutical companies. With the demand for blockbuster drugs declining – many of the current medications available to treat common chronic diseases work just fine – pharmaceutical companies face a difficult marketplace in which to introduce new drugs.

The country is understandably excited about the use genomics and the potential to optimize treatment. With our understanding of genomics driving the demand for personalized (precision) therapeutics, it has the effect of stratifying the population into smaller and smaller segments, and that means there is a smaller number of patients who could potentially benefit from a new drug. This leads to a smaller potential revenue stream and therefore lower profits.

The expansion of personalized medicine presents a very significant challenge to physicians. The explosion of medical knowledge makes it impossible for any clinician to process that knowledge and apply it effectively, which will increase the need for efficient information technology to assist them. Rather than having a single approach to treating patients who have a similar disease, this cohort is now divided into ever smaller segments based on genetic and other factors that influence the choice of a proper care plan. Only through the use of HIT-driven clinical decision support tools can clinicians deliver true personalized medicine.

As attention is increasingly focused on drug spending, many technology and economic challenges are rising to the surface, and solving these will be difficult. With federal programs and patients on fixed-incomes bearing the burden of these increased costs, this problem will soon become a political issue. In the meantime, these unprecedented increases in drug costs, coupled with an increase in drug utilization, will put upward pressure on healthcare spending.

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