

# Drug Price Transparency Bills

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**AAM's core mission is to improve patients' lives by advancing timely access to affordable, FDA-approved generic and biosimilar medicines. AAM is the nation's leading trade association for manufacturers and distributors of generic and biosimilar prescription medicines. Our members provide more than 36,000 jobs at nearly 150 facilities, and manufacture more than 61 billion doses of prescription medicine in the US annually.**

## Generic medicines drive savings, not costs.

- Generics represent 90% of all U.S. prescriptions dispensed, but only 22% of the U.S. spend on medicines.<sup>1</sup>
- Nearly half of generic savings go directly to consumers. In 2018, generic and biosimilar medicines saved the U.S. health care system \$293 billion, about \$5 billion every week.

**In 2018, average savings for Medicaid enrollees was \$817.**

- 95% of generic copays are under \$20, compared to 39% of branded copays for patients in the commercial and Medicare Part D (Part D) markets.
- Low generic copays mean patients can more easily fill a generic prescription and be adherent to treatment which results in patient and overall health care savings. In 2017, the abandonment rate for generics was 8.1% compared to 21.3% for brands.

## Savings are the result of a highly competitive market for generic drugs.

- Generic manufacturers deliver large volumes of low-margin products and regularly adjust prices up and down to react to market conditions.
- Generic dollar sales have declined for 29 consecutive months.<sup>2</sup> Since 2008, the overall price of brand drugs has risen by 208%.<sup>3</sup> In 2017, price reductions and competition decreased US spending on generics \$5.5 billion.<sup>4</sup>

## Other stakeholders affect price increases: when a price increase is not a price increase.

- Unlike brand manufacturers who sell to pharmacy benefit managers (PBMs) and negotiate formulary placement based on rebates, generic manufacturers sell to wholesalers and 3 large buying consortium control more than 90% of the market for generic drug purchasing.
- Wholesalers sell to pharmacies – with pricing and distribution outside manufacturer control. They also generate revenue from customer service fees. Like other supply chains, wholesalers capitalize on price fluctuations – especially in the generic market.
- Retail pharmacies generate revenue from prescriptions in two ways: any margin between the payment from a patient's health insurer (or the patient themselves) and the acquisition cost of the drug, and a flat, per-prescription dispensing fee negotiated between a payor and a pharmacy (dispensing fee).
- The price patients pay for a generic drug is affected not only by wholesaler and pharmacy price markups, but also by insurance copay and formulary design choices made by insurance plans and PBMs.

**Health plans in Part D moved generics to higher tiers between 2011 and 2015. In 2011, 71% of generics were on tier 1, the lowest tier in the formulary. By 2015, only 19% of generics were on tier 1.**

This change caused patient out of pocket spending on these products to increase by \$6.2 billion (93%) even though the price of the products increased by only 1% and the volume of sales for the products increased by only 22%.

## High brand drug prices overwhelm falling generic drug prices.

- In 2016, the US Department of Health and Human Services (HHS) concluded that that generic drug prices are not an important part of the national drug cost problem.<sup>5</sup> In its report, Understanding Recent Trends in Generic Drug Prices, HHS reported that brand prices more than doubled between 2008 and 2014, while generic drug prices fell by more than 60%.

In 2018, the HHS Inspector General reported that total reimbursement for all brand-name drugs in Part D increased 77% from 2011 to 2015, despite a 17% decrease in the number of prescriptions for these drugs. And, after accounting for rebates, reimbursement for brand drugs in Part D increased 62% from 2011 to 2015.<sup>6</sup>

In 2018, HHS reported that “brand drug cost-sharing in Part D averaged \$39.15, while generic cost-sharing for substitutable products was \$17.04.” Beneficiaries could have saved over \$600 million in out of pocket costs had generics been substituted.<sup>7</sup>

In addition, a “significant amount of this spending occurred in Part D among the top 20 multiple source brands in Part D in 2018. Substituting these drugs for generic competitors at their median prices would have saved the program and beneficiaries \$1.8 billion.”

## Focusing on percentage increases in price ignores actual cost impacts on the health care system.

- Minimal price changes in low-cost generic products can result in large percentage increases. Generics are subject to significant price variability over the course of the year.

A \$0.05 tablet becoming \$0.10 reflects a 100% increase but has a relatively minimal effect on overall system costs. By contract, a course of treatment with Humira costs patients \$38,000. With no competition, the list price has continued to rise, increasing 122% over the past 5 years.

- It is normal business practice for a generic product’s cost to increase and decrease many times during the natural course of business. These increases are not an indication of an upward trend for a product.
- Including a meaningful wholesale acquisition cost (WAC) floor could avoid disturbing the market for low-cost products subject to pricing variability. Percentage-based thresholds not tied to a WAC exclusion for lower-cost products place undue burdens on generic manufacturers and will capture voluminous and meaningless data.

Relying on percentage price increases alone could result in disproportionate burdens on the generics industry and ultimately chill competition between manufacturers. Decreased competition and increased regulatory burdens could reduce the savings seen by patients and the health care system overall.

## Policymakers should focus on drugs whose price changes affect overall state spending.

- States should focus on the health care players that contribute to significant state spend, which directly impacts the state budget and out-of-pocket costs for patients.
- Significant state spend includes products for which a price increase would result in a material increase in overall state spending and products for which total spending on the drug ranks it in the top 50 drugs by total spend for the state Department of Health, taking into account savings provided by the product compared to its reference product, if applicable, or in patient medical care.

## References

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- 6 “Increases in Reimbursement for Brand-Name Drugs in Part D.” OIG, June 2018, <https://oig.hhs.gov/oei/reports/oei-03-15-00080.pdf>.
- 7 “Savings Available Under Full Generic Substitution of Multiple Source Brand Drugs in Medicare Part D.” HHS Office of the Assistance Secretary for Planning and Evaluation, 23, July 2018, <https://aspe.hhs.gov/system/files/pdf/259326/DP-Multisource-Brands-in-Part-D.pdf>.