Increases in Drug Spending Slow

The rate of growth in prescription drug spending appears to be slowing. A March 2017 annual report on national health care expenditures by the federal Centers for Medicare and Medicaid Services reveals that among all health services, prescription drug spending has the largest projected slowdown. Growth held to just 5 percent in 2016, compared with 9 percent in 2015. The main reason for this "decelerating growth," the agency stated, is that "the use of drugs to treat hepatitis C is expected to have fallen in 2016." For employer-sponsored health plans, Express Scripts' 2016 Drug Trend Report also found that spending increases on medicines were down from an average of 5.2 percent in 2015 to just 3.8 in 2016.

Another CMS study from January also shows that the use of generics continued to climb, reaching 83 percent of all drugs dispensed in 2015. Researchers found: "Prices of generic prescription drugs increased less than 1 percent in 2015."

All this is welcome news to state Medicaid directors, among others. The high price of a few drugs has stressed Medicaid budgets and has made some lawmakers ask, "How can we control costs and still provide these lifesaving medicines?"

PhRMA, the brand medicine manufacturers' trade association, points out that brand biopharmaceutical companies retain only around 63 percent of total gross spending on brand medicines and just 47 percent of total U.S. spending on prescription drugs, including generics. More than one-third of a drug's list price is rebated back to insurance companies, pharmacy benefit managers and the government, or is retained by other stakeholders in the supply chain.

Several drug manufacturers have voluntarily provided more transparency on the discounts and rebates they pay into the health care system, to government insurers and to middlemen, including pharmacy benefit managers, according to a CNBC report in late February. Johnson & Johnson, for example, disclosed an 8.5 percent list price increase, which translated to a 3.5 percent net price increase in 2016.

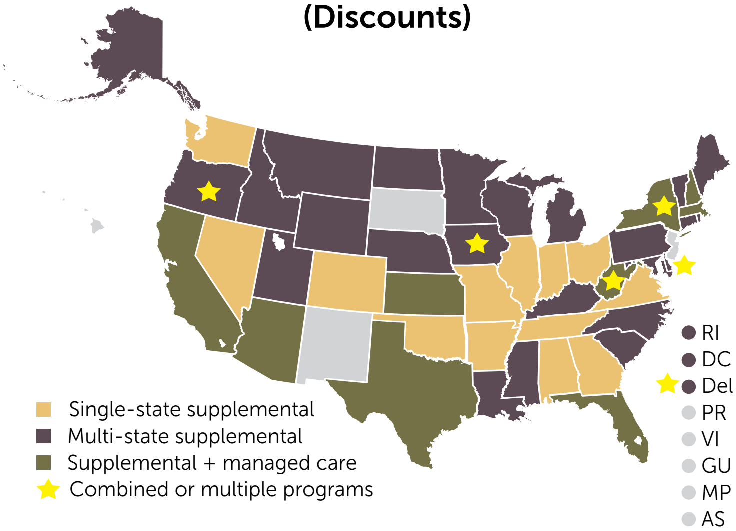
The pharmacy benefit managers who work out wholesale deals also can add to the share of costs. This is why pharmacies, insurers and manufacturers all seek more transparency and disclosure by these intermediaries as well.

Rebates are the primary way Medicaid programs have obtained a volume discount since the early 1990s. As of 2010, the federal Medicaid rebate rate became 23.1 percent below the average manufacturers' price. In exchange for the discounts, Medicaid programs agree to make "all medically necessary" products available to patients who need them.

State legislatures initiated Medicaid "supplemental rebates" in 2001, to negotiate even deeper discounts, especially for "preferred" brand and generic drugs. Forty-six states and D.C. now have a federally approved supplemental rebate program. Most states have banded together to increase their buying power. A dozen states now also collect rebates from managed care insurers.

Whatever the reasons for the slowdown in spending hikes, states welcome the change, but they also recognize the value of new treatments. More than 550 new medicines are in development, according to PhRMA. Medicines that reduce hospitalization rates, surgeries and complications will save money for states and other payers. At the same time, the possibility of significant breakthroughs gives hope to millions suffering from devastating diseases.

Medicaid State Pharmaceutical Rebates (Discounts)



Source: NCSL, 2017

Giving Credit Where It's Due

You do the math, enter all your information on the forms and check it again. Then once more. Why? Well, it's tax season and you don't want to miss out on a refund.

At least not knowingly.

About 20 percent of low-income workers, however, don't claim the earned income tax credit for which they're eligible. The EITC is a federal credit available to workers based on their income, marital status and number of dependent children. The amount of the credit varies. For tax year 2016, a single worker making less than $14,880 can get up to $506. In contrast, a married couple making less than $53,505 with three or more children qualifies for up to $6,269.

The average refund received is about $2,455, and in tax year 2014 more than 27 million eligible workers claimed more than $67 billion. In 26 states and Washington, D.C., workers can get an additional state tax credit.

So why would someone leave money, potentially thousands of dollars, on the table?

It's often because they don't know about the EITC or what they need to do to claim it. Last year, Arizona, California, Iowa and Virginia passed legislation to share information about the EITC and help workers properly file their taxes.

This type of outreach has happened for years. Since 2009, Delaware, Hawaii, Louisiana, Massachusetts, Michigan, New Jersey, Oregon and Texas have passed similar bills.

How states do this varies. Iowa appropriates money to nonprofits to help workers complete their taxes. Delaware and Hawaii set aside funds to market the tax credit, while Oregon and Virginia advertise sites where low-income filers can get their taxes done for free. Arizona, California, Louisiana, New Jersey and Texas send out information via social service agencies.

No matter the method, the shared goal is to make sure tax filers are properly submitting their taxes so they receive the right refund. More workers get a needed refund, and agencies can be sure that only eligible tax filers actually get the credit. It's a win-win—workers keep working and, when they do, the EITC gives them a boost at tax time.

—Jessica Hathaway

Taxes Fuel Transportation Funding

The Trump administration is refueling the perennial conversation on infrastructure and transportation spending—albeit with some uncertainty.

Talk in Washington, D.C., has focused on financing and private-sector investment strategies, but the scope has been unclear. Meanwhile, statehouse leaders in at least 16 states are considering bills to increase motor fuel taxes in hopes of providing additional resources for maintaining, operating and upgrading transportation networks. Further, some lawmakers have expressed the need to increase revenues to be ready to leverage the potential financing options created under a Trump administration infrastructure plan. Leaders in another eight states have announced plans to introduce similar legislation.

New Jersey was the only state to enact a motor fuel tax bill in 2016. Legislative action so far this year is more on par with that in 2015, when eight states enacted measures to increase fuel taxes to some degree and two others restructured their taxes.

In recent years, states have explored alternatives to the historical cent-per-gallon fuel-tax model. Variable-rate or indexed fuel taxes, which increase or adjust based on economic metrics, may provide a steadier, more sustainable revenue stream into the future.

Fuel tax increases are not the only policy option being considered. Included in the discussions, and in many active bills, are increases to vehicle registration fees, tolling, fees for electric and hybrid vehicles, local option taxes, road-user charges and sales tax increases dedicated to transportation.

In addition, legislators are exploring how to better use the transportation funds their states already collect. Many states have saved money by enhancing state transportation plans, prioritizing projects, restricting the use of transportation revenues, creating innovative financing and leveraging federal resources.

For more ideas and resources, visit NCSL's Transportation Funding Deep Dive, our one-stop online shop at ncsl.org/magazine.

—Kevin Pula