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# REAL SOLUTIONS: Policy Briefs

AMERIGROUP PUBLIC POLICY INSTITUTE

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## Savings in Medicaid Series

### Encourage Use of Generic Drugs

#### Issue Defined

Prescription drugs play an important role in the lives of Medicaid beneficiaries, and ensuring their appropriate access and availability is vital. Providers are essential to the process, but may lack information on cost and availability of less expensive generic equivalents. Generic prescription drugs have the same active ingredients as their brand-name counterparts and are usually available at significantly lower costs. Generic drugs constitute roughly 20 percent of Medicaid's total spending on prescription drugs, while brand-name drugs constitute more than 80 percent.

#### Background

The increase in Medicaid prescription drug expenditures and utilization has been a primary contributing factor in the overall rise in total program costs. To contain higher costs, state governments have implemented strategies aimed at managing prescription drug use and promoting the use of generic prescription drugs. For example, some states impose different co-pay amounts between generic and brand-name, and require prior authorization for brand-name drugs when a generic equivalent is available.

#### Recommendations

Generic drug use has increased in Medicaid, but additional efforts to encourage the use of generics could yield further program savings. States must act swiftly to implement such measures since the utilization of prescription drugs is expected to increase significantly under a reformed health system that achieves universal coverage. To promote additional and appropriate generic drug utilization, state governments could:

- Create appropriate reimbursement policies;
- Negotiate better prices for prescription drugs with pharmacies;
- Provide sufficient payments to pharmacies so that pharmacists are encouraged to dispense generic equivalents;
- Institute policies that do not discourage the availability of generic drugs; and,
- Increase and extend discounts that drug manufacturers pay state Medicaid programs.

Additionally, states should adopt “best practices” in managing prescription drug usage. For example, states should conduct periodic reviews to ensure that the drugs prescribed are medically necessary, and monitor physicians’ prescribing patterns to detect inappropriate prescribing and an unusually high number of prescriptions.

#### Savings Outlook

Health reform could include policies that slow or reduce the growth in spending on prescription drugs and free up savings to finance expanded coverage. Reducing Medicaid and Medicare prescription drug costs is one way to achieve this. The use of generic prescription drugs provides Medicaid with substantial savings. A recent study conducted by the *New England Journal of*

*Medicine* on the effect of Medicare Part D on drug and medical spending concluded that changing from brand name prescription drugs to generics will impact overall spending and ultimately save Medicare money.

In 2006, Medicaid programs paid an average of \$22 per prescription for generic drugs compared to about \$95 per prescription for brand-name drugs. The Congressional Budget Office (CBO) estimates that reducing the use of prescription drugs would save the federal government \$110 billion between 2010 and 2019. Going forward, the use of generic drugs remains a key element to ensure savings in health care for taxpayers.