

# To Help *ALL Patients Pay Less* for their Medicines: *Drug Manufacturers Should Stop Playing Games and Lower Prices*



*Drug manufacturers alone set prescription drug list prices. New tactics used by drug manufacturers to drive market share and keep prices higher also increase the costs patients pay, thereby making it harder for patients with chronic illnesses such as asthma, diabetes, HIV, arthritis, hemophilia, and others to afford their prescription drugs and health insurance at all.*



## The Problem

Every patient should be able to afford their medications. Manufacturers' pharmaceutical pricing and anticompetitive tactics, however, are making affordability more challenging. Among the top 25 drugs by spending, prices are increasing far faster than inflation: from 3 times to more than 9 times inflation, depending on the drug.<sup>1</sup> **The prices for drugs for which manufacturers offer coupons are going up even faster, at 12-13% per year as compared to 7-8% for non-couponed drugs.**<sup>2</sup>

For example, the Institute for Clinical and Economic Review examined price increases in a number of brand-name drugs.<sup>3</sup> They found that Lyrica (28.3% increase), Cialis (26.2% increase), and Humira (19.1% increase) all had unjustified list price increases, causing hundreds of millions of dollars in excess drug spending. **The manufacturer of each of these brand-name drugs offers coupons to steer patients to use (or switch to) their more expensive drug instead of an equally effective and more affordable generic or brand alternative.**<sup>4</sup>

**A USC Schaeffer analysis of the top drugs by spending found that 88% of brand drugs with manufacturer coupons were for medications for which lower-cost generics or brand alternatives were available.**<sup>5</sup> Generic drugs work in the same way and provide the same clinical benefit as the direct brand competitor, but "branded drugs are considerably more expensive."<sup>6</sup>

**Coupons are designed to mask the high prices set by manufacturers**, encouraging patients to use more expensive brands instead of equally effective, less expensive generics and brand alternatives, and undermines an important "market constraint on drug prices."<sup>7</sup> **Simply, coupons are a drug manufacturer workaround that drives up prescription drugs costs, and therefore premiums, for everyone.** Consider a \$2,250 brand-name drug (for a 30-day supply):



**Manufacturers set the list prices of their drugs.** For example, a manufacturer may price a brand-name drug at \$25 per pill, or \$2,250 for a 30-day supply (at three pills per day).



Private negotiations between plan sponsors and drug manufacturers inform price concessions and formulary placement ("tier") strategies.



When there are more affordable generics or brand alternatives, the plan sponsor places that drug on a non-preferred or specialty tier that imposes 25% coinsurance up to the plan's annual out-of-pocket (OOP) limit.



To incentivize patients to use their drug instead of a more affordable option, the manufacturer makes available a coupon that limits the patient's OOP costs to \$100 per 30-day supply (instead of \$562.50, or 25% of \$2,250), with the manufacturer paying the difference (\$462.50) to the pharmacy.



But the plan sponsor must still reimburse the pharmacy the remaining 75% (\$1,687.50) for this higher cost brand drug—**raising drug costs for everyone.**

<sup>1</sup> Juliette Cuanski and Tricia Neuman. Kaiser Family Foundation. "Assessing Drug Price Increases in Medicare Part D and the Implications of Inflation Limits." (October 18, 2019).

<sup>2</sup> Leemore Dafny, Christopher Ody, and Matt Schmitt. "When Discounts Raise Costs: The Effect of Copay Coupons on Generic Utilization." The National Bureau of Economic Research. (October 2016).

<sup>3</sup> ICER. "Unsupported Price Increase Report: 2019 Assessment." (Updated November 6, 2019).

<sup>4</sup> Visante. "How Copay Coupons Could Raise Prescription Drug Costs By \$32 Billion Over the Next Decade." (November 2011).

<sup>5</sup> Karen Van Nuys, Geoffrey Joyce, Rocio Ribero, and Dana Goldman. "A Perspective on Prescription Drug Copayment Coupons." (2018).

