

Rising Drug Costs Are Handcuffing Healthcare

The rapid growth in drug costs in recent years has placed a burden on the healthcare system, affecting both consumers and providers. Drug prices are a major contributor to the rising cost of healthcare coverage and to the escalation of healthcare spending overall. A recent [congressional study](#) found brand name drug prices have increased 10 times the rate of inflation over the past five years. In New Jersey alone, hospital spending on drugs more than doubled between 2008 and 2017.

These skyrocketing drug prices are handcuffing hospitals in New Jersey and beyond by forcing them to divert resources that could be better used to enhance patient care.

One in four people taking prescription drugs report difficulty affording their medication, according to the [Kaiser Family Foundation](#). And recent opinion polling has found bipartisan support for government action to lower prescription drug costs. Data will play an important role in providing context to these discussions.

Drug Prices Drive Health Spending

According to the most recent [national data](#), three categories of expenditures account for nearly 63 percent of total health spending. In 2017, hospitals represented 33 percent of total health spending in the United States, and physicians accounted for 20 percent. But it is the third of the “big three” that consistently draws the most attention: prescription drugs.

Although accounting for less than 10 percent of the nation’s health expenditures, the rate of growth in drug spending is the most

volatile. While some of this can be attributed to utilization, such as the number of prescriptions dispensed, much of the volatility is driven by the “push-pull” effects of the introduction of new, costlier drugs and a continued shift to generic, less costly drugs.

Over the past 10 years, the average annual percent change in national spending on retail pharmaceuticals has ranged from highs of 12.4 percent (2014) and 8.9 percent (2015) to essentially flat (0.1 percent increase in 2010).

One shortcoming of the national data is its sole reliance on retail pharmaceutical sales; drug spending at hospitals and other providers is not captured. To address this, the American Hospital Association surveyed hospitals and issued an updated report in [January 2019](#) examining drug pricing in hospital inpatient and outpatient settings. The results showed that, on average, total drug spending per adjusted admission increased 18.5 percent at U.S. hospitals between 2015 and 2017. This is on top of the 38.7 percent increase in inpatient drug spending per admission from 2013 to 2015, as found in AHA’s initial [2016 study](#).

The growth in New Jersey over the same period (2015 to 2017) was even greater than the national rate: N.J. hospitals’ average drug spending per adjusted admission increased 25.1 percent, compared to 18.5 percent nationally. To determine that rate, CHART reviewed hospitals’ drug expenses as reported to the N.J. Department of Health on the annual Acute Care Hospital Cost Reports. Total (inpatient and outpatient) drug expenses were analyzed on an adjusted admission basis.

Trending N.J. Hospital Expenses

A closer look at N.J. hospitals' expenses over a longer time period – from 2008 to 2017 – reveals some interesting trends (see *Figure 1*):

- ◇ total hospital expenses grew 29 percent, from \$18.1 billion to \$23.4 billion;
- ◇ hospital drug spending more than doubled, from \$761 million to \$1.57 billion;
- ◇ hospitals' drug expenses per adjusted admission increased 132 percent, from \$427 to \$992;
- ◇ in 2017 (the most recent year for which data is available), hospitals' spending on drugs accounted for 6.7 percent of total expenses, the highest proportion in at least ten years.

