



One Size Does Not Fit All: Repeal the Medicaid Penalty on Generic Drugs

We understand concerns about the cost of prescription medicines. Nearly all policymakers, stakeholders, patients, and others agree that the solution to runaway brand drug prices is to increase generic drug competition.

Without generics, medicine spending in our nation's public programs would nearly double. In fact, a new Government Accountability Office (GAO) report shows that generics in Medicare Part D fell 59% from 2010 to 2015.

Congress historically has recognized the unique contributions generic and brand drugs contribute to the U.S. health care system. Unfortunately, a new penalty on generic drugs in Medicare could put patient access and savings at risk.

This penalty will add significant hurdles to generic drug investment and development, making it more challenging for patients to access generics as an FDA-approved alternative to more expensive brand medications—the exact opposite of what both patients and payors need right now.

The new Medicaid rebate penalty fails to reflect the very clear differences in the brand and generic business models. One such difference is that generic drug makers operate under a high volume and low margin business model—this is one reason that generics are able to be sold at a fraction of the brand price.

Part of the challenge inherent in this business model is that generic manufacturers are much more sensitive to changes in material costs and supply fluctuations than most brand

manufacturers. For example, where a brand drug selling for \$1,000 per pill gets penalized for raising its price \$100, the same penalty would be triggered on a 10 cent generic product if the price rose 1 cent. This can have a major impact on manufacturers of low-cost products.

Applying a brand Medicaid rebate to generic products can constrict generic drug development and puts some of our nation's most vulnerable patients in a position where they have fewer generic options, raising costs for patients and payors, increasing state budgets, and adding more of a burden on taxpayers.

The Medicaid rebate penalty on generic drugs is harmful for Medicaid and its beneficiaries, bad for taxpayers, and should be immediately repealed.

GPhA welcomes the opportunity to work with policymakers to identify a smarter way forward that brings about more savings and does more to curb unsavory business practices that delay generics from reaching the people who need them.

The Generic Pharmaceutical Association (GPhA) is proposing five policy prescriptions to boost drug competition and expand patient access to affordable medicines. Repealing the generic drug Medicaid rebate penalty is one way to ensure that millions of Americans can continue to rely on timely access to safe, effective, and more affordable generic drugs.