



Drug Pricing Reforms in the States

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AAM's mission is to improve the lives of patients by advancing timely access to high quality, affordable, and FDA-approved generic and biosimilar medicines. State drug pricing reforms are often intended to lower costs for patients. While each legislative proposal is unique, many require manufacturers to report percentage price increases, implement cost affordability boards, or impose penalties on manufacturers for price increases above arbitrary thresholds. Unfortunately, these proposals often negatively and disproportionately impact generic and biosimilar manufacturers through one-size-fits-all policies or with onerous requirements that threaten continued patient savings.

Generic medicines drive savings, brand-name drugs increase costs¹

Low-cost generics help patients more easily afford their medicine and properly adhere to their treatment plan. This results in lower out-of-pocket costs for patients and lower spending for the health care system overall.

- Generics represent 91% of all U.S. prescriptions dispensed but only 18% of spending on all prescription drugs
- Generics make up less than 3% of all health care spending
- In 2021, generic and biosimilar medicines saved the U.S. health care system \$373 billion
- Seniors in Medicare saved an average of \$2,447 through generic drugs in 2021
- Because of their low cost, 93% of generic prescriptions had a patient copay under \$20, compared to 53% of brand drug copays

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

Generic manufacturers regularly deliver large volumes of low cost, low margin products. In fact, generic prices are often more than 95% lower compared to brand drug prices.² As a result, spending on generic drugs continuously declines while spending on brand drugs increases year-over-year.

Policies that focus on percentage increases are misguided

Generics are subject to significant price variability, and changes in generic list prices are not always an indication of a prohibitively high cost for patients. Moreover, minimal price changes in low-cost generic products can result in large percentage increases. For example, a \$0.05 tablet becoming \$0.10 reflects a 100% increase but has a relatively minimal effect on overall health care costs.

1 Association for Accessible Medicines. September 2022. The U.S. Generic & Biosimilar Medicines Savings Report, 2022, <https://accessiblemeds.org/resources/reports/2022-savings-report>

2 US FDA. December 2019. Generic Competition and Drug Prices. Accessible at: <https://www.fda.gov/about-fda/center-drug-evaluation-and-research-cder/generic-competition-and-drug-prices>

AAM is the nation's leading trade association for manufacturers and distributors of generic and biosimilar prescription medicines. Our members provide more than 52,000 jobs at nearly 150 facilities, and manufacture more than 61 billion doses of prescription medicine in the US annually.

State proposals should exempt generic and biosimilar medicines, or at a minimum include a meaningful wholesale acquisition cost (WAC) price floor. Policies based on arbitrary percentage thresholds otherwise place undue burdens on generic manufacturers and threaten patient access to life-saving treatments.

Profit-seeking practices performed by middlemen drive up prices

Rather than small fluctuations in the prices of generic drugs, the prices that patients actually pay for their generics are largely driven by actions of supply chain middlemen such as the vertically integrated pharmacy benefit managers (PBMs), health plans and wholesalers that control 80 percent of the market.³ These middlemen are responsible for purchasing generic drugs and determining what patients pay at the pharmacy counter. And patients often pay more for their generics even as the prices for those generics dropped.

For instance, an analysis by Avalere Health tracked generic drugs in the Medicare program from 2011 to 2019, during which patient spending more than doubled, even after accounting for changes in volume, while the actual prices for those generics fell by more than 30 percent.^{4 5}

And health care data firm IQVIA found that patients often save by paying cash for their generic rather than using their Medicare or commercial health insurance benefit.⁶ But even this cash price was several times the price at which the generic manufacturer sold the drug.

This type of middleman manipulation is why, in 2020, almost two-thirds of all Medicare patients were forced to pay the full cost of their generic at least once.⁷

Policymakers should focus on perverse incentives responsible for increasing health care costs

States should focus on the middlemen such as PBMs and wholesalers whose actions contribute to significant state spending on pharmaceuticals and directly impact out-of-pocket costs for patients.

State policymakers and patients win when market-based competition from generics and biosimilars deliver savings at the pharmacy counter. However, due to anti-competitive tactics and misguided policies, patient access to lower-cost medicines is at risk. State policymakers should focus on proposals that encourage utilization of lower-cost generic and biosimilar medicines as a critical and effective tool in managing spending. To learn more about AAM's solutions, visit [Prescription for State Savings](#).

3 Fein, A. The 2022 Economic Report On U.S. Pharmacies And Pharmacy Benefit Managers. March 2022. Accessible at: https://drugchannelsinstitute.com/products/industry_report/pharmacy/

4 Association for Accessible Medicines, AAM Statement: New Study Shows Formulary Abuses Force Patients to Pay More for Generic Drugs Even as the Prices of Those Drugs Go Down. September 2022, Accessible at: <https://accessiblemeds.org/resources/press-releases/aam-statement-new-study-shows-formulary-abuses-force-patients-pay-more>

5 Avalere Health, 57% of Generic Drugs Are Not on 2022 Part D Generic Tiers, September 2022, Accessible at: <https://avalere.com/insights/57-of-generic-drugs-are-not-on-2022-part-d-generic-tiers>

6 IQVIA, Pharmacy Discount Card Utilization and Impact. September 2022. Accessible at: <https://www.iqvia.com/locations/united-states/library/white-papers/pharmacy-discount-card-utilization-and-impact>

7 Association for Accessible Medicines, Despite Enrollment In Medicare Prescription Drug Coverage, Over Half of All Seniors Pay Full Cost for Many Generic Drugs. July 2022. Accessible at: <https://accessiblemeds.org/resources/blog/despite-enrollment-medicare-prescription-drug-coverage-over-half-all-seniors-pay>

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