

Study Snapshot:

Benefit Design Effective in Encouraging Generic Use and Reducing Medicare Costs

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key findings

- Copays on generic drugs discourage their use. Charging any copay is associated with decreasing generic utilization by about 13 percent.
- Charging higher copays for brand-name drugs is associated with encouraging generic use.
- Zero copay for generics is most effective in encouraging generic drug use and adherence.
- Targeted use of prior authorization and step therapy for brand-name drugs increases the odds that a beneficiary will choose a generic drug.
- A 10 percent increase in the substitution of generic for brand-name statins is projected to reduce Medicare drug costs by \$1 billion per year.

The Question:

Can generic medication incentives through plan benefit design yield cost reduction in Medicare?

Substituting generics in place of more costly brand-name alternatives has the potential to lower drug spending for health plans. In a HCFO-funded study,¹ Jack Hoadley, Ph.D., research professor at Georgetown University, and colleagues examined benefit and formulary design in Medicare Part D plans to determine their impact on generic drug use for cholesterol medication (statins) and to estimate potential savings to Medicare from generic substitution. The full results of their study are available in *Health Affairs*. An overview and summary of the key findings are also available in the related HCFO Findings Brief.

The Implications:

Benefit design—particularly eliminating copays for generic drugs—may be an effective mechanism to encourage higher generic use and a reduction in Medicare costs.

Among the benefit design features typically used by plans, elimination of copays for generics has the largest positive effect on generic drug use. Certain utilization management strategies, including prior authorization and step therapy, are also effective in promoting the move from brand-name to generic drugs. The researchers note that substitutability between generics and brand-name drugs in a variety of drug classes is increasing, though it may not be possible in every condition. The Congressional Budget Office estimates a potential \$4 billion in savings from increased use of generic drugs in seven drug classes. The authors caution against forming policies that would inhibit brand-name drug access for patients with a medical need or where there are limited generic alternatives. Hoadley and colleagues' findings demonstrate that benefit and formulary design, particularly low and no copays for generics, are particularly effective in increasing the use of generic statins. Other drug classes with comparable substitutability (especially drugs for hypertension, gastrointestinal conditions, and osteoporosis) may also yield similar success in encouraging generic use and yielding cost reductions.

Contact Us

For more information on the results from this grant, please contact the principal investigator Dr. Jack Hoadley at jfh7@georgetown.edu or 202-687-1055.

¹ The Robert Wood Johnson Foundation Changes in Health Care Financing and Organization (HCFO) Initiative supports timely and policy relevant health services research on health care policy, financing, and organizational issues.

If you would like to learn more about other HCFO-funded work, please contact: Bonnie J. Austin, HCFO Deputy Director | bonnie.austin@academyhealth.org



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