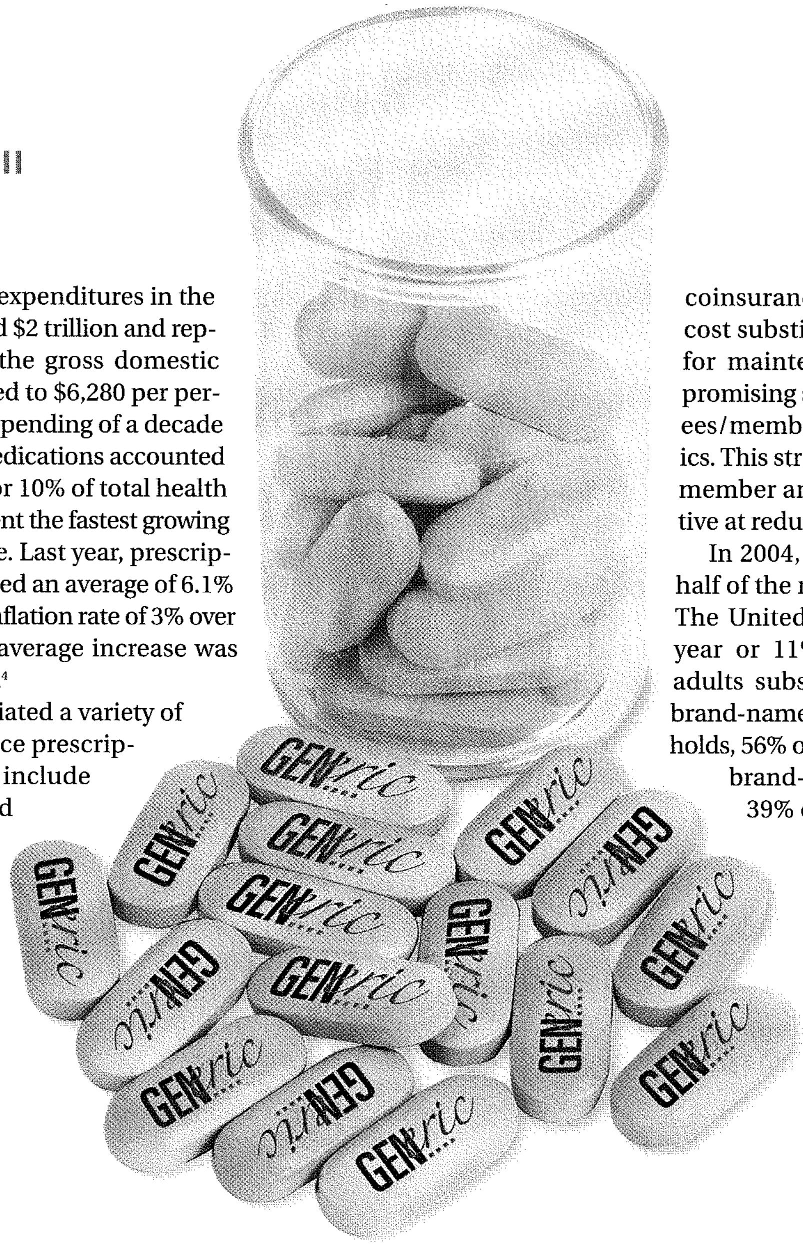
Prescription drug prices have been increasing at double-digit rates. The costs associated with these medications are responsible for a sizable portion of employer health care expenditures. Generic medications are chemically identical to their name-brand counterparts, and their use is one way to keep prescription costs in check. Unfortunately, generics are not used nearly as often as they could be. This is because patients and doctors often have no idea which generics are included on plan formularies and many patients are under the false impression generic drugs aren't as effective as brand-name ones. Providing patients and doctors with more convenient access to formularies and educating patients about the benefits of generics are two ways to increase generic substitution, a practice that results in savings for employer plans.

An Effective Way to Increase *Generic Medication* Utilization

by Don R. Powell



In 2005, health care expenditures in the United States totaled $2 trillion and represented 16.2% of the gross domestic product.[1] This amounted to $6,280 per person and was twice the spending of a decade earlier.[2] Prescription medications accounted for about $225 billion or 10% of total health care costs.[3] They represent the fastest growing health care expenditure. Last year, prescription drug prices increased an average of 6.1% which was double the inflation rate of 3% over the same period. The average increase was $32.38 per prescription.[4]

Employers have initiated a variety of methods to try to reduce prescription drug costs. These include higher copayments and coinsurance premiums, mandatory lower cost substitution provisions and mail order for maintenance drugs. One of the more promising strategies is to encourage employees/members to increase their use of generics. This strategy does not cost the employee/member any money and can be quite effective at reducing expenses.

In 2004, generic drugs constituted about half of the nation's 3.6 billion prescriptions.[5] The United States could save $8.3 billion a year or 11% of total drug expenditures if adults substituted generic medications for brand-name drugs. In a study of 10,000 households, 56% of drugs used were available in both brand-name and generic form. Of these, 39% could have been dispensed in the generic version but were not. If generic versions were used, every adult younger than 65 years would have had a median annual savings of $46 while Medicare recipients would have saved $78 per year.[6]

Although generics may have a different color or shape from their brand-name counterparts, they have the same:

- Active ingredients
- Strength
- Purity
- Quality and stability
- Dosage form, i.e., pills/liquid
- Effects on the body
- Strict Food and Drug Administration standards.

