0.9% of Commercially Insured Prescription Drug Spending (0.03% of Total Health Spending)

Eliminating Prescription Drug Copay Coupons

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Issue Summary: To compete for market share after generic entry, branded pharmaceutical manufacturers are currently legally permitted to pay patients kickbacks in the form of "copay coupons" to retain sales. Copay coupons, offered by branded drug manufacturers and distributed through various channels including physicians' offices, magazines, direct mail, and websites, pay some or all of a patient's cost sharing for the manufacturer's drug. These coupons reduce the out-of-pocket costs for branded drugs. However, for branded drugs that have generic substitutes, these coupons raise prescription drug prices and total health spending for individuals with private health insurance.

Branded drugs cost, on average, several times as much as their therapeutically identical generics. As a result, the use of generic drugs, when available, is inherently efficiency improving. Since the 1980s, there has been a marked increase in rates of generic drug substitution, driven by automatic generic substitution laws, patent expirations, and insurance benefit designs that expose patients to higher cost sharing when a branded drug has an available generic substitute.

Drug copay coupons are frequently used by branded pharmaceutical manufacturers to circumvent patient cost sharing, increase the use of branded drugs, and raise profits. These coupons increase the share of a molecule's prescriptions that are filled by a branded drug by over 60% and increase total prescription drug spending by the commercially insured by approximately 1% annually (Dafny et al. 2017). These costs ultimately get passed along to all consumers through higher insurance premiums.

Policy Proposal: Policy makers should ban the use of prescription drug copay coupons on branded drugs that have generic substitutes. This approach has been adopted in Massachusetts and California. Furthermore, New Jersey is considering a copay coupon ban, and New Hampshire considered but did not adopt a copay coupon ban (State of New Jersey 2018; State of New Hampshire 2019). Medicare and Medicaid also forbid the use of prescription copay coupons by enrollees.

Total Savings: We estimate total savings to be $1.155 billion per year—approximately 0.9% of prescription drug spending on the commercially insured and 0.1% of commercial health spending.

Related Literature and Evidence

Undermining Value-Based Purchasing—Lessons from the Pharmaceutical Industry (2016). *New England Journal of Medicine*, 374 (21): 2013–2015 (Leemore Dafny, Christopher Ody, and Matthew Schmitt).

When Discounts Raise Costs: The Effect of Copay Coupons on Generic Utilization (2017). *American Economic Journal, Economic Policy*, 9 (2): 91–123 (Leemore Dafny, Christopher Ody, and Matthew Schmitt).

Background

Copay coupons, offered by branded drug manufacturers through various channels including physicians' offices, magazines, direct mail, and websites, pay some or all of a patient's cost sharing for the manufacturer's branded drugs. However, for branded drugs that have generic substitutes, these coupons decrease the use of generics, raise prescription drug prices for branded drugs, and increase total health spending.

Generic drugs are bioequivalent and therapeutically identical to branded drugs. However, as the FDA reports, branded drugs are more than five times as expensive as generics. As a result, the use of branded drugs, when generic versions are available, constitutes a pure form of inefficiency. The sole counterargument—that branded manufacturers have an incentive to promote the drug and therefore may increase its utilization, which *could* in theory reduce total medical spending by improving patient adherence with a prescribed therapy—is unsupported by systematic empirical analysis of drugs going off patent over the period June 2007 to December 2010 (Dafny et al. 2017).

The increasing use of generic drugs over the last 30 years has been one of the most notable successes in US health policy. The 1984 Hatch-Waxman Act spurred significant entry of generic drugs. The share of total prescriptions dispensed as generic has risen from 19% in 1984 to 90% in 2018 (US GAO 2012; IQVIA 2019). Three factors have increased generic drug adoption. First, patents on a number of blockbuster drugs, such as Lipitor, expired and generic entry ensued. Second, many states passed automatic substitution laws, enabling pharmacists to fill a prescription written for a branded drug with its bioequivalent generic. Finally, health insurers have developed more restrictive formularies and benefit designs that exposed patients to higher cost sharing for branded drugs when cheaper generics were available. Tiered benefit designs, along with the availability of generics, also enable insurers to negotiate deeper price discounts from manufacturers of competing branded drugs.

Copay Coupons

Over the last decade, in response to insurers' tighter drug formularies and tiered benefit designs, branded pharmaceutical manufacturers have introduced "copay coupons" to incent consumers to choose their drugs. With a copay coupon, the branded manufacturer pays some or all of a patient's cost sharing for the manu-

facturer's drug. Manufacturers can use these copay coupons to reduce the difference in costs that patients face between the manufacturer's branded drugs and the cheaper generic offerings.

Copay coupons encourage consumers to use more costly branded drugs. The higher costs of these branded drugs are then passed on to all consumers via higher insurance premiums. In short, copay coupons offset or undo cost sharing designed by insurers to contain costs and direct patients to higher-value drugs (Dafny et al. 2016). In the presence of coupons, consumers' out-of-pocket costs may be lower for low-value brand-name drugs than for high-value generics.

Over the last two decades, pharmaceutical manufacturers have dramatically increased the availability of copay coupons. In 2016, 20% of branded prescriptions for the commercially insured were filled with some form of copay coupon (IQVIA 2017). Websites, like internetdrugcoupons.com and needymeds.org, now routinely offer copay coupons for consumers (See Figure 1).

