

Potential Savings with Substitution of Generic Drugs for Brand-Name Drugs

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The full report is titled "Potential Savings from Substituting Generic Drugs for Brand-Name Drugs: Medical Expenditure Panel Survey, 1997–2000." It is in the 7 June 2005 issue of *Annals of Internal Medicine* (volume 142, pages 891-897). The authors are J.S. Haas, K.A. Phillips, E.P. Gerstenberger, and A.C. Seger.

What is the problem and what is known about it so far?

Americans are very concerned about the high cost of prescription drugs. Many drugs are available in both generic and brand-name forms. Generic forms are typically less expensive than brand-name forms. Evidence suggests that generic drugs provide the same treatment effects as their brand-name counterparts. For these reasons, substitution of generic drugs for brand-name drugs might be one way to reduce drug spending. A study of prescription drug spending in Medicaid, the public insurance program for Americans who are poor, suggested that generic substitution would have saved \$229 million in 2000. However, no studies to date have estimated the potential financial impact of generic substitution beyond the Medicaid population.

Why did the researchers do this particular study?

To estimate the potential savings that could result from the substitution of generic drugs for brand-name drugs in the general U.S. adult population.

Who was studied?

The study included adults in households that participated in the Medical Expenditure Panel Survey Household Component, 1997–2000, a government survey of a representative sample of the civilian, noninstitutionalized U.S. population.

How was the study done?

The survey collects information on the general and health characteristics, insurance coverage, and health care use of all people in sampled households. The researchers used the survey data to identify adults older than 18 years of age who used at least 1 outpatient drug that was available in both generic and brand-name forms (outpatient drugs are drugs used outside of the hospital). The survey also includes information about the amount spent on each brand-name drug by both individuals and their insurance programs. Next, they calculated the potential savings of replacing brand-name drugs with generic drugs, after calculating the average cost of each generic drug and the corresponding brand-name drug for over 7000 drugs used by adults in this sample. Last, they estimated the potential per-person and total savings of generic substitution.

What did the researchers find?

Over half (56%) of all outpatient drugs were available in both generic and brand-name forms. However, patients used the generic form in only 61% of cases where both forms were available. If generics had been used in all cases where both forms were available, savings would have been about \$46 per person for those younger than age 65 years and about \$78 per person for those age 65 years and older. Although the per-person savings does not seem very high, this translates to a national savings of \$5.9 billion in the younger group and \$2.9 billion in the older group.

What were the limitations of the study?

These figures represent averages. Savings for an individual person or their insurance program might differ. The study does not include the costs of drugs for children or drugs prescribed for patients in hospitals, nursing homes, or other institutions.

What are the implications of the study?

Substitution of generic drugs for brand-name drugs when both are available would substantially reduce drug spending in the United States.

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