Generics cost less because their manufacturers do not spend any money on advertising and marketing to promote their products to doctors and consumers. In 2001, brand-name manufacturers spent $2.7 billion on direct-to-consumer television, radio and print advertising and $4.8 billion promoting medications to physicians. Drug companies provided an additional $10.5 billion worth of free samples to doctors.[7] In 2005, the money spent on direct-to-consumer advertising increased to $4.1 billion.[8]

Prescribing Problem

When patients see a doctor for a medical problem, they often leave with a prescription. Unfortunately, most patients don't know what drugs are on their health plan's prescription formulary. Further, the doctor almost never has ready access to the drug formulary in use by the patient's health plan. In fact, many prescribing patterns of physicians are influenced by the pharmaceutical representatives who frequently visit the doctor's office. These representatives market their new, higher cost brand-name drugs through free samples, rebate coupons and other incentives.

When patients go to a pharmacy, an automatic generic substitution policy may exist, or patients may be asked if they want a generic version. Often, the choice is not given because either there is no generic substitute or the doctor marked the prescription *Dispense as Written*. In the end, patients usually learn whether a drug is on a plan's formulary only by the amount of the copay they end up paying.

In many cases, physicians unnecessarily write prescriptions in the category that remains single source with no generic equivalent, even though a multisource generic product could have been tried first. About 50% of drugs today have a generic equivalent. Ideally, a doctor would prescribe a generic drug or, in the worst case, a brand-name drug that is on the formulary.

Prescribing Solution

At the point of service, it is beneficial to give employees/patients a tool to assist their physicians in writing prescriptions that are part of their plan's formulary. Industry experts have said for some time that in order to survive the escalating costs of health care, particularly prescription drug expenditures, you must do more than adjust your plan's copay or benefit design exclusively. In order to survive the long term, employers and health plans must control costs by changing consumer and provider behavior. A survey showed that 89% of recipients will give a formulary to a doctor before a prescription is written if it is convenient to do so.

To increase the likelihood of employees handing formularies to providers, a full-color, pocket formulary the size of a credit card was developed. It is a consumer tool designed to increase generic utilization and formulary compliance at the point of service (i.e., doctor's office). The pocket formulary is customized to meet the plan's need and desired focus. It includes the plan's full formulary and generic substitutions. The formulary also contains educational content designed to enhance medication use, compliance and safety. It is encased in a plastic sleeve that can also hold the employee/member health ID card.

Employer/Union Health Plan Win

In the case of an employer/union plan, this results in a win because the prescribing patterns of doctors will change in favor of those generic and name-brand drugs that are part of the plan's formulary. When the drugs on the formulary are used, the employer/union health plan will see sizable financial savings. Today, generic drugs are on average 60-70% less expensive than brand-name drugs.

Average Cost of Brand-Name Rx=$65-$70
Average Cost of Generic Rx=$19-$21

Continued on next page

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Tom Anderson.
Employee Benefit News,
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Table I

Percent Change in Generic Use

Year	Active Members	Change	Retirees	Change
2003	38.3%	—	41%	—
2004	40.8%	+2.5%	43%	+2%
2005	43.8%	+3.0%	46%	+3%
	Total	**5.5%**	**Total**	**5%**

Table II

Money Saved

Year	Active Members	Retirees	Total Drug Costs	Savings as Percent of Total Drug Costs
2004	$291,040	$347,326	$28,439,903	2.2%
2005	$686,040	$817,326	$31,716,264	4.7%
Subtotal	**$977,080**	**$1,164,652**	**$60,156,167**	**3.6%**
Grand Total	**$2,141,732**			

Patient/Member Win

The patient/member wins because he or she will usually have a lower copay when the doctor writes the prescription using the pocket formulary as the guide.

Measuring Return on Investment

An employer/health plan using a pocket formulary can measure the return on investment by comparing utilization of generic and formulary brand-name drugs on a before-and-after comparison basis. Without question, the higher the utilization of generic and formulary brand-name drugs, the greater the return.

Based on the gross dollars spent on prescriptions by employer/union health plans annually, changing doctors' prescribing patterns even a mere 1% can save the employer/union health plan a significant amount of money. According to Express Scripts, for every 1% increase in generic drug use, prescription benefit plan sponsors save nearly 1% of their cost for providing the benefit.

Research Results

In January 2004, a federal government health plan distributed a pocket formulary to its 35,000 active and retiree members. Prescription drug costs in 2004 were then compared to costs in 2003. The results showed the active members increased their generic use by 2.5%, while the retirees increased it by 2%. The 12-month savings was $638,366 (see Table I).

The initial success of the pocket formulary led the health plan to reissue a 2005 version. At the end of the year, prescription drug costs in 2005 were compared to those in 2003 and 2004. A nice feature of the pocket formulary is that it's like "a gift that keeps on giving." The second-year increases in generic use topped the first-year increases. The total two-year increase in generic use among active members was 8.5% which produced a savings of $977,080. Retirees' use of generics increased 8% which produced a savings of $1,164,652. The total savings for both groups was $2,141,732. This amounted to a savings of 3.6% of the plan's total prescription drug costs over that time period (see Table II). B&C

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Endnotes

1. *Health Affairs,* January/February, 2006.
2. Ibid.
3. *Star Tribune,* August 16, 2005, Minneapolis/St. Paul, Minnesota.
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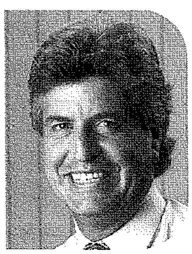

Don R. Powell, Ph.D., is president and CEO of the American Institute for Preventive Medicine in Farmington Hills, Michigan. He previously served on the International Foundation's Health Care Management Committee. Powell has received numerous awards for his work and is the author of 18 books, including the self-care guide *Health at Home: Your Complete Guide to Symptoms, Solutions and Self-Care,* distributed by the International Foundation. He is a licensed psychologist who earned his Ph.D. from the University of Michigan.