Assessing the Unsustainable Cost of Specialty Medications:

A Survey of Public Sector Health Plans

2024 Year-End-Report

Public Sector HealthCare Roundtable

National Institute for Public Employee Health Care Policy

Background

Pharmaceutical costs continue to be a major factor in rising health care expenses across all sectors, especially for public sector purchasers.[1] Specialty drug costs alone are anticipated to escalate to $310 billion by 2030[2] and although only 2% of the population uses these medications[3], specialty drugs now represent over 50% of prescription spending.

Specialty medications are driving pharmacy benefit costs, with costs remaining in double-digit growth during the pandemic.[4]

This persistent trend is fueled by factors including the introduction of new specialty medications like gene therapies and GLP-1s, expanded indications, inflation, and an aging population. Additionally, rare diseases and conditions impose a substantial cost burden on the nation, likely exceeding $1 trillion each year.[5]

The **2024 Specialty Drug Survey**, led by the Public Sector HealthCare Roundtable and the National Institute for Public Employee Healthcare Policy, highlights that many employers and plan sponsors are finding pharmacy costs now exceed 36% of total healthcare spending. In response, they are employing strategies, often in collaboration with pharmacy benefit managers (PBMs), to contain these costs. Approaches include allowing access to international pharmaceuticals, aggregating employee populations for pilot programs, and adopting stop-loss measures for gene therapies.

Public sector plan sponsors, including those in the Public Sector HealthCare Roundtable, offer affordable and comprehensive health care benefits to employees, retirees, and their dependents across various government sectors. Over 23 million Americans[6] work in federal, state, and local government roles, representing a significant portion of the national workforce.

To understand how public sector health plans are managing specialty drug costs, the Public Sector HealthCare Roundtable developed a survey covering specialty drugs and associated healthcare plan costs for the 2022-2023 plan year. The survey aimed to assess public sector approaches to maintaining access to these critical medications at fair, sustainable prices.

For the purposes of this survey, as reported by plan sponsors in their responses, specialty drugs are high-cost medications that typically require special handling, storage, and administration. These drugs are often used to treat chronic, complex, or life-threatening conditions and may require patient education, frequent dosing adjustments, and close monitoring. They are usually available through a limited distribution model and can include infused, injectable, oral, or inhaled forms. Specialty drugs also meet multiple criteria, such as being produced through complex biological processes or requiring a customized medication management program for safe and effective use.

Additionally, within Medicare, specialty drugs are defined by cost, with any medication priced at $670 or more per month classified as specialty.[7]

Specialty drug costs are becoming a pressing issue for employers[8], with these high-cost medications now accounting for a substantial share of total pharmacy spending—a figure that continues to rise steadily each year. Projections indicate that specialty drug expenses may grow by over 20 percent annually in the coming years, potentially comprising nearly half of all drug costs. Although awareness of the financial impact specialty drugs has on health plans remains limited among many private employers, the issue poses an even greater challenge for public sector purchasers. Due to budgetary restrictions and regulatory limitations, government entities face significant hurdles in managing these rising costs, intensifying the strain specialty drug expenses place on their health care resources.

In recent years, specialty drug manufacturers have increasingly focused on treatments for more prevalent conditions, including autoimmune disorders, multiple sclerosis, cancer, and growth deficiencies. The growing demand for these treatments, particularly for obesity medications such as GLP-1 receptor agonists like Ozempic, has placed additional pressure on the drug supply chain, leading to periodic shortages and intensifying cost concerns. As public demand for these drugs continues to surge, some state-based employers are now reevaluating coverage for these medications, with certain public sector health plans opting to limit or exclude GLP-1 treatments altogether.[9] This shift underscores the need to anticipate future trends in availability, pricing, and accessibility, which will be crucial for public sector purchasers in managing costs and ensuring equitable access to essential medications.

The core issue persists as high drug prices rather than prescription volume. While specialty medications account for just 1-2% of prescription claims, they remain the primary driver of unsustainable cost increases.

Survey Results

Plan sponsors provided 17 responses across 13 states, representing more than 78 health plans. These organizations provide benefit coverage to 1.2 million lives, with a total drug spend of $8.9 billion dollars in the year 2023, including $4.1 billion dollars on specialty drugs.

Other important 2022-2023 trend results are summarized below:

Total increase in drug spending was approximately 19% across plan sponsors

On average, respondents stated that approximately 7.5% of their pharmacy claims were for specialty drugs

Average increase in spending on specialty drugs was approximately 15% across plan sponsor

Approximately 88% of respondents cover GLP-1s in both Combined/Medicare and Commercial plan offerings.

93% of respondents* offering Combined/Medicare plans stated they cover GLP-1s, with all respondents reporting that they offer the drugs through prior authorization, for diabetes management, and/or for Medicare approved conditions.

One of these respondents noted they also offer coverage for weight management.

100% of respondents* offering Commercial plans stated they cover GLP-1s, with all respondents reporting that they offer the drugs through prior authorization, for diabetes management, and/or for FDA approved conditions.

Three of these respondents noted they also offer coverage for weight management.

