# Generics Kept Health Cost Spiral in Check

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Overall health spending growth for 2005 hit the lowest level since 1999, largely because of a continuing slowdown in retail prescription drug sales and an increased use of generic drugs, according to a report issued by the Centers for Medicare and Medicaid Services in January.

The CMS report, the official government tally, found that overall, health care spending grew 6.9% in 2005, compared with 7.2% in 2004 and 8.1% in 2003.

"It is unclear whether this is temporary or indicative of a longer-term trend," lead author Aaron Catlin, a CMS economist, said in a statement.

Even with the slowdown, the United States spent slightly more per capita in 2005—$6,697 per person—than in 2004, when expenditures were $6,322 per person.

**'Even the slower spending growth of 6.9% continues to outpace inflation and growth in wages for the average worker in the United States.'**

The percentage of personal income devoted to health care is rising as well. Out-of-pocket spending grew from $235 billion in 2004 to $249 billion in 2005, with prescription drugs accounting for 20% of that expense.

Total spending in 2005 hit $2 trillion, according to the CMS (Health Affairs 2007;26:142-53, and Health Affairs 2007;26:249-57).

Medicare was the biggest spender, accounting for $342 billion of the $2 trillion total. The figure does not include the Part D drug benefit, which did not begin until 2006. Medicaid spent $311 billion in 2005, a 7.2% increase from the previous year. But that growth rate was on par with 2004, when spending rose 7.5%.

Cost-containment efforts by the Medicaid program helped hold down the nation's overall drug bill, according to the report. For Medicaid, drug spending grew only 2.8% in 2005. The nation's total drug tab in 2005 was $200 billion, an increase of 5.8% over the previous year, when drug spending rose 8.6%.

Most drugs—about 73%—were covered by private sources in 2005. Private spending grew only 6%, down from 7.2% in 2004. Drug price increases remained stable from 2004 to 2005, at about 3.5% overall and 6% for brand names.

The pharmacy benefit management industry took credit for helping to keep a lid on spending, noting that industry tools such as formularies, rebates, generic drugs, and mail-service are being used by both private and public payers. "PBMs have played a huge role in helping to drive prescription drug trends to an historic low," Mark Merritt, president of the Pharmaceutical Care Management Association, said in a statement.

Both CMS and America's Health Insurance Plans said that increasing use of multitiered drug formularies—which require consumers to pay more for higher-cost medicines—also contributed to the slowdown in drug spending.

Spending on physician and clinical services hit $421 billion in 2005, which made it the second biggest category of spending, after hospitals. That represented a 7% increase from 2004, when spending rose 7.4%. Medicare, however, spent 9.5% more on physician services in 2005, a slight decline from the 10.4% growth in 2004.

Hospital spending grew about 8% in 2005 and 2004, hitting $611 billion.

The fastest growing component of health spending was freestanding home health care, rising 11% in 2005 to $47.5 billion. At least three-quarters of home care is covered by public payers.

Spending for nursing home care grew 6% in 2005 to $121 billion. That was a larger increase than in the previous year, when spending rose 4%. Though Medicaid is the largest payer, accounting for 44% of funding for nursing home care, its expenditures increased by only 4% in 2005, compared with Medicare's 12% rise.

Growth in the cost of health insurance premiums also declined. In 2005, premiums increased 6.6%, compared with 7.9% in 2004. It was the third consecutive year that premium increases dropped. However, the CMS researchers noted that employees are still paying more for their health care through higher coinsurance and deductibles and other out-of-pocket costs.

Consumers are taking a big hit on health costs, agreed Karen Davis, president of the Commonwealth Fund, a private nonpartisan foundation that is working toward a health system that offers better quality and more access. "Even the slower spending growth of 6.9% continues to outpace inflation and growth in wages for the average worker in the United States," Ms. Davis said in a statement. ■