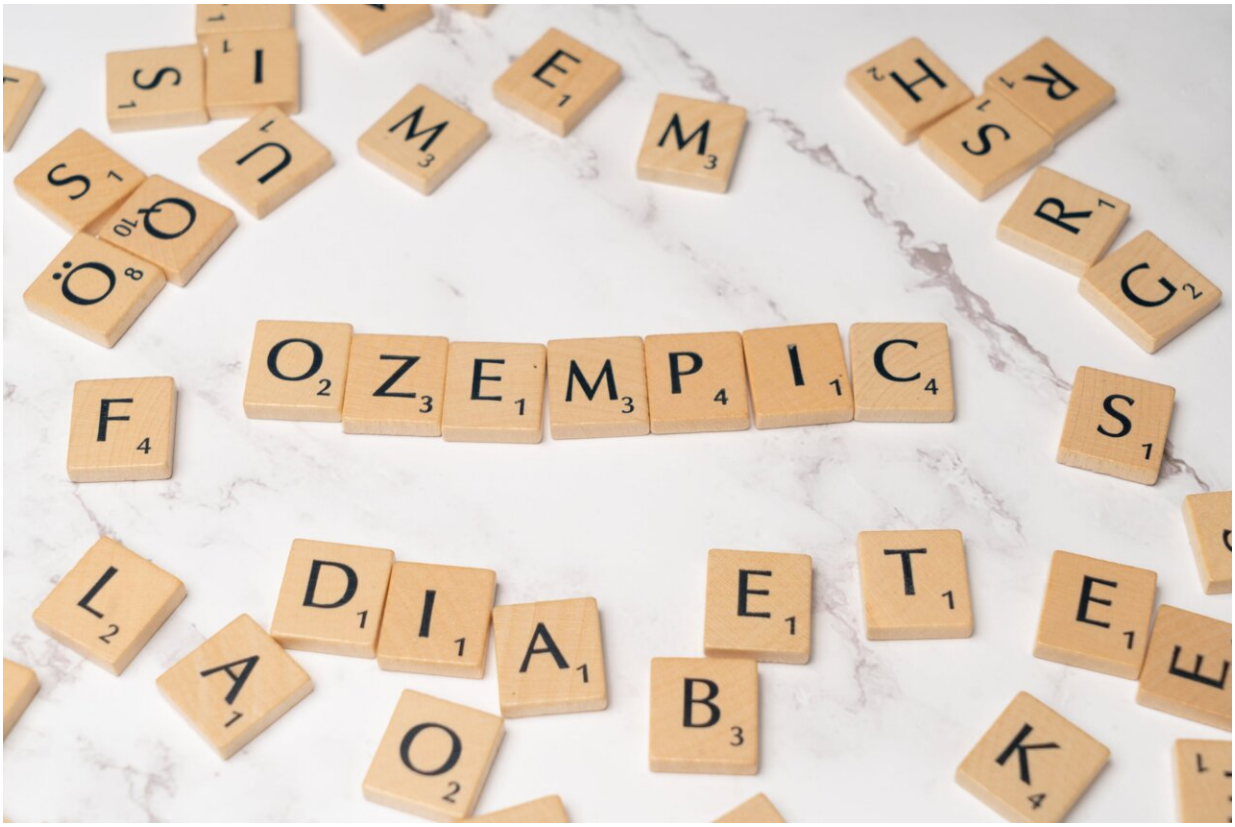
Ozempic mania's billions in bills are coming for US taxpayers

January 9 2024, by Simone Foxman, Laura Nahmias, Bloomberg News



Credit: Markus Winkler from Pexels

State and local governments across the US are grappling with a growing problem: Expensive drugs to treat diabetes and obesity are threatening to drain their health care budgets.

State health plans and Medicaid offices are seeing eye-popping bills for Novo Nordisk A/S's Ozempic, its sister drug Wegovy and similar medications known as GLP-1s. They're a breakthrough for treating two of the most complex chronic health conditions. But with list prices stretching above $1,000 a month, the costs threaten to empty government coffers.

