The High Cost of Generic Medications?

Average Wholesale Price (AWP) is the most recognized pricing benchmark in the workers’ compensation system and is the recognized benchmark in most states' workers' compensation pharmacy fee schedules. Historically, it was trade name products (brands) that demonstrated the largest increases in AWPs (aka AWP inflation). Toward the end of calendar year 2013, however, several generic medications began demonstrating increases in their AWP significantly above historic trends. These trends are affecting the entire healthcare industry, and the U.S. Department of Justice recently took notice.

During the first week of November 2014, the U.S. Department of Justice issued subpoenas to two generic drug manufacturers (Lannett and Impax Laboratories) seeking information about their interactions with competitors. According to industry analysts, the subpoenas are part of a federal investigation into possible violations of anti-trust laws. Further evidence of the federal government’s concern about the impact of generic drug cost increases on the healthcare industry came in October 2014, when two members of Congress, U.S. Sen. Bernard Sanders (I-VT) and U.S. Rep. Elijah Cummings (D-MD), launched an investigation into the escalating prices for generic medications. The Congressmen asked 14 generic drug makers to provide data regarding the price increases for their generic medications.

Congress and the Department of Justice are not alone in recognizing the problem. Several recent industry analyses have identified increasing prices of generic medications. These analyses have reported instances where some price hikes have exceeded 1,000%. Healthcare Solutions reported on the concerning trend of AWP price increases for generic medications within our 2014 drug trend analysis.

Over the past 90 days, within Healthcare Solutions’ book of business we have observed a significant increase for the AWP of generic medications that exceeds the average increase of 12.92% for brand name medications. During this same timeframe we have observed an average AWP increase of 21.45% for hydrocodone-acetaminophen products (HCP). This is almost double the average increase of brand name medications. It is not just the inflation of the medication that is alarming. The fact that HCP products are one the most utilized medications in this space exacerbates the issue of the dramatic increase in AWP of generic drugs.

Impact to our clients:

The recent increases to the AWP of generic medications amplifies the potential impact to our clients' drug spend. Where possible, Healthcare Solutions clinical programs are targeting inappropriate drug use in an effort to decrease drug utilization. Decreases in inappropriate drug utilization can help off-set these price increases and we know our programs are successful. For example, in our 2014 Drug Trends Report, we observed a decrease in hydrocodone-acetaminophen utilization of 2.1% across our book of business.

Sources

1 Curtiss FR, Lettrich P, Fairman KA. What is the price benchmark to replace average wholesale price (AWP)? JMCP. 2010; 16(7): 492-501.