Figure 1: Copayment Coupon for Crestor

Note: This figure was taken from needymeds.org. A generic version of Crestor was approved by the FDA in 2016.

Beyond steering consumers away from high-value drugs, drug coupons can also harm insurer negotiating positions, thereby raising drug prices (and ultimately raising insurance premiums). In the absence of copay coupons, insurers could negotiate lower drug prices by threatening to place high-priced drugs on lower benefit tiers that have higher cost sharing. With coupons, drug manufacturers have an incentive to raise prices and offer coupons to offset consumer cost sharing. Because drug manufacturers can use coupons to undo consumer cost sharing, insurers have little ability to steer demand, other than by excluding a drug from their formulary entirely. This has the potential to deny patients both coverage of and negotiated discounts to pharmaceutical drugs which may be particularly efficacious for them.

Research on the Effect of Copayment Coupons on Generic Utilization, Prescription Drug Prices, and Prescription Drug Spending

In a 2017 article in the *American Economic Journal: Economic Policy*, we analyzed the impact of copay coupons on the use and the prices of branded drugs that faced generic competition. We were able to study the effect of these coupons because they are illegal in certain states (specifically, during our study period, in Massachusetts) and in the Medicare program. We compared the generic utilization rates among the commercially insured in Massachusetts and in neighboring New Hampshire for a set of branded drugs exposed to generic competition for the first time over the period June 2007 to December 2010. As a "placebo" or "control" group, we also compared these rates for the Medicare population, as Medicare enrollees in both states are not permitted to redeem coupons.

Drug copay coupons caused a 60% increase in the utilization of branded drugs (a 3.4 percentage point reduction in generic usage) in Massachusetts relative to New Hampshire (Dafny et al. 2017). Importantly, this relative increase did not occur for Massachusetts Medicare enrollees. Drug copay coupons were also associated with significantly faster branded drug price growth. Drugs without copay coupons experienced real price growth of approximately 8% per year; drugs with copay coupons experienced approximately 12% price growth. Combined, these facts suggest that for a prescription drug facing generic competition, introduction of a copay coupon increased retail spending by up to 4.6% over a five-year period (or approximately $120 million per drug in 2010 dollars) (Dafny et al. 2017; Dafny et al. 2016).

Taking our results and scaling across all privately insured individuals with prescription drug coverage, the impact of copay coupons on health spending is substantial. Based on our estimates, copay coupons raise health care spending of the privately insured by approximately $1.1 billion per year (in 2018 dollars). This constitutes roughly 0.1% of commercial health care costs and 0.9% of prescription drug spending for this population.

Our estimates are limited to branded, small-molecule drugs facing generic competition. Manufacturers also offer coupons for branded, small-molecule drugs without generic competitors and for biologics. Our study did not examine the impacts of these coupons; hence our proposal does not address them directly. Yet the same economic forces are at play, and the potential savings from a ban on those drugs is much larger, so we believe further research on the effects of copay coupons on those drugs is needed.

Policy Recommendation

Our policy proposal is to ban the use of copay coupons on branded drugs where a bioequivalent generic is available.

This approach would mirror the approach taken in Massachusetts (under General Laws c.175H § 3) and California (under Bill AB 65) where policy makers have enacted laws prohibiting pharmaceutical manufacturers from offering discounts to consumers, including copay coupons, on any drug with a generic equivalent.[1] Both states' copay coupon bans do not apply to cash-paying patients and include a number of other safeguards and exclusions.[2]

Estimated Savings

We estimate, based on our results from Massachusetts, that banning copay coupons would lower prescription drug costs by approximately $1.155 billion per year. This is approximately 0.9% of total prescription drug spending on the commercially insured and 0.1% of total health spending on the commercially insured.[3]

Footnotes

* This research was performed while Dr. Ody worked at the Kellogg School of Management. It reflects the views of the authors and not necessarily the views of the organizations with which they are affiliated.

1. Massachusetts bans coupons on any prescription drug with a generic equivalent. California bans the use of coupons on a prescription drug if a lower-cost, generic equivalent is on the patient's formulary. The California law also prohibits coupons for drugs with lower-cost, non-prescription generic equivalents.

2. Both Massachusetts and California allow coupons for drugs with an FDA Risk Evaluation and Mitigation Strategy (REMS). California also allows coupons for HIV or AIDS drugs under certain conditions, and for patients who follow their insurer's step therapy or prior authorization requirements.

3. In our American Economic Journal: Economic Policy article, we estimate that, among the drugs we study, the availability of copay coupons raises drug spending by $2.7 billion over five years. Our paper considered drugs that first faced generic entry over a 43-month window; we assume that this level of new generic entry is constant over time. Our sample of drugs is roughly 75% of revenue of drugs that experienced generic entry during the time period, so we scale up our estimates by 4/3rds. Finally, our estimates are in 2010 dollars, so we multiply by 1.15 to convert them into 2018 dollars. Finally, we rely on CMS estimates of health spending in the US in 2018 and the share of health spending that occurs for individuals with commercial health insurance (CMS 2020). We rely on estimates of the

share of commercial spending that goes to pharmaceutical spending based on analysis from Sherman et al. (2018).

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