WHITE PAPER

The Impact of Rising Generic Drug Prices on the U.S. Drug Supply Chain

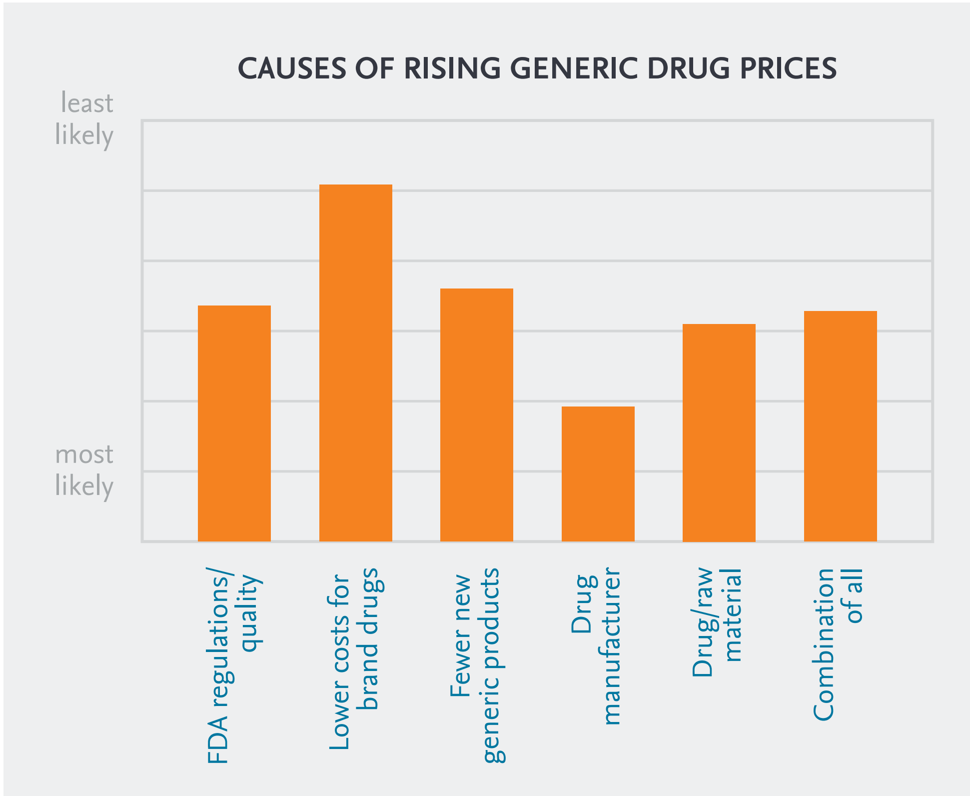
Over the past two years, the pharmacy industry has seen unprecedented increases in the prices of generic drugs, causing unexpected cost increases for payers and consumers, and spurring an investigation by the United States Congress.

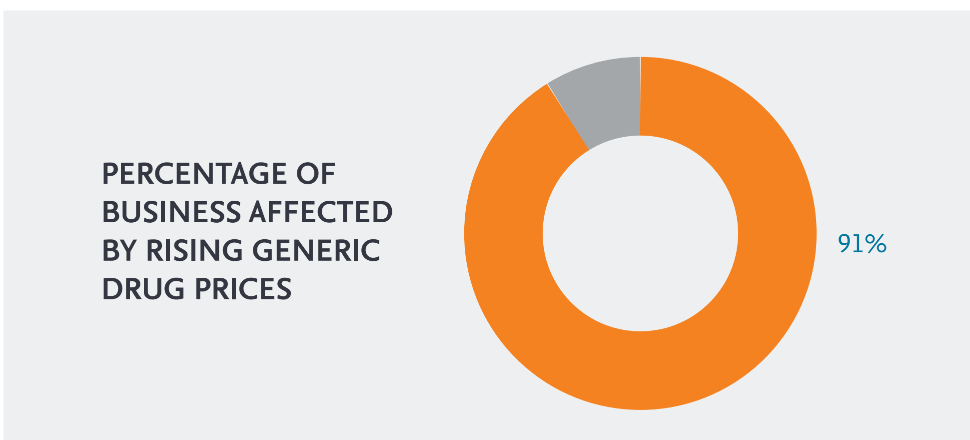
High generic drug prices have had an adverse effect on almost everyone in the pharmaceutical supply chain. Consumers face higher co-pays and prices and health plans are dealing with higher drug spend. Physicians are finding the need to prescribe alternative drug therapies while dealing with angry patients. In some cases, consumers are declining their medications due to increased prices. Many pharmacies are receiving inadequate reimbursements and can lose money when drugs must be purchased at rapidly rising prices but reimbursed at lower predetermined rates. Pharmacists are also working with providers to recommend alternative treatments in order to help consumers understand and afford their medications. Generic drug manufactures are facing increased government regulation.

