
DRUG BENEFIT NEWS

2015 Outlook

As Generic Prices Rise, PBM Plans Include Tiers, MAC Tweaks

Next to growth in overall pharmacy trend driven by specialty costs, rising generic drug prices will be of utmost concern to payers in 2015, predict several industry experts. As a result, PBMs are ramping up efforts to contain costs in this area by continually monitoring maximum allowable cost (MAC) lists for timely adjustments and moving high-cost generic drugs to upper tiers.

"Traditionally, we could count on generics to help save and decrease costs. For the first time in recent history, generic pricing inflation is now trending on-par with branded medication inflation," laments Sumit Dutta, M.D., senior vice president and chief medical officer at *Catamaran Corp.* "This is a significant issue considering [that] today around 84% of prescriptions dispensed are generics."

Dutta points out that the six biggest-selling generic drugs to enter the market all cost \$150 or more, which is a far cry from the average \$13 price of the top 50 most utilized generics in 2010. In 2014, the top 50 most utilized generics cost an average of \$62 per prescription. "That's more than a 370% increase," he marvels. As a result, Catamaran is introducing new generic tiers for high- and low-cost generics. "This will provide members visibility into which generics cost, for example, over \$100 per prescription," explains Dutta.

So why are generic drugs increasing by so much in some cases? "A key factor driving generic price inflation has been the disciplinary action taken by the FDA following its inspection of manufacturing processes across the globe," observes Craig Oberg, R.Ph., managing consultant at *The Burchfield Group*. "The FDA's action is completely justified as a means to meet the objective of ensuring a safe and effective supply of generic products for distribution in the U.S." Sources also point to consolidation of generic manufacturers and relatively large numbers of drug shortages as primary causes of generic inflation.

As pharmacy contracts are renegotiated to reflect increasing acquisition costs of generic products, Burchfield Managing Consultant Kevin Waite, R.Ph., predicts that payers will see "some flattening and adjustment of overall generic effective rate discount

guarantees by PBMs." And member cost share for generics will need to be continually evaluated.

"There is no way for a plan to either monitor or anticipate the products that will experience extreme cost increases," adds Oberg. "The best way to prepare for cost increases is through plan design. Options would include adding or increasing the co-insurance component for generic products or creating a design where the member contribution is determined by the ingredient cost rather than simply defining a product as a brand or generic."

"The increase in the cost of generic drugs, combined with the lack of many significant brand drugs losing patent over the next several years and the increase in specialty drug availability and utilization, makes 'cost containment' efforts for each of these issues a priority," stresses Mesfin Tegenu, R.Ph., president of *PerformRx*, a PBM that is a fully owned subsidiary of the AmeriHealth Caritas Family of Companies.

But Tegenu points out that while the issue of rising drug costs has gotten a lot of media attention in recent months, this upward trend has been "going on for quite some time" and that PerformRx has and will continue to "constantly monitor generic drug pricing." As a result, the PBM has added "a number of generic to generic therapeutic alternative (TA) options" to its formulary process. "While brand-to-generic therapeutic alternative programs have been quite common, we find generic-to-generic TA programs are not very widespread at this time," contends Tegenu. "Our experience is the savings realized for these programs can be quite significant."

Alan Van Amber, R.Ph., vice president, provider services at *Navitus Health Solutions, LLC*, says generic price increases call for more "active management of maximum allowable cost [MAC] lists and unit prices for generics."

One Strategy Is Excluding Strengths

In addition to promoting the use of multiple tiers for generic products, Navitus has "identified opportunities to exclude certain strengths of generic drugs whereby the cost of one strength is significantly less

than the costs of other strengths," Van Amber tells *DBN*. The PBM may exclude the higher cost drug strength and require the use of the lower cost dosage product when clinically appropriate. "The same concept is true with certain drug dosage forms," he says. "Navitus may exclude higher cost dosage forms in exchange for lower cost dosage forms of the same drug when clinically appropriate."

Navitus has also increased the management of MAC unit prices "as a result of the variability of products contained within the MAC list," explains Van Amber. "There continue to be opportunities where products are decreasing in cost, while at the same time other products are increasing in costs. This requires additional emphasis on management of the entire MAC to monitor the overall performance and provide payers with meaningful cost savings." Navitus continues to engage pharmacy providers to enter into additional contractual generic discounts for those products that do not qualify for inclusion on a multi-source MAC list, he adds.

Also responding to generic price hikes is *Envision Pharmaceutical Services (EnvisionRxOptions)*, which has worked with its network pharmacies to implement a 24-to 48-hour MAC appeal turnaround time "and other measures to respond quickly and increase pricing as appropriate." The PBM adds that it will monitor "the growing number of generic price increases to see if any changes are needed in future client and pharmacy contracting and guarantees." Additionally, *EnvisionRx* is offering guarantees based on acquisition cost-plus pricing methodology.

Prime Therapeutics LLC says it is pursuing a variety of strategies in order to contain rising generic costs. These include:

- ◆ *Reviewing drugs on the MAC list weekly* to obtain aggressive and competitive generic discounts;
- ◆ *Leveraging relationships with drug manufacturers* to incorporate price protection for generic drugs;
- ◆ *Evaluating all drugs (generic and brand) based on efficacy and cost*, including rebates and discounts; and
- ◆ *Offering drug exclusion strategies* for clients looking to closely manage total cost of care by locking out or limiting targeted drugs (see story, p. 1).

"Even with this isolated price inflation, generic medications overall continue to deliver significant savings over brand-name alternatives," argues Janine Burkett, vice president, drug procurement at *Express Scripts Holding Co.* According to The Express Scripts Prescription Price Index, the average price of brand-name drugs has almost doubled since 2008, while the average price of generic drugs has been cut roughly in half.

"Encouraging use of generics over more expensive brand alternatives, when clinically appropriate, keeps costs down and helps patients adhere to their prescribed therapy," Burkett advises.

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