

Economic Consequences of Underuse of Generic Drugs: Evidence from Medicaid and Implications for Prescription Drug Benefit Plans

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Abstract

Objective. To calculate the financial impact of underuse of generic medications in state Medicaid programs.

Data Sources/Study Setting. State-by-state data on Medicaid drug spending for 48 states and the District of Columbia in calendar year 2000.

Study Design. We compared the total amount paid by each state Medicaid program for brand name prescriptions with the amount that would have been paid for generic versions of the same agent, to estimate the level of unrealized savings from use of substitutable generic drugs. We also examined whether variation in prices between states represented a potential source of unrealized savings.

Principal Findings. Analysis of state-by-state Medicaid prescription drug spending in 2000 identified potential savings of \$229 million that could have been realized from greater use of generic drugs. If the best available prices from each state had been used nationally, savings would have increased to \$450 million. The majority of the unrealized savings were concentrated in a small group of medications, including clozapine, alprazolam, and levothyroxine.

Conclusions. Federal regulations on prescription drug reimbursement limit the excess spending on brand name drugs in the Medicaid program to a small percentage of total spending, although the absolute dollar amount is large. Further savings could be realized if lowest available prices were used nationwide. Concentrating on specific agents may be a productive way to address the unrealized savings.

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