"It's not sustainable," North Carolina Treasurer Dale Folwell, who oversees state workers' health insurance, lamented at a recent board meeting. "It'll sink the plan."

He isn't the only official warning about the exploding costs. Connecticut imposed new hurdles for state employees seeking weight-loss treatment in July, after spending on the drugs rose 50% annually since 2020. Virginia tightened criteria for Medicaid enrollees seeking GLP-1s to treat obesity in June. An official in Delaware warned of a surge in Medicaid claims for the drugs since March and said the state may need to implement cost controls.

Demand for the drugs is poised to explode. Public attention has focused on the well-off looking for a quick way to lose a few extra pounds, but the reality is that type of customer represents a tiny fraction of the potential market for GLP-1s. More than one in 10 Americans have type 2 diabetes, and upward of 100 million suffer from obesity. Those rates are higher among the 19% of Americans who rely on Medicaid, the public health-insurance program that on average accounts for more than a quarter of state spending.

As Novo Nordisk, rival Eli Lilly & Co. and health advocates trumpet a growing list of benefits for patients, health-plan administrators fret about difficult decisions and the need to ration access. If an elementary school teacher who has type 2 diabetes is covered for the drugs, what about an overweight Medicaid recipient who's not diabetic but has a heart

condition? How about a police officer whose obesity is exacerbating her knee pain?

The answers to these questions will help determine the burden for taxpayers. It may also intensify debates about how much the public is willing to pay for prescription drugs in the US, where pharmaceutical companies can charge much more for drugs than in other countries.

The hand-wringing is another example of the profound effects rippling across society as use of the drugs increases. Already, Walmart Inc. says the medications are damping grocery sales, and restaurant chains including Chipotle Mexican Grill Inc. and Cava Group Inc. have predicted they will cause customers to eat more healthfully. A Jefferies Financial Group Inc. analyst forecast that the weight loss drugs could ultimately save airlines millions of dollars in fuel costs.

Wonder drugs

GLP-1 medications, including Novo's Ozempic as well as Eli Lilly's Mounjaro and Trulicity, were initially developed to treat type 2 diabetes, and doctors have been prescribing early formulations since 2005. Type 2 diabetes is the most expensive chronic condition in the US. One dollar of every $4 spent on health care, or $327 billion a year, goes toward treating the disease and its symptoms, according to figures cited by the US Centers for Disease Control and Prevention.

Doctors and advocacy organizations like the American Diabetes Association say glucagon-like peptide-1 receptor agonists, as the medicines are formally known, are far more effective than previous generations of medications.

"It is going to transform medical practice," said Kevin Petersen, the vice president of primary care for the ADA.

As more doctors and patients become aware of the medications' potential, the costs are climbing for states. And once patients start taking GLP-1s, doctors typically recommend they take them indefinitely.

In 2022 alone, Medicaid spent $7.9 billion for GLP-1 drugs before manufacturers' rebates, according to the latest full-year data compiled by Bloomberg, a number that's more than doubled since 2020. That's equivalent to 8.6% of the program's total, pre-rebate prescription spending for the 85 million Americans it covers, based on Medicaid and CHIP Payment and Access Commission data.

So far, data suggest it's diabetes, not weight loss, driving the surge in Medicaid spending on GLP-1s. Doctors don't consistently disclose why a patient is prescribed a drug. But reimbursements for diabetes drug Trulicity, which hasn't been shown to cause the same dramatic weight loss and Ozempic or Mounjaro, accounted for 62% of the increase in Medicaid spending between 2020 and 2022. Incomplete claims data for 2023 suggest reimbursements for GLP-1s continued to rise, driven especially by the newer drugs.

