



## BALCONY SAYS NEW YORK STATE COULD SAVE \$100 MILLION ON DRUG PURCHASES

### Containing Prescription Drug Costs – New York’s Opportunity for Savings

*There is growing evidence that states can achieve significant savings on their prescription drug benefit costs by using their collective purchasing power to negotiate substantial discounts. Through its Medicaid, EPIC, state employee health plan and other state programs, New York State provides prescription drug benefits to well over 4 million persons. By leveraging this enormous purchasing power, New York State could save over \$100 million per year in state taxpayer expenditures on prescription drugs, and could help lower prescription drug costs for those who do not have any health insurance.*

According to the Centers for Medicare and Medicaid Services, in 2004 almost \$16 billion was spent in New York State on prescription drugs. New York has experienced double-digit annual percentage increases in prescription drug spending in each year since 1995, with annual expenditures growing four-fold from \$3.8 billion in 1994 to \$15.7 billion in 2004.<sup>1</sup>

New York State pays for prescription benefits for Medicaid beneficiaries, participants in the Elderly Pharmaceutical Insurance Coverage (EPIC) program, state government employees and retirees, the state prison population, and participants in certain other state public health programs (such as AIDS patients). Through these programs, the state provides prescription drug coverage for well over 4 million persons.<sup>2</sup> Total state government expenditures on prescription drugs are in the neighborhood of \$2.5 billion dollars per year. The 2006-2007 Executive Budget indicated that the cost of prescription drugs for both the Medicaid and EPIC programs have increased at an average annual rate of 18 percent over the past 10 years.

Expenditures on prescription drugs are skyrocketing for two basic reasons: people are using more prescription drugs and the prices of those prescription drugs (whether new or old) have been increasing at rates much higher than overall inflation or health care inflation. *Almost one quarter (24%) of the total increase in New York’s Medicaid expenditures since 1997 can be attributed to increasing expenditures for prescription drugs and supplies.*

The rising cost of prescription drugs presents an enormous challenge to individuals as well as the state government. While most private insurance policies, especially those offered through employers, cover prescription drugs, 2.8 million New Yorkers (15%) do not have any health insurance and therefore must pay “out of pocket” for all prescription drug costs.<sup>3</sup> For those with some insurance coverage, rising drug costs have prompted employers and their agents to impose higher co-payments and deductibles.

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<sup>1</sup> Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group.

<sup>2</sup> According to the 2006-07 New York State Executive Budget, there are 3.9 million participants in the state’s Medicaid program, 190,000 state employees, 372,000 senior citizens in the EPIC program, and 63,000 prison inmates.

<sup>3</sup> Danielle Holahan, Elise Hubert and Cathy Schoen, “A Blueprint for Universal Health Insurance Coverage in New York,” United Hospital Fund and The Commonwealth Fund, December 2006.

New York State should use its clout as one of the world's largest purchasers of pharmaceuticals to consolidate its purchasing and negotiate reduced drug prices for Medicaid, EPIC, state and local government employees as well as for individuals, unions and private employers who choose to participate.

New York State recently joined a multistate Medicaid drug purchasing pool, yet it is not clear what savings this mechanism is providing to NYS and whether this is the best vehicle for NYS taxpayers to leverage the combined drug purchasing power of the state and its taxpayers. Also, while New York State has established preferred drug lists for the EPIC, program, the Empire Plan, and the state's Medicaid program, greater savings can be achieved through a coordinated Preferred Drug List combining all state drug purchasing and private purchasers choosing to join a state-coordinated drug purchasing pool.

Other states have been trying a wide range of approaches to realize savings on their prescription drug purchases. Led by West Virginia, five states cover their public employees through the RXIS (Rx Issuing States) bulk drug purchasing initiative. In addition to multi-state purchasing pools for Medicaid and public employees, Georgia has been a leader in coordinating drug purchases by various state agencies through an intra-state pooling arrangement that covers almost two million Georgia residents.<sup>4</sup> New York State should evaluate its current participation in the multistate Medicaid drug pool and explore these and other purchasing strategies employed by other states in order to maximize drug purchasing savings and improve services associated with administering drug benefits. New York State should also consider leveraging its drug purchasing power to extend discounts to uninsured individuals who are not eligible for Medicaid and to private purchasers choosing to join a state-coordinated drug purchasing pool.

Finally, New York should consider drawing on the expertise of organizations like the Heinz Family Philanthropies to help identify the best strategies to reduce the costs of prescription drugs. In recent years, Heinz has successfully worked with several states –among them Massachusetts, Virginia, Rhode Island, and Oregon – to lower health care costs.<sup>5</sup>

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<sup>4</sup> For a discussion of state pooled drug purchasing initiatives, see Connecticut Office of Legislative Research, “Prescription Drug Bulk Purchasing Activities,” Sept. 22, 2005 ([www.cga.ct.gov/2005/rpt/2005-R-0724.htm](http://www.cga.ct.gov/2005/rpt/2005-R-0724.htm)) ; or Sharon Silow-Carroll and Tanya Alteras, “Stretching State Health Care Dollars: Pooled and Evidence-Based Pharmaceutical Purchasing,” The Commonwealth Fund, October 2004 ([www.cmwf.org](http://www.cmwf.org)).

<sup>5</sup> See, e.g., Jeffrey R. Lewis, “The Oregon Blueprint: Coordinated Contracting of Prescription Drugs-A Fiscal and Policy Strategy for the State of Oregon,” Heinz Family Philanthropies, July 2006. [http://www.hfp.heinz.org/issues/health\\_04.html](http://www.hfp.heinz.org/issues/health_04.html)