State Legislation

Generic Medicines Save Money for Patients and Taxpayers

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

Generic drug spending is not what is driving the increase in health care costs.

- In its 2017 National Health Expenditures report released in December 2018, CMS reported that U.S. net spending on outpatient prescription drugs in 2017 was $333.4 billion, up only 0.4% from 2016. CMS indicated that factors contributing to the 2017 slowdown in drug spending included:

  Continued growth in the generic dispensing rate.

  Deflation in generic drug prices and lower price increases for brand-name drugs.

  Slower growth in prescriptions dispensed, due partly to a decline in opioid dispensing.

- Growth in spending on hospitals, physician services, and overall national healthcare costs was significantly higher than the growth in spending on drugs.
- Savings through generic drug price deflation help to mask increasingly high brand drug prices.
- Generic medicines typically come to market with a price 50% lower than the brand reference product.
- Once a generic drug is introduced to the market, it typically controls the market share quickly.
- Rising brand drug prices are behind the increase in prescription drug spending and patient costs. In 2016, brand drugs accounted for only 10 percent of prescriptions dispended, but more than 74 percent of total spending. Conversely, generics made up 90 percent of prescriptions, but only 23 percent of spending.
- Because of low generic medicine prices, they are more available to patients. Generic copays average $6.06, compared to more than $40 for brand drugs.

Generic medicines drive savings, not costs.

- Generic medicines represent 90% of all US prescriptions dispensed but only 23% of the US spend on medicines.

  The California Department of Managed HealthCare, based on 2017 reporting, found that generics accounted for 90% of all prescribed drugs but only represented 23.6% of the total pharmaceutical spend.

  The California report also found that the 25 generics drugs with the highest year-over-year increase accounted for only 4.7% of the total annual spend on prescription drugs.

- Nearly half of generic savings go directly to consumers. In 2017 generic and biosimilar medicines saved the U.S. health care system $265 billion, about $5 billion every week.

  In 2017, average savings for Medicaid enrollees was $568.

- 93% of generic copays are under $20, compared to 39% of branded copays for patients in the commercial and Medicare Part D markets. Thus, patients are more likely to fill a generic prescription and be adherent to treatment, increasing overall health care savings.
- In 2017, patients were 2-3 times more likely to abandon their prescriptions for more expensive brand name drugs. The overall abandonment rate for generics is 8.1% compared with 21.3% for brands.
- Increased regulatory burdens could harm the competitive nature of the generic market, already experiencing a significant period of deflation.
- As of October 2018, generic drug prices have seen 29 consecutive months of price deflation.

  In 2017, more generics were dispensed than ever, and total share of market for generics increased to 90% of all prescriptions. At the same time, the net value of those generic sales fell by more than $5 billion.

- Generic manufacturers deliver large volumes of low-margin products and regularly adjust prices up and down to react to market conditions. Generics are extremely susceptible to minor market changes, including new regulatory reporting requirements.
- The hypercompetitive and rapidly changing nature of generic drug markets leaves generic drugs particularly vulnerable to drug shortages. The highly competitive generic market has more than 200 manufacturers and only three primary purchasers who leverage their power to keep prices very low.
- The nature of competitive generic markets can prevent generic manufacturers from raising prices to reflect changing demand or increases in manufacturing costs for products. This results in a dynamic landscape in which manufacturers regularly enter and exit markets as conditions change.
- Generic manufacturers have a portfolio of products they sell to payors. If some product prices are decreased significantly, the prices for other products in the portfolio may be increased to balance out the overall value of the portfolio and allow the manufacturer to maintain a positive revenue flow.

Many drug supply chain entities impact the costs patients pay at the pharmacy counter. Once a generic drug manufacturer sells its products to a wholesaler, the company no longer plays a role in the price of those products.

- Unlike brand manufacturers who sell to pharmacy benefit managers (PBMs) and negotiate formulary placement based on rebates, generic manufacturers sell to wholesalers.
- Three large wholesale/pharmacy buying consortium control more than 90% of the market for generic drug purchasing. They then sell those drugs to pharmacies – with pricing and distribution outside the control of manufacturers.
- Wholesalers also generate revenue from sales to pharmacies and fees related to other services provided to customers. Like any other supply chain market, wholesalers can capitalize on price fluctuations – especially those in the generic market.
- Retail pharmacies generate revenue from prescriptions in two ways: any margin between the payment from a patient's health insurance company (or the patient himself) and the acquisition cost of the drug, and a flat, per-prescription dispending fee negotiated between a payor and a pharmacy (dispensing fee).
- The price a patient pays for a generic drug is affected not only by pricing markups by the wholesaler and pharmacy, but also by insurance copay and formulary design choices made by insurance plans and pharmacy benefit managers.

  Health plans in Medicare Part D rapidly moved generic prescription drugs 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 these products increased by only 1% and the volume of sales for the products increased by only 22%.