

PRESCRIPTION DRUG COUPONS

BACKGROUND

The turn of the Century brought about innovations that helped change the landscape and affordability of health care in the United States. However, despite new medical technologies, managed care networks, alternative payment models, and utilization techniques to help lower health care costs, unregulated drug manufacturers have found ways to distort cost-savings through marketing efforts that steer patients to expensive brand-name prescription drugs to boost their profits.

To retain health care benefits for employees, employers have moved to managed care insurance plans that use cost-sharing techniques (co-pays, deductibles, coinsurance) and utilization controls (prior authorizations, generic first, step therapy, etc.) to help make health care more affordable. Since 2000, enrollment in managed care plans has steadily increased. A recent analysis by the Kaiser Family Foundation found that nearly a third of covered US workers were enrolled in a high-deductible managed care health plan in 2021, up from only 10% of covered workers a decade earlier.

During this same time, drug manufacturers began deploying “coupon” marketing campaigns to lower consumer out-of-pocket spending by promoting more expensive brand-name drugs, driving up health care costs for employers and insurers.

Prescription drug “coupons,” “copay cards,” and other manufacturers’ “discounts” that insulate customers from cost-sharing (co-pays, deductibles, co-insurance, etc.) have become increasingly common. Drug manufacturer coupons can now be found freely online, in print advertisements, and often in physician offices to entice people to seek an expensive new market brand name drug over a less costly similar generic or biosimilar.



HOW COUPONS DRIVE UP COSTS

Rather than lowering the cost of brand-name prescription drugs that health insurance providers pay to acquire for their customers, drug manufacturers spend millions on targeted advertisement and marketing campaigns aimed at driving customers to their new, costlier brand-name drugs. With a coupon, a brand-name drug that is very expensive for an insurance company to acquire will cost the customer almost nothing in out-of-pocket expenses. This creates a distorted image that the cost of brand-name drugs is minimal to the average consumer.

While the customer’s out-of-pocket costs are less with a coupon, the brand-name drug is far more expensive for the insurance provider to purchase, leading to increased premium costs for the employer and individual. More than two-thirds of the total costs of prescription drugs are not paid by coupon users (consumers); they’re paid by employers and government entities providing health insurance. By driving customers to a specific brand name drug rather than an equivalent generic or biosimilar drug that is less expensive, drug manufacturers increase profits and drive up health care costs.

HOW DRUG COUPONS INCREASE COSTS

DRUG A Brand-Name Drug with Coupon

| | |
|---------------------------------------|-------|
| Price: \$500 | |
| Cost to Health Plan | \$470 |
| Copay Cost to Patient | \$30 |
| Coupon | -\$25 |
| Total Copay Cost to Patient | \$5 |
| Total cost for the health care system | \$480 |

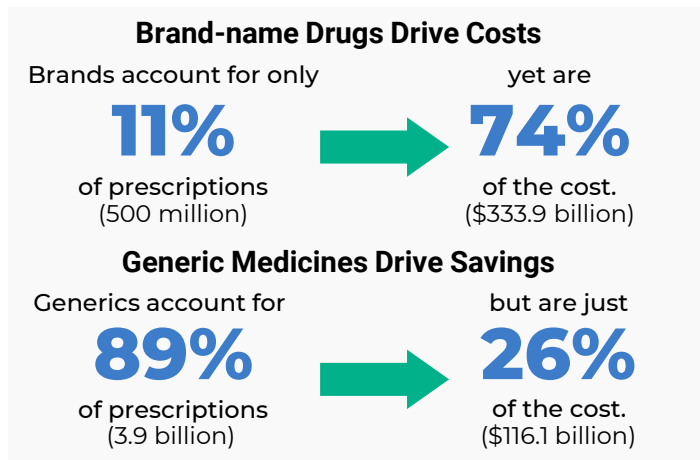
DRUG B Generic without coupon

| | |
|---------------------------------------|-------|
| Price: \$150 | |
| Cost to Health Plan | \$140 |
| Copay Cost to Patient | \$10 |
| Coupon not Available | \$0 |
| Total Copay Cost to Patient | \$10 |
| Total cost for the health care system | \$160 |

WHY COUPONS ARE A PROBLEM

INCREASED COST

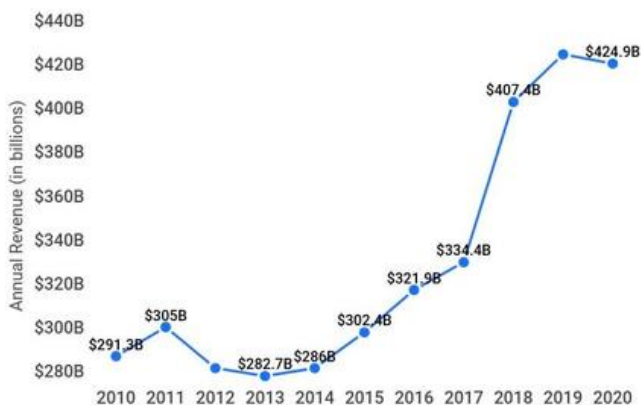
According to independent academic analysis, coupons **boost brand-name drugs by more than 60%** and **increase health care spending** by billions.



