Community Pharmacies Reducing Costs through Generic Drug Use; Mail Order Pharmacies Continue to Lag Behind

By Zachary French

Local pharmacists are consistently cutting costs for patients, employers and other health plan sponsors by maximizing the use of less-expensive generic drugs, where appropriate. By contrast, mail order pharmacies owned by major pharmacy benefit managers (PBMs) dispense generics 10 to 13 percent less frequently, according to their own data. New PBM arguments to explain away that gap simply don't add up.

Specifically, the big PBMs' trade group recently asserted that the reason for this discrepancy is that mail order pharmacies dispense maintenance medications that often have no generic alternatives, such as drugs that control patients' cholesterol. To support this, they pointed to two pre-2006 studies. These studies might have had some relevance in 2005, but changes to the prescription drug market since then have largely invalidated such a rationalization today.

In 2006, simvastatin, a generic alternative to the brand drug Zocor that controls cholesterol levels, logged in with just 14 million prescriptions according to IMS. 2010 saw 94 million prescriptions of simvastatin; in fact, it was number two on the list of most highly utilized drugs. Lipitor, a brand name competitor lagged far behind in total 2010 prescriptions at just 45 million.

Beyond cholesterol drugs, total generic market share has risen significantly over the last 5 years, according to IMS:

- In 2006, the generic market share was just 63 percent; in 2010, it is 78 percent
- The prescription drug market available for generic substitution rose from just 70 percent in 2006 to 84 percent in 2010
- Twenty-two of the top 25 most-prescribed products in 2010 are generics, versus three brand drugs
- Within six months of brand patent loss, patients received the generic form of the drug 80 percent of the time in 2010. This compares to just 55 percent in 2006
- For patients starting therapy for chronic conditions in 2010, 3.2 million more patients started their therapy with a generic while 6.6 million fewer patients started therapy with a brand

Does this sound like we are living in a world where generic alternatives to brand name maintenance medications are scarce?

Despite these trends, the difference between community pharmacy and mail order pharmacy generic dispensing rates remain virtually unchanged. Year after year, from 2007 to 2010, community pharmacies dispensed generics 10 to 13 percent more often than mail order.

For patients, employers and health plans, that difference adds up quickly. For example, IMS Health concluded that every two percent increase in generic utilization in Medicaid programs saves taxpayers an additional $1 billion annually.

The most obvious explanation for this gap is the big PBMs' pursuit of brand name manufacturer rebates. Industry analyst Linda Cahn has argued in Managed Care Magazine that PBMs also reap huge brand drug rebates by manipulating brand and generic drug definitions: *"…when it is in PBMs' interests to classify more drugs as generics, they magically recharacterize the drugs as generics. For example, PBMs wanting to make their generic substitution rate appear greater reclassify drugs that they invoiced as brands as generics when calculating the number of generic drugs dispensed. Similarly, if a contract calls for a PBM to pay a specified rebate 'per brand drug claim,' it can reclassify drugs that were invoiced as brands as generics for the purpose of calculating rebates…"*

In fact, the major PBMs have paid out $370 million in recent years to settle allegations of deceptive conduct and fraud. Further, the common practice of cost shifting 33 percent of the patients' cost sharing responsibility for 90-day supplies of brand drugs back to the health plans reduces the financial motivation for mail order patients to move away from expensive brand drugs.

Clearly, community pharmacies have established a generic dispensing rate that is the "gold standard" for the industry. In 2010, retail pharmacies dispensed generics 72.7 percent of the time while the Big 3 PBMs' mail order dispensing facilities had generic dispensing rates of 60.5 to 61.5 percent.