Opinion

Generic Drug Price Jumps: What to Do?

Last month's Opinion column focused on the stratospheric prices of new drugs. One suggestion to stop the upward price spiral is to institute value-based payments. These calculations are based on comparative cost-effectiveness. Compared to what? Answer: the old standard medication for the same or similar indication. Usually, that baseline standard is a generic drug. But recently, the baseline costs of generic drugs have seen huge price jumps.

Earlier this year, a bird flu epidemic struck many henhouses, especially in the Midwest. Millions of fowl lost their lives to stop the epidemic. Fewer eggs were laid, and egg prices went up by about 75% to 100%. This extreme example of the law of supply and demand operating in a commodity market does not even come close to the recent percentage rises in generic drug prices. The January 2015 *EyeNet* feature article on generic drugs noted that phenylephrine went from $5 per bottle retail to $60 to $100 in a short time. National spending for generic pilocarpine rose from $425,000 to $18 million in the period from 2008 to 2013, at a time when the drug was declining in popularity.

Spokespeople for the drug industry say that the profit margin in generic drugs is so thin that manufacturers may stop producing a drug, have breakdowns in manufacturing, or become financially insolvent, leading to less competition and higher prices. But if profit margins are unsatisfactory, why are larger pharmaceutical companies buying out the generic manufacturers or starting generic divisions of their own? In fact, the consolidation in the industry has led to less competition.

Why, then, do manufacturers boost the price of their generics? A cynic's view is "because they can." Another cynical view is that drug reimbursements will be capped in the near future, and it's important to set a higher reference price. There are other reasons, as well. A drug marketed prior to 1962 does not need FDA approval. But a company that is willing to go through the new drug application (NDA) process can receive FDA approval on the old drug—and be able to make that a selling point: "Why use an unapproved version when you can prescribe ours?" Naturally, the price goes up. A company can also stop production of a drug for a time and then reintroduce it at a much higher price.

The ultimate losers in generic drug price inflation are the patients (and the taxpayers). Many patients have big deductibles in their "affordable" insurance, and they may simply elect to leave their prescriptions unfilled, and their diseases untreated. The terrible choice is drops for your failing eyes or food for your beloved dog. That's what gets me rabid about this issue. We have enough trouble getting patients to adhere to their medication regimen without adding sticker shock at the pharmacy.

So what is to be done about generic drug price inflation or, for that matter, unconscionable new drug costs? Ordinarily, we would expect free markets to self-correct, given enough time. However, in the case of pharmaceuticals, we are not trading in a free market. There are several reasons why it is not a free market, but lack of transparency is one of them. Patients generally know only their out-of-pocket drug expenses, and physicians know only when patients complain. As a start, maybe we need to have a sunshine law for drug costs, as we do for physician payments from industry.

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