Plan sponsors responding to the survey stated they are attempting to control these daunting cost trends with the following strategies:

100% of respondents use targeted strategies to control specialty drug costs

92% of respondents use prior authorization across some or all specialty categories

50% use a separate copay or coinsurance tier for specialty medications

Key qualitative responses revealed varied approaches to address rising specialty drug costs. Many respondents are considering partnerships with pharmacy benefit managers or third-party vendors to implement cost-saving measures, such as medication savings solutions and biosimilar promotion, aimed at reducing overall expenses. Some are looking into copay maximizer and accumulator programs as part of a broader strategy to control costs. There is a strong interest in managing high-cost and pipeline drugs, especially GLP-1s, as well as enhancing transparency and leveraging biosimilars. A few respondents are considering network adjustments and premium changes in light of recent policy impacts, while others are evaluating 340B pricing and distribution through federally qualified health centers to steer members toward affordable options.

Considerations

The development of innovative specialty medications has proven beneficial, yet the costs associated with these drugs present significant access barriers for Americans, posing challenges to the financial stability of public and private sector health plans.

The Public Sector Healthcare Roundtable suggests several legislative measures from the 118th Congress:

- Ensure effective implementation of the Inflation Reduction Act's (IRA) drug negotiation provisions, expanding eligible drugs and extending negotiated prices to the employer market.

- Address brand name drug manufacturers' over-reliance on patent thickets that prevent earlier introduction of biosimilar drugs to the market (Affordable Prescriptions for Patients Act of 2023, S. 150).

- Encourage contingent pricing, tying drug costs to proven effectiveness, with reimbursement based on efficacy.

- Provide resources and flexibility for the FDA to fast-track biosimilars or generic alternatives to stimulate lower-cost competition.

- Promote transparency in the pharmaceutical market, especially for PBMs (Modernizing and Ensuring PBM Accountability Act, S.2973).

- Increase support for private and public research into comparative effectiveness led by organizations such as ICER and PCORI.

- Bring transparency to drug pricing, requiring manufacturers to disclose production, research, and development costs, along with discounts offered to various payers for high-cost drugs.

> Expand value-based purchasing to ensure all segments of U.S. healthcare benefit from market-based negotiations for lower drug prices.

> Reverse FDA decisions allowing brand biologics and biosimilars to share the same International Nonproprietary Name, reducing confusion for patients and providers.

> Limit excessive spending on direct-to-consumer advertising by pharmaceutical companies to prevent unnecessary drug use.

> Remove legal barriers that prevent plan sponsors from engaging in direct value-based contracts with drug manufacturers.

Conclusion

In the realm of pharmaceutical advancements, the prevalence of specialty drugs in new drug approvals has reached a significant milestone, likely accounting for nearly two-thirds of all approvals over the next five years[10]. This trend, while diverse, predominantly emphasizes oncology and rare diseases. In response to the rising costs associated with these medications, plan sponsors are strategically reassessing their approaches to optimize the utilization of specialty drugs and minimize waste.

Recent survey responses indicate a strong inclination among plan sponsors to collaborate with pharmacy benefit managers and third-party vendors to implement cost-saving measures, such as medication savings solutions and biosimilar promotion. Many respondents expressed their interest in adopting management strategies that include clinical programs like step therapy, prior authorization, and quantity limits to ensure appropriate drug use. Additionally, some are exploring innovative benefit designs that leverage manufacturer copay assistance and aim to establish fair value for high-cost drugs.

This proactive approach reflects a growing recognition of the need for enhanced transparency and member engagement to optimize adherence to specialty medications, ultimately contributing to better health outcomes while controlling costs. The exploration of these strategies highlights the commitment of plan sponsors to navigate the complexities of specialty drug management in an evolving pharmaceutical landscape.

References

1. A public sector purchaser is an individual or organization that purchases goods or services for the government, in this context, the good or service in question is health benefits for public sector employees at the state level.
2. Benefits Pro. Specialty drugs: employers are weary (and for good reason).
3. Evernorth. What Is Drug Trend and How to Manage it.
4. Peterson-KFF Health System Tracker. How has healthcare utilization changed since the pandemic?
5. Health Affairs. The Economic Burden Of Rare Diseases: Quantifying The Sizeable Collective Burden And Offering Solutions.
6. Bureau of Labor Statistics, U.S. Department of Labor. The Employment Situation – October 2024.
7. Centers for Medicare and Medicaid Services. Announcement of Calendar Year (CY) 2016 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies and Final Call Letter.
8. The Commonwealth Fund. Specialty Drug Costs Poised to Skyrocket but Many Employers Have Yet to Take Note.
9. Benefits Pro. North Carolina ends coverage of new weight loss drugs for 750,000 state employees.
10. Aptitude Health. The Global Use of Medicine in 2019 (and Outlook for 2023).

Appendix

Plan sponsors provided 17 responses across 13 states, representing more than 78 health plans, including:

- *AlaskaCare, State of Alaska*
- *Arizona Public Employees Retirement System*
- *State of Colorado*
- *Kansas State Employee Health Plan*
- *University of Kentucky*
- *Teachers Retirement System of Kentucky*
- *Michigan Public School Employees' Retirement System*
- *Health Trust – New Hampshire*
- *North Carolina State Health Plan*
- *School Employees Retirement System of Ohio (SERS)*
- *State Teacher's Retirement System of Ohio*
- *South Carolina Public Employees Benefit Authority*
- *Teacher's Retirement System of Texas*
- *The Texas A&M University System*
- *Employees Retirement System of Texas*
- *West Virginia Public Employees Insurance Agency*
- *Department of Employee Trust Funds, Wisconsin*