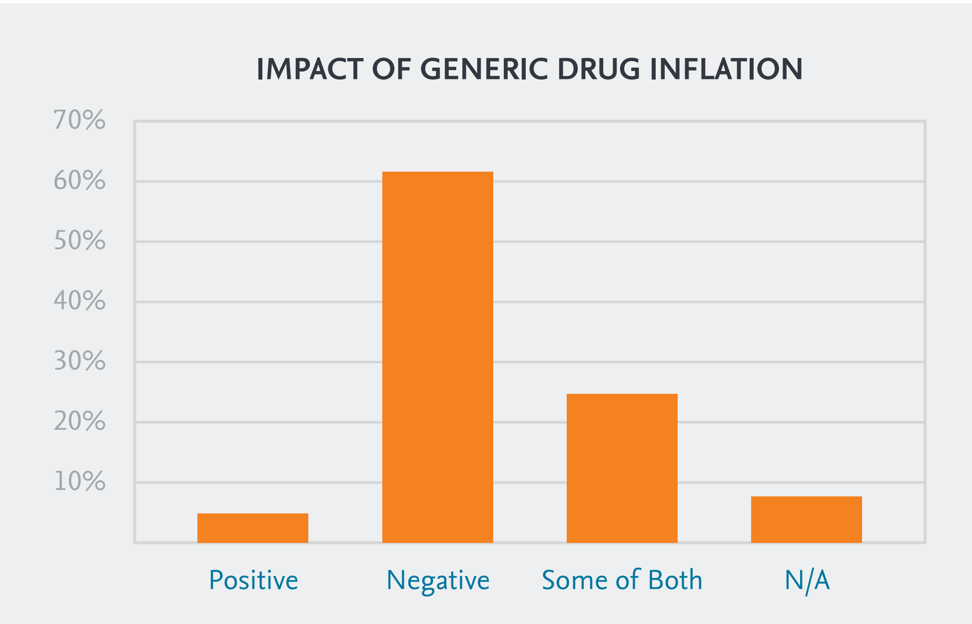
To measure the impact of generic drug price inflation across the drug supply chain, Elsevier recently surveyed stakeholders, including health plans, PBM's, retail pharmacies, drug wholesalers, manufacturers, and healthcare providers about how they have been affected and found the following.

