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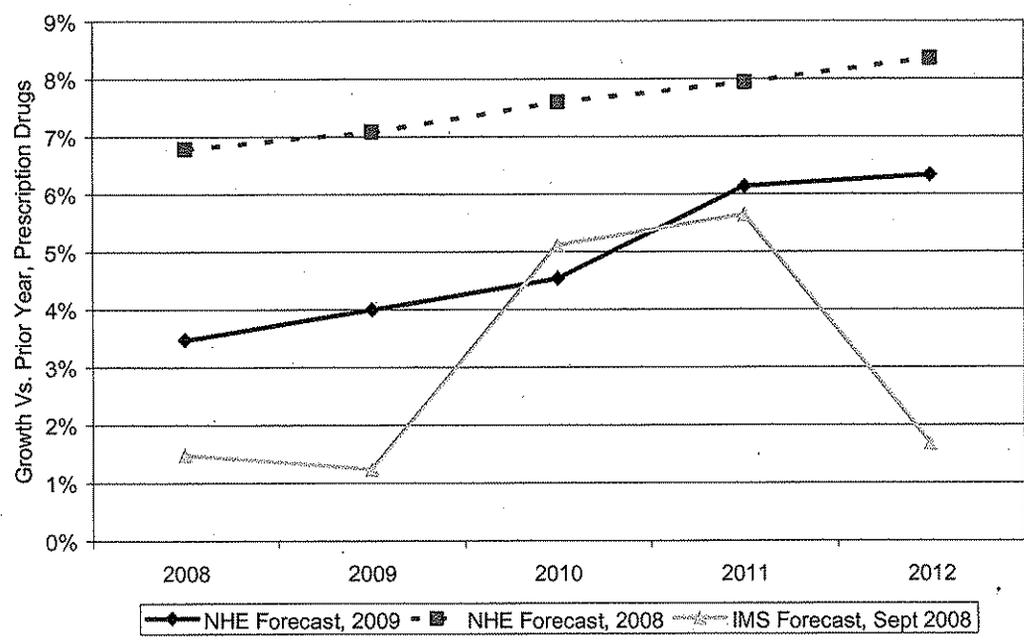
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As the state of Connecticut faces escalating budget challenges during the current economic downturn, it is important to understand the relative contribution of prescription drugs to current and projected future health spending.

In 2007, the latest year for which public data are available, prescription drug spending constituted approximately 10 percent of national health expenditures and has never exceeded 11 percent since 1960. The largest spending categories were 'hospital care' (31 percent) and 'physician and clinical services' (21 percent).¹ Overall health spending growth slowed to its lowest rate (6.1 percent) since 1998, in part due to low prescription drug spending growth (4.9 percent).² Low prescription drug spending growth was driven by increasing use of generic drugs (59 percent of all prescriptions in 2007)³ and a declining number of new drug approvals in recent years.⁴

Both the Office of the Actuary at the Centers for Medicare and Medicaid Services (CMS) and IMS Health provide projections of prescription drug spending. In 2009, CMS reduced their projections of prescription drug spending growth for 2008-2012 from 6-8 percent down to 3-6 percent.⁵ Using a more detailed forecasting methodology, IMS Health projected growth rates that are generally lower than the CMS forecast.⁶

Prescription Drug Growth Forecast



¹ Source: National Health Expenditure web tables, available at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf> (accessed March 2, 2009).
² Hartman et al. National Health Spending in 2007: Slower Drug Spending Contributes to Lowest Rate of Overall Growth Since 1998. *Health Affairs*. 28 (1) 2009. 246-261.
³ Source: IMS Health. In 2008, generic utilization increased to 65 percent.
⁴ Aitken et al. Prescription Drug Spending Trends in The United States: Looking Beyond the Turning Point. *Health Affairs*. 28 (1) 2009. w151-w160.
⁵ Source: National Health Expenditure projections, available at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2008.pdf> (accessed March 2, 2009).
⁶ IMS Market Prognosis 2008.