



CUR_xED

Cornell University Resource Education for Medicare Part D

SWITCHING TO SAVINGS

THE CASE

As a general rule, generic medications are considered to be less expensive than brand name medications. According to Food and Drug Administration, generics have the same active ingredients, have the same quality, strength, purity and stability, work the same way in the body, and have the same risk and benefits as their brand name counterparts.

As a local community retail Pharmacist, Betty is concerned that her patients are not always getting the best value for their money. She fills several prescriptions a day for brand name medications when the generic counterpart is readily available.

As a consumer advocate, she will often call the prescriber to get a medication changed to the generic version. Occasionally, the physician refuses, often citing a valid medical reason. Frequently, the patient does not want Betty to call the prescriber, indicating a desire for the brand name medication despite the increased cost.

Some brand name medications do not have a generic counterpart that is available for sale in the United States. These branded products are protected by a patent, face less price competition, and essentially provide the manufacturer with the exclusive ability to monopolize market share for that medication during the length of that patent.

Betty realizes that there are many market influences which contribute to the popularity of brand name medications. She has first hand experience of the relentless detailing which the brand name manufacturers provide to healthcare professionals to sell their products. Sampling of medications and direct to consumer advertising is a common practice for brand name products. Often consumers exhibit brand name loyalty for emotional reasons that are otherwise unexplained.

Despite these regulatory and marketing obstacles, there is substantial use of generic medications in the United States. Many generic substitution strategies have lowered the usage of brand name medications and subsequent costs including one strategy, initiated by insurers, which has been to structure formularies and drug prices to increase the demand for generic drugs.

But Betty wonders just how much impact this has had beyond her own initiatives. She would like to learn about the rates of dispensing generic medications. Further, Betty would like to understand if the new Medicare prescription drug program has directly had an influence on the dispensing of generic drug products.

WHAT WOULD YOU DO?

Part D Trivia Question

Among Part D enrollees in 2007 who filled one or more prescription what percentage had spending high enough to reach the coverage gap?

- A. 4%
- B. 14%
- C. 15%
- D. 26%

THE STUDY

Substitution of less expensive drugs for more expensive brand name counterparts is encouraged by the government and private insurers but has not yet fully achieved its potential as a cost saving mechanism. On average, in 2004, the price of a brand medication was about three times more expensive than the cost of a generic medication, \$95.54 versus \$28.71.

Additionally, price increases for generic medications are historically lower than increases for brands. Under Part D, the average cost share for a generic medication decreased between 2006 and 2008 from \$5.87 to \$5.32 while the cost share for a non-preferred brand medication increased 28.8%, from \$55.36 to \$71.31. Preferred brand cost shares increased 11.1% in the same time period.

Generic dispensing rates under the Part D program have been recently made available by CMS. In 2006 the use of generic drugs accounted for 60% of all prescription drug claims. This number increased to 64% in 2007 and was at 67.8% for the first quarter of 2008, the last period for which data is available. MA-PD plans show slightly higher rates of generic dispensing than PDP's. Unfortunately, this data is not available for each of the individual plans.

Generic dispensing rates overall have increased from about 40% in 1995 to about 56% in 2005. Yet, brand name medications account for a disproportionate share of drug spending, about 87% of total dollars spent. Clearly, generic utilization has been increasing steadily over the past decade and helping to control costs due to the efforts of the generic industry, insurers, consumers and Pharmacists like Betty.

Recent data, however, suggests that savings realized by generic use may be reaching a ceiling limit. Although there may appear to be significant room for more generic prescribing, increases above about 60% are restricted to the relative proportion of single-source brand name products. It is estimated that only about 11% of all multi-source drugs remain to be potentially switched to generics under current state and federal laws. Nonetheless, each 1% increase in the generic dispensing rates can save up to 2% of the \$200 billion (about \$40 million dollars) in drug spending in the United States.

The projected leveling off of the generic drug dispensing rate is one factor which may contribute to future acceleration in spending for the Part D program. Evolving treatment guidelines calling for earlier introduction of drug therapy and new drugs with high prices coming on to the market are expected to exceed the savings realized by more utilization of generic medications.

Part D Trivia Answer

In 2007, **14%** (or about 3.4 million) beneficiaries reached the coverage gap according to a recent Kaiser analysis. Part D beneficiaries who qualify for the low income subsidy are not required to pay the full cost of their drugs even if they reach the coverage gap. Of those who do not qualify for the low income subsidy, 26% had spending high enough to reach the donut hole. Of these beneficiaries, 15%, or 4% of all beneficiaries ultimately reached catastrophic coverage.

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