When a Drug Coupon Helps You but Raises The Cost of Health Care

By AUSTIN FRAKT

It's completely rational for you to use coupons to reduce the cost of your brand-name drug purchase.

But if the coupon is causing you to switch away from a generic drug with an overall lower cost, you may be playing a role in pushing up drug spending and premiums for others.

Let's say that I needed the brand drug Effexor XR, used to treat depression and anxiety disorders. It would cost me at least $65 a month on my health insurance plan. It retails for about twice that amount, and the difference would be picked up by my insurer. But the generic version, Venlafaxine, would cost my insurer far less, and my co-payment would be only $10 per month.

My insurer and I would both save money if I purchased the generic. Wyeth, the maker of Effexor XR, would lose a sale.

But Wyeth is fighting back. It offers an Effexor XR coupon card I could use at the pharmacy that would reduce my cost to as low as $4 per month. At that price, I would prefer the brand-name product. Why pay $10 for a generic when for $4 I can get the brand-name drug?

But for the insurer, unless it is getting a discount or a rebate from the manufacturer, the cost is about $130 minus the co-payment.

Wyeth is by no means alone in this tactic. Many other drug manufacturers also offer coupon cards online for their brand-name products that compete with generics.

Such coupons are not new. But from 2007 to 2010, brand-name drugs with coupons grew as a share of retail drug spending, to 54 percent from 26 percent. The figure may well be even higher today, according to Leemore Dafny, an economist at Harvard Business School.

Though such coupons assist patients, they do nothing for insurers, for whom generics are still a better deal. And that's the problem. By encouraging patients to switch from generic to brand drugs, coupons effectively impose higher costs on insurers. That ends up increasing premiums, and not for any particularly good reason. Generic drugs are generally regarded as equivalent to their corresponding brand products and are 80 percent cheaper, on average.

This is precisely why plans impose much higher cost-sharing for brand-name drugs than their generic equivalent. Doing so can help keep premiums down without harming patients. Perhaps in response, Americans are using more generics.

In 2006, 90 percent of prescriptions that were filled were for a generic equivalent to a brand-name drug, when such a generic was available. In 2012, that number had increased to 95 percent.

The circumvention of insurance plan designs by these coupons has long been suspected to contribute to drug spending and premium growth. A recent study examining data from 2007 through 2010 and published in The American Economic Journal: Economic Policy, puts some numbers to the phenomenon. Co-pay coupons increase use of brand drugs for which generics are available by 60 percent and spending by as much as 4.6 percent.

"Coupons raise spending in two ways," said Ms. Dafny, an author of the study. "In addition to making more expensive brand drugs more attractive to consumers, it allows manufacturers to raise brand prices."

For example, the $4 cost with the coupon holds the consumers' prices fixed at a low level. That allows the manufacturer to raise the overall price without losing sales. This raises spending, too, but for the insurer.

In total, the coupons for drugs with generic competition are responsible for several billion dollars of additional drug spending per year, according to the study, which was also written by Christopher Ody with Northwestern's Kellogg School of Management and Matthew Schmitt with the U.C.L.A. Anderson School of Management.

The coupons do so, by and large, without expanding the number of people using medications, just by switching which product they purchase — brand or generic. Drug manufacturers also offer coupons for drugs without generic competition, but they were not the focus of the study.

If drug coupons are problematic for insurers and drive up premiums, why don't insurers reject them?

"They say they can't ban them because they can't tell when a coupon is being redeemed at the pharmacy counter," Ms. Dafny said. But "public payers ban them, after all, and their enrollees pick up prescriptions at the same pharmacies."

Medicare, for example, bans their use. But enforcement is incomplete, and by one estimate 6 percent of Medicare enrollees use coupons anyway. And Massachusetts has passed laws that ban co-pay coupons for brand drugs with generic equivalents.

The likelier explanation, Ms. Dafny says, is that denying consumers access to coupons would cause a backlash. In the short term, out-of pocket-prices would rise for the few: the consumers relying upon them. But in the long term, encouraging consumers to use generic drugs when available — which is what insurers are trying to do — would reduce drug spending and premiums for everyone.

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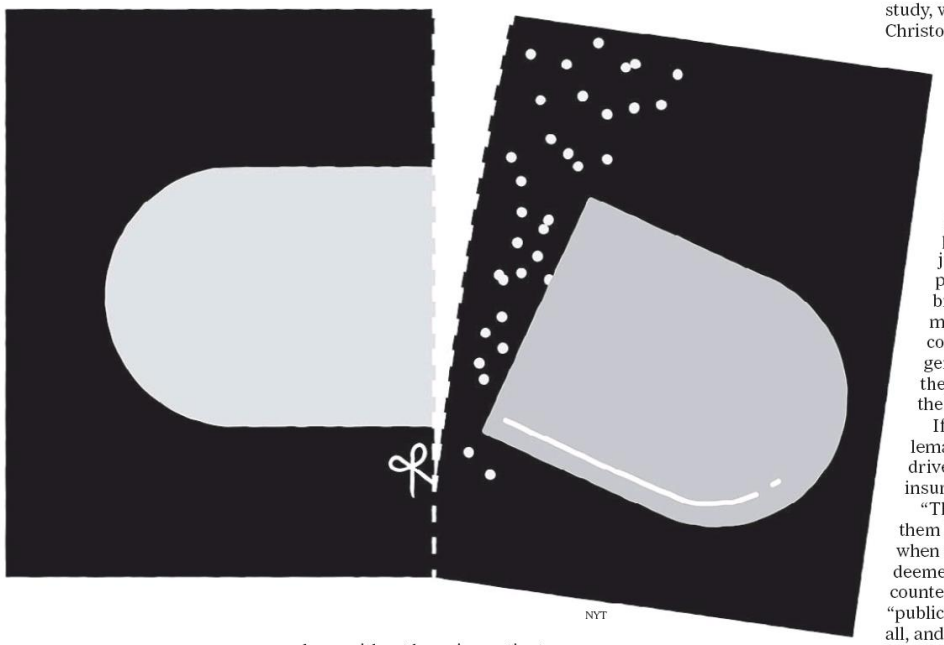

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In one case a drug can cost you $4, but cost the insurer more than $100.