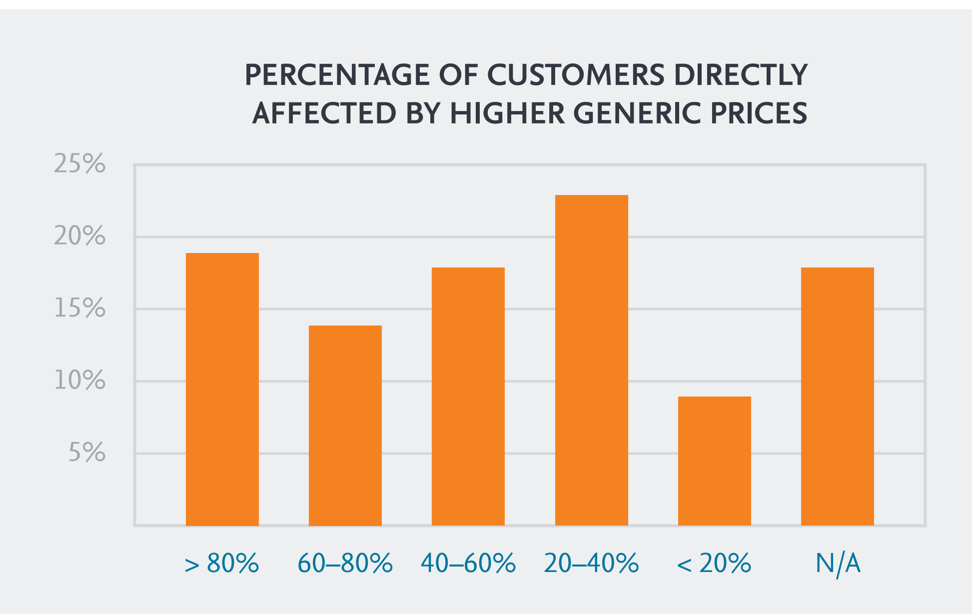
No single reason explains the rise of generic drug prices, but our survey respondents clearly believe that the consolidation of drug manufacturers accounts for much, with over 75 percent ranking manufacturer consolidation as the first or second most likely cause for the price increases. Next are raw material shortages, followed closely by a combination of all six reasons and FDA quality regulations.

Regarding the impact of increased prices, 91 percent of the respondents indicated that their business has been affected by rising generic drug prices. Of those who believed that their businesses had been affected by the higher prices, 62 percent indicated that the impact was clearly negative, while only 5 percent were seeing a positive impact and the remaining 25 percent were experiencing a mix of positive and negative impacts.









The most frequently cited negative impact came from pharmacies citing reimbursements that are lower than the prices they must pay for the drugs they dispense. In some cases, generic drug prices rise rapidly and PBM's and payers have not adjusted their maximum allowable cost (MAC) lists accordingly. Providers and pharmacists both cited non-adherence, due to high costs for patients as a serious issue, forcing them to look for alternative drugs that cost less. Payers, PBM's, and consultants hired to guide and forecast for them complain that the extreme fluctuation in generic prices is making it difficult for them to correctly model or accurately predict pricing trends. And manufacturers are facing greater government scrutiny and being asked to justify their prices.

Most frequently cited negative impacts:

- Below cost pharmacy reimbursements due to low MAC prices
- Difficulty sourcing alternative medications to fit patients' budgets
- Medication non-adherence due to costs
- Inaccurate price forecasts
- Increased government scrutiny

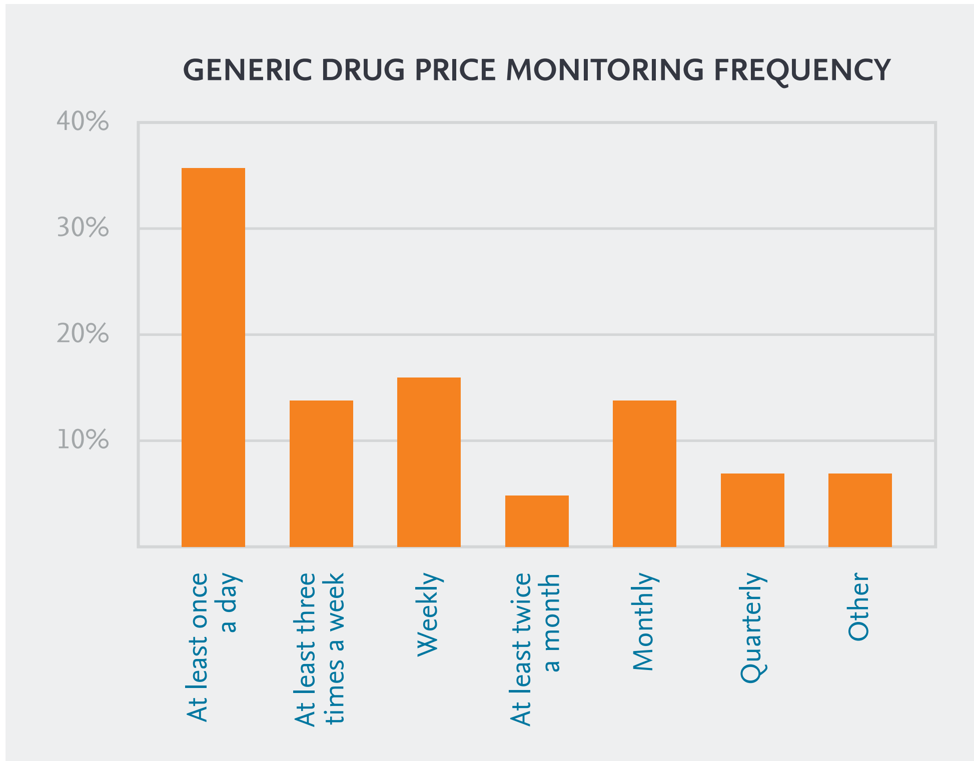
Increased prices from manufacturers naturally increase prices through the entire drug supply chain, which was reflected in the 86 percent of respondents who indicated that their customers had been directly affected by higher generic prices. A full third believed that greater than 60 percent of their customer base was adversely affected by the price inflation and over 40 percent indicated that between