<sup>6</sup> *Op. cit.* Dafny et al. (October 2016).

<sup>7</sup> U.S. Department of Health and Human Services Office of Inspector General. "Special Advisory Bulletin: Pharmaceutical Manufacturer Copayment Coupons." (September 2014).

**As this example shows, the employer or plan sponsor does not keep the coupon amount because the manufacturer is simply paying itself back the value of the coupon.** This enables a patient to reach their deductible faster, at which point the employer or plan sponsor now covers the full cost of the drug—and the manufacturer may terminate the coupon. In other cases, the coupon may be time-limited, leaving patients at a loss even before they have met their deductible.

**While coupons temporarily reduce out-of-pocket (OOP) costs for patients, they do not reduce actual costs.** While coupons may help some patients afford their prescription drugs and as a result, promote adherence, as more patients use or switch to brand-name drugs when lower-cost alternatives are available, the overall cost of pharmacy benefits increases, resulting in higher premiums and cost sharing for everyone.<sup>8</sup>

Considered unlawful inducements under the federal Anti-Kickback Statute, coupons are banned in Medicare, Medicaid, and federal health plans for the military and veterans. **If Medicare's ban on coupons were not enforced, costs would increase by \$48 billion over a 10-year period.**<sup>9</sup>

**For commercial plans, where coupons largely are permitted,<sup>10</sup> coupons increase drug spending by \$32 billion.**<sup>11</sup> For state and local government employees alone, coupons are projected to increase total state prescription drug spending by \$5 billion, ranging from \$11 million in Vermont to \$417 million in Texas.

Some employers and other plan sponsors use benefit design to encourage prescribers to prescribe and patients to use lower-priced generic and brand alternatives, which more effectively manages costs for everyone—including patients. Copayments and coinsurance require patients to pay a portion of the drug's costs OOP, which may be higher for certain brands when a generic is available to discourage the brand's use. **Formulary placement and cost sharing create a market constraint on manufacturers to either lower their prices or offer price concessions so that their products are more affordable. Requiring plan sponsors to treat all coupons as an insured's contribution would eliminate these incentives for patients and manufacturers.**

Some employers and other plan sponsors use cost-sharing accumulator programs to prevent drug manufacturer workarounds that drive up costs for everyone. Through these programs, a plan sponsor only counts toward an enrollee's deductible and annual OOP limit an enrollee's own *actual* out-of-pocket costs. **Because these programs encourage use of lower cost drugs, the overall premium is cheaper or there are other plan features that are better.**

**Coupons raise drug costs for everyone while increasing profits for manufacturers.** For every \$1 million in coupons for brand drugs where there is a generic, manufacturers reap more than \$20 million in profits—a 20 to 1 return.<sup>12</sup>



## The Solution

**PCMA supports programs that facilitate more affordable access to specialty and high-cost prescription drugs—not marketing schemes that undermine efforts to lower prescription drug costs.** Specifically, we support efforts by states to examine whether coupons advance the shared goals of lowering drug prices and reducing costs for patients. For example, California and Massachusetts have banned the use of coupons for brand drugs where a generic is available.

<sup>8</sup> *Op. cit.*, Dafny et al. October 2016.

<sup>9</sup> Visante. "Drug Manufacturer Coupons Raise Costs in Medicare Part D, Hurting Vulnerable Beneficiaries." (May 2020).

<sup>10</sup> "California and Massachusetts have banned the use of coupons for branded drugs where a generic version is available." See 2017 California Statute Chapter 611 (codified at California Health & Safety Code §§ 132000 et seq.) and Massachusetts General Laws Chapter 175H § 3(b)(2).

<sup>11</sup> Visante. "How Copay Coupons Could Raise Prescription Drug Costs By \$32 Billion Over the Next Decade." (November 2011).

<sup>12</sup> *Ibid.* Dafny et al. (October 2016).