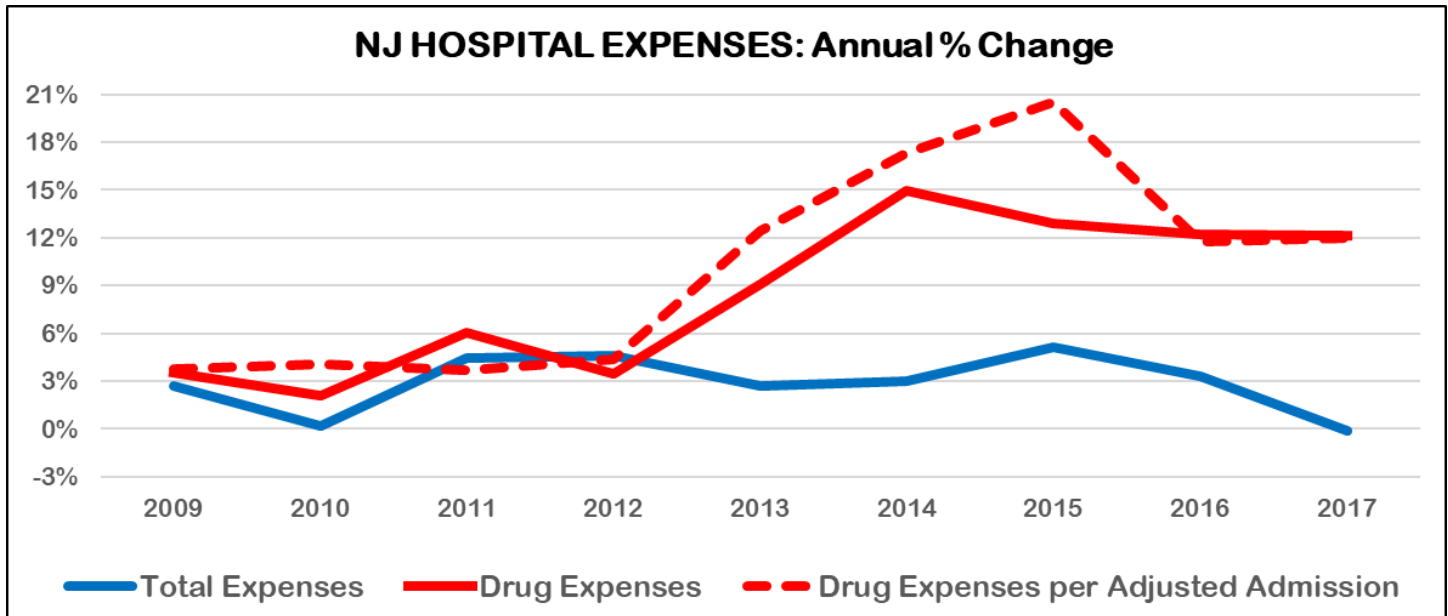


Figure 1

Which Drugs Impacted N.J. Hospitals?

Several hospitals and health systems shared in advance with NJHA their responses to AHA's drug pricing survey. Responses from approximately 40 percent of N.J. acute care facilities were analyzed.

Vasopressin [Vasostrict], used to treat diabetes insipidus and increase blood pressure in emergencies, was the most frequently cited drug with a significant price increase from 2015-2017 that impacted hospitals' ability to manage drug costs. In November 2016, the average wholesale price [increased from \\$4.27 to \\$138.40](#).

Other drugs that had dramatic price increases cited by N.J. hospitals included epinephrine [EpiPen] and injectable acetaminophen [Ofirmev].

Consequences for Patient Care

A key finding from AHA is that the main driver of drug spending by hospitals was not increased volume or utilization, but rather high list prices set by drug companies. Ongoing shortages of critical drugs also contributed to the increase. Ultimately, the resulting budget pressures have negative impacts on patient care.

One such adverse consequence (as reported by 90 percent of hospitals) is that higher drug prices – and drug shortages in general – force staff to spend valuable time developing alternative treatments. These alternatives disrupt work flow and delay patient procedures and frequently add to the total cost of care.

Among the nearly 1,200 hospitals responding to AHA's survey, 69 percent reported doing more in-house drug compounding, 28 percent delayed infrastructure improvements, 25 percent cut staff and 17 percent reduced the number or scope of services offered.

Regardless of the specific measures taken in response to the prescription drug spending crisis, in the end it is the patients who stand to lose the most. Skyrocketing drug prices in New Jersey and beyond force hospitals to divert scarce resources, threatening patient access to care and health systems' ability to provide the highest quality of care.

Visit www.njha.com/chart/ for additional resources.