20 and 60 percent of their customers were being affected. A commonly expressed concern from survey correspondents was that patients and consumers simply do not understand how or why generic prescriptions can cost so much, particularly those who were paying much lower prices for the same medications a year ago.

As might be expected, the fluctuation in generic prices is requiring more frequent price monitoring in order to plan and implement mitigation strategies. Nearly 40 percent of the respondents indicated that they monitor generic drug prices on a daily basis, with over 15 percent monitoring at least weekly. The vast majority of retail respondents indicated that they rely on wholesaler data and memos to monitor prices. Sources used by manufacturers and wholesalers were drug databases with varying degrees of timeliness and accuracy.

Of course, monitoring at higher frequencies is only helpful when drug price data is current and accurate, which was cited as a concern, particularly when it came to MAC price lists and ensuring fair reimbursement to pharmacies for generic drugs.

A number of states are addressing this very issue with drug price transparency laws that require PBM's and payers to not only share their MAC price lists with network pharmacies, but also to explain and justify their methodology. And, beginning in 2016, CMS will be requiring something similar from payers handling Medicare



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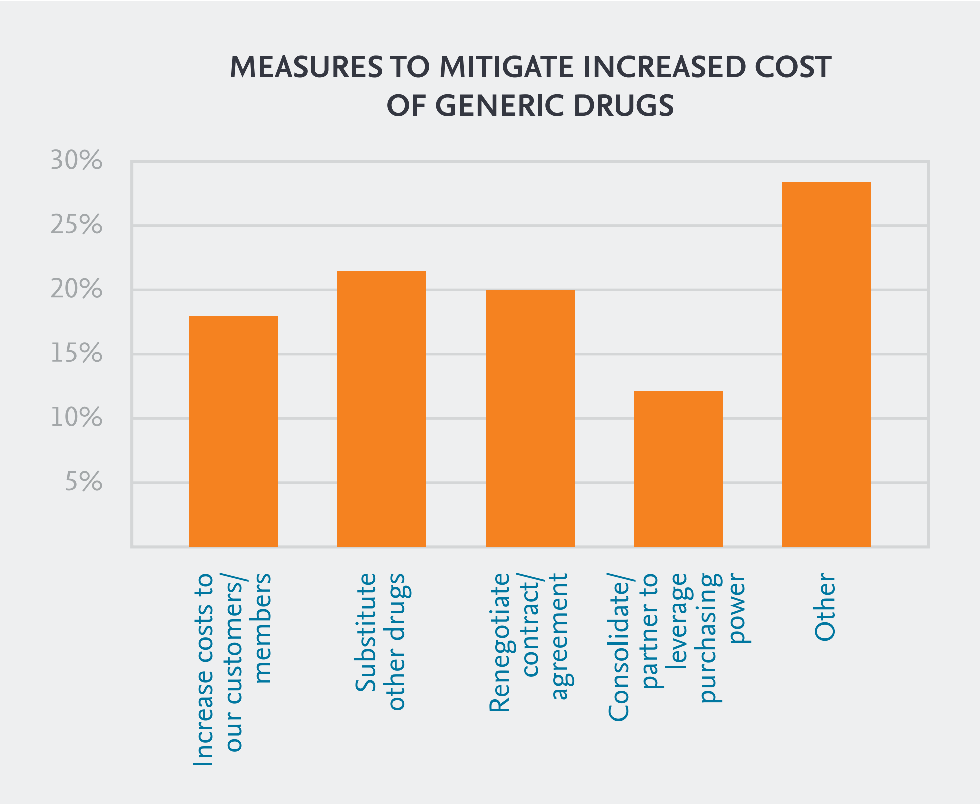

