

Success of \$4 generic programs highlights potential consumerism



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In September 2006, Wal-Mart made headlines by announcing the launch of a test program in the Tampa area to sell a 30-day supply of 291 commonly used generic drugs priced at \$4. The program was offered to all consumers, both insured and uninsured.

Despite the fact that many employers were offering generic coverage with copays as low as \$5, and that many popular generic drugs weren't on Wal-Mart's list, the program was wildly successful. Wal-Mart expanded the program to 14 states within weeks, and soon after expanded it across the country. Target quickly chose to match Wal-Mart's offer. Kroger later followed suit, as did Safeway. K-Mart began offering a \$15 program for 90-day generics. Publix launched a program in which 14-day supplies for certain antibiotics were free. Walgreens eventually offered a \$12.99 program for 90-day generics.

Some interesting facts emerged when examining these programs more closely:

- Wal-Mart's list of 291 drugs was really composed of 124 unique drugs, with several offered in different dosages.
- Despite the limited number of drugs included in Wal-Mart's program, several are very popular, including 14 of the top 20 most frequently prescribed drugs in the country.
- Despite these very low prices, the drugs are reportedly generating a profit because generic drugs have historically been sold with higher mark-ups than brand-name drugs.
- The \$4 generics account for more than a third of all prescriptions filled by Wal-Mart.

What can we learn from these new low-cost generic programs?

- **Retailers are getting more aggressive in their drug pricing as a way of increasing customer traffic.**
- **Consumers will flock to generic drugs that are value-priced.** Generic drugs used to be viewed with skepticism by many because of quality concerns. Those days have passed. In 2007, about 65% of medications were dispensed as generics.
- **The degree of retail price variation for drugs is shocking.** A recent article published in *The Wall Street Journal* showed that

prices for a 30-day supply of generic Zocor (simvastatin) ranged from \$7 to \$90.

- **It is becoming much easier to locate the cheapest price for a particular drug.** Pharmacies now post prices for certain drugs online. Some states, like New Jersey and Florida, offer Web sites that post retail prices by pharmacy and geographic area for selected drugs. New online reverse-auction services such as BidRx.com, PillBid.com, and BidForRx.com provide a way for consumers to let pharmacies compete for their business by submitting price bids.
- **The claims-submission practices of some insured customers have changed.** Instead of using drug insurance cards, consumers pay cash, thinking they'll save money over normal copayments. As a result, insurers have a less complete history of prescription-drug utilization, making risk assessment and monitoring medication compliance more difficult.

What should plan sponsors do?

- **Help employees find the lowest price for their drugs.** Point them to credible Web sites that make it easier to identify the lowest price.
- **Offer insurance benefits that provide incentives to choose the lowest-cost products and pharmacies offering the lowest prices.** Fixed-dollar copay plans might need to be tweaked.
- **Promote a usual and customary provision in which employees pay the lesser of the retail price or the plan's nominal copay.** Most plans have this feature, although it's not well known.
- **Encourage employees to use their drug card when filling a prescription.** Remind them that they will never pay less for drugs by using cash.

Wal-Mart's pricing strategy revolutionized the way pharmacies price prescription drugs. It's a buyer's market out there. Make sure your health plan is taking advantage of these new opportunities.