Drug spending to reach nearly $600B by 2020

Drug spending in the U.S. will grow 34% from now until 2020, reaching $560–$590 billion, according to a study by the IMS Institute for Healthcare Informatics.

**Annual growth**

The projected uptick is consistent with the recent spurt in drug spending. Net spending on outpatient prescription drugs hit $297.7 billion in 2014 (the latest data available) and, for the first time since 2009, outpaced national health care spending growth (12.2% vs. 5.3%), says CMS.

In 2012, more drugs reached patent expiration than in any other year, and in 2014, more drugs were approved by the FDA than in any other year, according to IMS. The increase in drug spending in the years ahead will be driven by yet more innovation, says IMS, with 225 new drugs hitting the worldwide market in the next four years. Price increases will also boost drug spending, with loss of exclusivity tugging in the other direction but not enough to affect the overall trend in a major way.

Adam Fein, a nationally recognized expert on pharmaceutical spending, warns that pitting IMS data against CMS data comes with caveats. In a blog post, Fein noted that IMS Health data measure purchases by pharmacies at invoice prices while CMS's National Health Expenditure data measure net spending by payers, which is roughly equivalent to pharmacy revenues (purchases plus pharmacies' margins) minus third-party payer rebates. IMS noted the expected growth in the number of biologic treatments for diseases such as severe asthma. Biosimilars, which could theoretically offset some of these costs, have been slow to enter the U.S. market.

**Components of annual growth in drug spending**

- **Protected brands volume**
- **Protected brands price**
- **Generics volume**
- **Generics price**
- **New brands**
- **Loss of exclusivity**