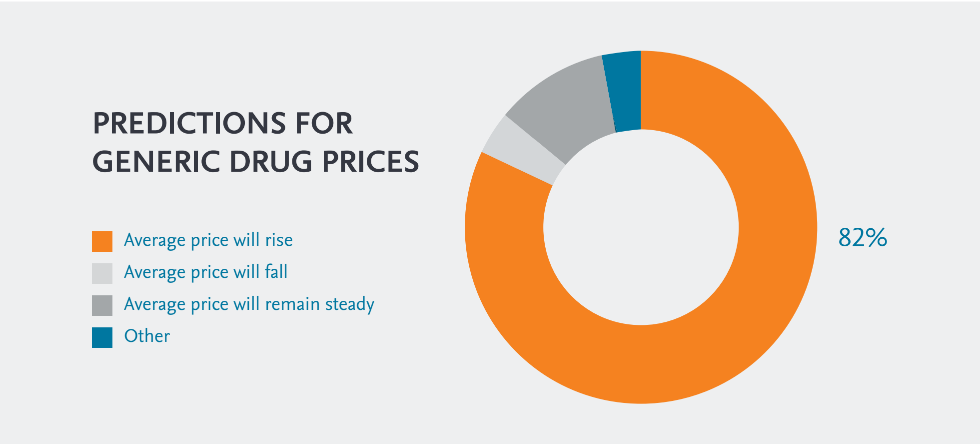

Part D business. The intention of these actions is to ensure that MAC prices are in line with the true acquisition cost of the drug.

In the meantime, pharmacies and other stakeholders have to figure out how to mitigate the negative impacts of generic drug price inflation to their businesses.

The top three ways that respondents chose as methods to help mitigate rising generic drug prices are as follows:

- Substituting other drugs (21 percent)
- Renegotiation contracts/agreement (20 percent)
- Increasing costs to customer or members (18 percent)

Consolidating and partnering to leverage purchasing power was also a strategy and many respondents cited a combination of several strategies to mitigate high generic drug costs, most commonly including all of the above.

Eighty-two percent of survey respondents predict that the average price of generic drugs will continue to increase and none foresaw overall generic price deflation on the horizon.

Thus far, their predictions are proving correct and it is clear that stakeholders must continue to closely monitor and analyze generic drug prices in order to react and stay competitive in a volatile drug pricing environment.

Conclusion

Analyzing current drug price information, MAC List Optimization and attentive partner agreement and contract negotiations can help minimize impact of higher generic drug prices.

The entire pharmacy industry is affected by generic drug price inflation, and for many those affects are negative. The reasons are multiple and complex and, until the current trend of inflation is corrected or resolves itself, stakeholders in the drug supply chain must be vigilant. Completely current drug price information, optimal MAC list management, and attentive partner agreement and contract negotiations can help minimize the negative impacts of higher generic drug prices.

For more information about how to minimize and successfully mitigate generic drug price inflation, please contact Elsevier's Drug Information Solutions, offering:

- Gold Standard Drug Database
- Predictive Acquisition Cost (PAC)
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