Increasing popularity of newer diabetes formulations, new studies about health benefits beyond diabetes and the likelihood that the medicines will soon come in pill form (instead of injections) is likely to drive more patients to take GLP-1s. If all type 2 diabetics on Medicaid who would likely benefit from the drugs got a prescription, the annual cost would be some $41 billion, Bloomberg's analysis showed, or close to half the money the program spent on all prescription medications in 2022.

'Rough arithmetic'

While most insurers, including Medicaid and state employee plans, cover GLP-1 drugs when they're prescribed for type 2 diabetes, most don't cover them for weight loss.

Doing so could open the floodgates, given that many more people suffer from obesity than diabetes. About 38% of Medicaid beneficiaries have a body-mass index of 30 or higher, according to government data.

Novo and Lilly argue that the costs of GLP-1s will pay for themselves over time by saving money on more expensive medical procedures. A person with obesity who takes a GLP-1 and avoids a heart attack prevents a very expensive hospital visit and recovery, the thinking goes. But so far, there's little data showing the impact anti-obesity drugs have on medical bills.

Obesity costs the US health-care system some $173 billion a year, and the condition is now so prevalent that 25% of young people are too heavy to be eligible to join the US military.

The Congressional Budget Office, which advises lawmakers on spending matters, is skeptical the drugs will pay for themselves when used for weight loss. Director Phillip Swagel said the agency's "rough arithmetic" signals that savings from covering anti-obesity medications doesn't offset the expense. But Swagel acknowledged the subject is incredibly complex, and the CBO has publicly appealed to researchers for more studies.

For now, comptrollers and treasurers who oversee states' employee health plans have been among the most vocal officials to call out rising costs and the grim budget math.

Faced with the prospect of spending $30 million on GLP-1s last year, Connecticut Comptroller Sean Scanlon introduced a trial program that requires those who want the drugs to lose weight to first enroll in a lifestyle management program. Scanlon says data suggest growth in prescriptions has moderated, but not enough to seriously reduce the state's costs.

State dilemma

The debate has played out most heatedly in North Carolina, where Novo Nordisk has three plants that make drugs for obesity and diabetes. On Oct. 24, the treasurer's office recommended the state plan drop coverage for GLP-1s for weight loss. The plan was on track to pay $112 million in 2023 to cover the drugs, and a consultant projected that by 2030, it would lose a total $1.5 billion on anti-obesity medications. The forecast includes savings of $99 million in obesity-related medical costs.

Novo Nordisk, Europe's largest company by market value, decried the proposal, saying in a statement the drugs "can ultimately save the health-care system and the economy billions of dollars."

Folwell, the state's treasurer, warned that North Carolina stood to lose manufacturer rebates cutting the price of the drugs to $772 per month from $1,349 if it tried to restrict who received the drugs, citing a discussion plan officials had with the state's pharmacy benefits manager CVS Health.

Novo Nordisk declined to comment on whether it would yank North Carolina's subsidies, adding that ensuring Americans with obesity have "insurance coverage for the full continuum of care" is the best way to "stem the significant cost burden of obesity." A CVS spokesperson said it would continue to pass on 100% of rebates it receives to the state plan.

At a meeting of the state health-plan board to discuss dropping the coverage, a woman begging for it to continue said her weight had exacerbated a medical condition that puts her at risk of blindness. She'd tried diet, exercise and bariatric surgery—but said only Wegovy worked.

After 90 minutes of deliberations, the board voted for a compromise. Existing members of the plan already taking the drugs for weight loss

would maintain coverage, but new patients will have to pay out of pocket for the drugs or not get them at all.

Doctors say they're already struggling to make sure patients including diabetics who should be covered for the drugs actually get access, citing hours fighting with insurers. Neda Laiteerapong, an internist who's studied the cost-effectiveness of GLP-1s for diabetes patients at the University of Chicago, said there's a risk that a large segment of the population will miss out on life-saving medical treatment because of the drugs' costs.

"These are wonderful advances for medicine," she said. "It is not right to allow only some people in the population access to these drugs and based on your insurance, or your background, or where you live."