

Is generic drug deflation good? - OPINION

Not all drug prices are going up. Amid the public fury over the escalating costs of brand-name medications, the prices of generic drugs have been falling, raising fears about the profitability of major generic manufacturers.

This may seem like good news for consumers, but it's unclear how much they will save.

Why are prices falling?

Generic drugs are copycat versions of brand-name products and — to a point — their prices are expected to drop over time. When a brand-name drug first loses its patent protection, prices fall slowly. Over the next couple of years, as more competitors enter the market, the prices drop even more, until the pills become commodities and sell for pennies. Blockbuster drugs that have recently taken this path include Lipitor and Plavix, the cholesterol-lowering and blood-thinning pills that now cost as little as \$10 for a monthly prescription.

Generic drug prices have been declining in the United States since at least 2010, according to an August 2016 report by the Government Accountability Office.

They have fallen even in the face of high-profile exceptions: Dozens of old generic drugs have risen in price in recent years, for reasons that include supply disruptions and competitors' leaving the market.

Despite these cases, the trend toward deflating generic prices appears to have accelerated as companies have more aggressively undercut each other's prices.

Making matters worse for the generics companies, they are missing out on peak profit potential because not as many brand-name products are losing patent protection. The six-month period after a drug goes generic is typically the most lucrative time for the first company to market. And the Food and Drug Administration has been clearing out a backlog of generic-drug approvals, meaning more competitors are now entering markets for certain drugs.

In a recent call with Wall Street analysts, George S. Barrett, the chairman and chief executive of Cardinal Health, a major drug distributor that reported declining profits last week, said generic deflation was not new, but that the company historically had been able to anticipate it. "It just looked a little different than we had seen," he said. In recent years, generic companies have gone on acquisition sprees in an effort to head off some of these challenges. But they have been outmanoeuvred by those who buy their products, a trend that has been intensifying. Major pharmacy chains, drug wholesalers and pharmacy benefit managers (which operate drug plans for insurers) have united into colossal buying groups.

So are consumers saving any money? The declining prices are broadly beneficial to the health care system, and may put some slight brake on rising premiums. But most of those with health insurance pay a fixed co-payment — \$10, for example — for each generic prescription, and therefore don't pay more or less, regardless of any fluctuation in the actual price. And even those who pay cash for generics may not notice a drop in price because many are already cheap.

Retail drug prices dropped 2.4% over the last year, based on a weighted average of 92 generics that have been on the market for at least a year, according to an analysis conducted for *The New York Times* and ProPublica by GoodRx, a site that tracks prices that consumers pay at the pharmacy. (Weighted averages account for how often each drug is prescribed.) But that figure

hides vast variations.

Does this mean the problem with high drug costs has eased?

Overall drug spending is still on the rise because of the skyrocketing price of new, brand-name drugs.

Will this continue?

Generic manufacturers say they expect it will, and are worried that lower prices could put pressure on profits and threaten the viability of the companies. This could lead to a wave of mergers and acquisitions, reducing competition and leading to higher prices. NYT

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