INCREASED PROFITS

Using coupons to create perverse incentives for brand name drugs has led to unprecedented profits for drug manufacturers.

U.S. PHARMACEUTICAL INDUSTRY REVENUE 2010-2020



COUPONS DON'T HELP THOSE THAT NEED IT MOST

Unfortunately, coupons are targeted at insured consumers that have access to high-cost brand-name drugs, not the uninsured. There is no means test for using coupons. Because prescription drug prices are unregulated in Michigan's commercial market, billions can be spent on marketing coupons rather than lowering the acquisition costs of the drug itself and benefiting more consumers.

FRAUDULENT ACTIVITIES

Caution must be used when drug coupons are distributed for consumers' use. Significant Department of Justice (DOJ) Health Care Fraud Recoveries have resulted over the past several years due to drug manufacturers' illegal payments of patient copays and resultant False Claims Act (FCA) violations. **Pharmaceutical manufacturer enforcements account for the highest healthcare recoveries:**

2018: 2 drug manufacturers paid \$234 million to resolve illegal copay remuneration (Pfizer & United Therapeutics)

2019: 8 drug manufacturers paid \$646 million to resolve claims of illegal copay remuneration (Actelion, Amgen, Astellas, Alexion, Biogen, Jazz, Lundbeck & US Worldmeds)

2020: 2 drug manufacturers paid \$148 million to resolve claims of illegal copay remunerations (Gilead & Novartis)

POLICY SOLUTIONS TO CURTAIL COUPONS

TIME TO BAN COUPONS

Coupons have been banned in Medicare and Medicaid programs. Unfortunately, coupons are still allowed in the employer-sponsored commercial healthcare market that provides insurance for nearly 60% of Michigan's population.

Independent studies have estimated that banning coupons in Medicare saved the federal government \$18 billion in a decade (2012-2021). In Massachusetts, the first state to ban coupons in their commercial market, employers saved an estimated \$750 million in ten years. California prohibits coupons on a prescription drug if a lower-cost, generic equivalent is available. Other states have introduced legislation aimed at curtailing the use of coupons. Michigan should follow suit.



MEDICARE & MEDICAID

ALIGN MICHIGAN'S FALSE FRAUD CLAIMS PROVISIONS WITH FEDS

Michigan is one of just 8 states that have not aligned its False Claims law with federal standards to capture the maximum allowable penalties against drug manufacturers. If Michigan's state law was better aligned with federal law, the state could receive increased monetary amounts recovered under the False Claims Act.

DOCUMENTED EVIDENCE: DRUG COUPONS ARE A PROBLEM!

"The researchers estimate that these coupons boost retail sales by 60 percent or more for brand-name drugs facing generic competition. And they increased spending by anywhere from \$30 million to \$120 million per drug during the five years studied. That translates to as much as a **\$2.7 billion increase in spending for the 23 drugs** they studied over five years."

Prescription Drug Coupons Actually Increase Healthcare Spending by Billions: Northwestern University Kellogg School of Management – Oct. 2017

"In addressing these financial needs, copay assistance programs **create broader problems in health care markets and encourage further price inflation.**"

Copay Assistance for Expensive Drugs, A Helping Hand That Raises Costs: P. Ubel, MD & P. Bock, MD: Ann Intern Med. 2016; 165:878-879. doi:10.7326/M16-1334

"Many coupons for brand-name drugs are available in the US, but since many are for medications for which lower-cost alternatives are available, **this marketing practice threatens to increase societal costs** in the long run."

Prescription Drug Coupons – No such Thing as a Free Lunch: J. Ross, MD & A. Kesselheim, MD, New England Journal of Medicine – Sept. 2013

"The researcher found that copay coupons correlated with faster-branded price growth. **Prices of branded drugs with coupons grow over 12 percent yearly**, while prices of branded drugs without coupons grow 7–8 percent yearly."

When Discounts Raise Costs, The Effect of Copay Coupons on Generic Utilization: L. Dafny, Harvard Business School NBER; C. Ody, Northwestern University Kellogg School of Management; M. Schmidt, UCLA Anderson School of Management - Oct. 2016

"Analysis identifies copay coupons undermine employers ability to use different copay amounts to reduce drug costs. Employer costs rise dramatically when enrollees choose expensive brands over more affordable options. **Copay coupons will increase ten-year prescription drug costs by \$32 billion for employers, unions, and other plans sponsors if current trends continue.**"

How Copay Coupons Could Raise Prescription Drug Costs By \$32 Billion Over the Next Decade: Visante Analysis – Nov. 2011

HOW DRUG COUPONS INCREASE HEALTH CARE COSTS

DRUG A

Brand-Name Drug
with Coupon

Price: \$500

Cost to
Health Plan **\$470**

Copay Cost
to Patient **\$30**

Coupon **-\$25**

Total Copay
Cost to Patient **\$5**

Total cost for the
health care system **\$480**

DRUG B

Generic without
coupon

Price: \$150

Cost to
Health Plan **\$140**

Copay Cost
to Patient **\$10**

Coupon not
Available **\$0**

Total Copay
Cost to Patient **\$10**

Total cost for the
health care system **\$160**