

Explaining Manufacturer Coupons and Assistance Programs

From cereal to detergent, consumer brands often use coupon promotions instead of price reductions to lure consumers away from lower-priced competitors. Similarly, drug manufacturers use cost-sharing coupons (“copay coupons”) and patient assistance marketing campaigns to increase or maintain utilization (and thereby sales) of their brand-name products among insured patients once less-expensive alternatives come to market. As coupons reduce the use of generics and more affordable brands, overall prescription drug costs increase dramatically. They also keep prices for brands higher than they otherwise would be after a lower-cost generic comes to market.¹

What are manufacturer coupons? Coupons are a marketing strategy used by manufacturers to steer insured patients to use (or switch to) a more expensive brand-name drug instead of an equally effective, more affordable generic or brand alternative.² Coupons usually are time-limited, meaning patients who use or switch to branded drugs will eventually be required to pay the drug’s full price once their coupon expires.

- The prices for drugs with manufacturer coupons are going up faster than non-couponed drugs: 12-13% per year as compared to 7-8%.³
- Coupons “increase branded sales by 60%, entirely by reducing the sales of bioequivalent generics.”⁴ Manufacturers build the cost of coupons into their pricing strategies and use them to maximize brand loyalty and bolster sales.^{5,6}
- Coupons are banned in federal programs (like Medicare and Medicaid) and military and veterans’ health plans as illegal kickbacks, but largely allowed in the commercial market.⁷

How do coupons work? Consider a \$2,250 brand-name drug (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 incent 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.**

¹ Congressional Research Service (CRS). “Prescription Drug Discount Coupons and Patient Assistance Programs.” (June 15, 2017).

² Visante. “How Copay Coupons Could Raise Prescription Drug Costs By \$32 Billion Over the Next Decade.” (November 2011).

³ 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.

⁴ *Op. cit.* Dafny et al. (October 2016).

⁵ *Op. cit.* CRS. (June 15, 2017).

⁶ A 2012 study by the Amundsen Group estimated coupons produced manufacturer returns on investment of 6 to 1, and a “well-designed coupon program could add 30 to 60 days of patient drug use during a year,” referring to use of higher cost brand drugs over a generic.

⁷ California and Massachusetts banned the use of coupons for brand 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).

What are patient assistance programs? Manufacturer-sponsored Patient Assistance Programs (PAPs) “are almost always restricted to expensive, patented, brand-name products” and incentivize patients to use expensive brand drugs over more affordable, and often, generic versions of the same medications.⁸ These programs usually either distribute brand drugs directly to patients at a reduced cost or defray cost sharing or other out-of-pocket (OOP) costs.

What are accumulator programs? Sometimes called “coupon adjustment” or “out-of-pocket protection,” accumulator adjustment programs mitigate the harmful impact of manufacturer coupons on overall costs and premiums by excluding manufacturer coupons from the cost-sharing amounts. **By requiring insurers to treat all coupons and PAPs as an insured’s contribution, these important tools to reign in drug costs are eliminated.**

What is the impact of coupons on consumers and overall drug spending?

- **Researchers from Harvard, Kellogg, and UCLA found consumers paid up to \$2.7 billion more because of coupons, increasing retail drug spending by up to 4.6%.⁹**
- **Use of coupons for only 14 drugs in Massachusetts’ commercial market is estimated to raise costs by \$45 million*, or \$3 million per drug.¹⁰**
- **Coupons raise drug costs for everyone while increasing profits for manufacturers.** While coupons may help some patients afford their prescription drugs by temporarily reducing OOP costs, they do not reduce actual costs. For every \$1 million in manufacturer cost-sharing coupons for brand drugs (that competed against a generic), manufacturers reaped more than \$20 million in profits.

Legislation prohibiting accumulator programs limits employers and other plan sponsors from effectively managing rising drug costs on behalf of consumers. Employers and other plan sponsors make sure pharmacy benefits function as intended and work the same for everyone in the plan.

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.

⁸ Norman V. Carrol. Commentary – Pharmaceutical Patient Assistance Programs: Don’t Look a Gift Horse in the Mouth or There’s No Such Thing as a Free Lunch. *Journal of Managed Care & Specialty Pharmacy* 13(7): 615. September 2007.

⁹ *Op. cit.* Dafny et al. October 2016.

¹⁰ Commonwealth of Massachusetts. “Prescription Drug Coupon Study: Report to the Massachusetts Legislature.” (July 2020).