Explaining Manufacturer Coupons and Assistance Programs

From cereal to detergent, consumer brands often use coupon promotions instead of price reductions to lure consumers away from lower-priced competitors. Similarly, drug manufacturers use cost-sharing coupons ("copay coupons") and patient assistance marketing campaigns to increase or maintain utilization (and thereby sales) of their brand-name products among insured patients once less-expensive alternatives come to market. As coupons reduce the use of generics and more affordable brands, overall prescription drug costs increase dramatically. They also keep prices for brands higher than they otherwise would be after a lower-cost generic comes to market.[1]

What are manufacturer coupons? **Drug manufacturer coupons are a marketing strategy used by drug manufacturers to steer insured patients to use (or switch to) a more expensive brand-name drug instead of an equally effective, more affordable generic or brand alternative.**[2] These coupons usually are time-limited, meaning that patients with chronic conditions who use or switch to branded drugs will eventually be required to pay the full price for the drug once their coupon expires.

- **Manufacturer coupons increase drug costs by "encouraging use of expensive drugs despite lower-cost options, undermining insurance design, diminishing competitive pressure to lower prices, and ultimately shifting higher costs back to payers."**[3]
- A 2016 National Bureau of Economic Research study found coupons "increase branded sales by 60%, entirely by reducing the sales of bioequivalent generics."[4] Manufacturers build the cost of coupons into their pricing strategies and use them to maximize brand loyalty and bolster sales.[5,6]
- Considered unlawful inducements under the federal Anti-kickback Statute, coupons are banned in Medicare, Medicaid, and military and veterans' federal health plans, but are still allowed in the commercial market, with some exceptions.[7]

How do manufacturer coupons work? Consider a $2,250 brand-name drug (30-day supply):

Manufacturers set the list price for their drug. For example, a manufacturer may price a brand-name drug at $25 per pill, or $2,250 for a 30-day supply (at three pills per day).

Private negotiations between plan sponsors and drug manufacturers inform price concessions and formulary placement ("tier") strategies.

When there are more affordable generics or brand alternatives, the plan sponsor places that drug on a non-preferred or specialty tier that imposes 25% coinsurance up to the plan's annual out-of-pocket (OOP) limit.

To incent patients to use their drug instead of a more affordable option, the manufacturer makes available a coupon that limits the patient's OOP costs to $100 per 30-day supply (instead of $562.50, or 25% of $2,250), with the manufacturer paying the difference ($462.50) to the pharmacy.

But the plan sponsor must still reimburse the pharmacy the remaining 75% ($1,687.50) for this higher cost brand drug—**raising drug costs for everyone.**

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[1] Congressional Research Service (CRS). Prescription Drug Discount Coupons and Patient Assistance Programs. June 15, 2017.
[2] Visante. How Copay Coupons Could Raise Prescription Drug Costs By $32 Billion Over the Next Decade. November 2011.
[3] Lisa M. Schwartz and Steven Woloshin. Medical Marketing in the United States: 1997-2016. JAMA 321(1). January 8, 2019.
[4] Leemore Dafny, Christopher Ody, and Matt Schmitt. When Discounts Raise Costs: The Effect of Copay Coupons on Generic Utilization. The National Bureau of Economic Research. October 2016.
[5] *Op. cit.* CRS. June 15, 2017.
[6] A 2012 study by the Amundsen Group estimated coupons produced manufacturer returns on investment of 6 to 1, and a "well-designed coupon program could add 30 to 60 days of patient drug use during a year," referring to use of higher cost brand drugs over a generic.
[7] California and Massachusetts banned the use of coupons for brand drugs where a generic version is available. *See* 2017 California Statute Chapter 611 (codified at California Health & Safety Code §§ 132000 et seq.) and Massachusetts General Laws Chapter 175H § 3(b)(2).

What are patient assistance programs? Manufacturer-sponsored Patient Assistance Programs (PAPs) "are almost always restricted to expensive, patented, brand-name products" and incent patients to use expensive brand drugs over more affordable, and often, generic versions of the same medications.[8] These programs usually either distribute brand drugs directly to patients at a reduced cost or defray cost sharing or other out-of-pocket (OOP) costs.

What are accumulator programs? Some employers and other plan sponsors use benefit design to encourage prescribers to prescribe and patients to use lower-priced generic and brand alternatives, which more effectively manages costs for everyone—including patients. Co-payments and coinsurance require patients to pay a portion of the drug's costs OOP. These consumer OOP costs may be higher for certain brand drugs when a generic is available, thereby discouraging the use of the brand over the generic. The combination of formulary placement and cost sharing creates a market constraint on manufacturers to either lower their prices or offer price concessions so that their products are more affordable. **By requiring insurers to treat all coupons and price reductions as an insured's contribution, these important tools to reign in drug costs are eliminated.**

What is the impact of coupons on consumers and overall drug spending?

- **Researchers from Harvard, Kellogg, and UCLA found consumers paid up to $2.7 billion more because of coupons, with the use of coupons increasing retail drug spending by up to 4.6%.**[9] Each 1-percentage point increase in retail drug spending corresponds to $1.5 billion in higher overall drug spending.
- According to the federal Health and Human Services Office of Inspector General, "the availability of a coupon may cause physicians and beneficiaries to choose an expensive brand-name drug when a less expensive and equally effective generic or other alternative is available. **When consumers are relieved of copayment obligations, manufacturers are relieved of a market constraint on drug prices."**[10]
- **Manufacturer cost-sharing coupons raise drug costs for everyone while increasing profits for manufacturer.** For every $1 million in manufacturer cost-sharing coupons for brand drugs (that competed against a generic), manufacturers reaped more than $20 million in profits.

Legislation prohibiting accumulator programs limits employers and other plan sponsors from effectively managing rising drug costs on behalf of consumers.

Employers and other plan sponsors make sure pharmacy benefits function as intended and work the same for everyone in the plan. While coupons can decrease a patient's cost at the pharmacy, ultimately, the patient, fellow plan enrollees, and the plan sponsor *all pay more overall*.

- **PCMA is supportive of programs that facilitate patient access to specialty and high-cost prescription drugs**—not marketing schemes that undermine employer and taxpayer efforts to lower prescription drug costs.
- **PCMA supports efforts by states to examine whether coupons advance the goals of lowering drug prices and reducing OOP costs for patients.** For example, California and Massachusetts have banned the use of coupons for brand drugs where a generic is available.

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[8] Norman V. Carrol. Commentary – Pharmaceutical Patient Assistance Programs: Don't Look a Gift Horse in the Mouth or There's No Such Thing as a Free Lunch. Journal of Managed Care & Specialty Pharmacy 13(7): 615. September 2007.
[9] *Op. cit.* Dafny et al. October 2016.
[10] U.S. Department of Health and Human Services Office of Inspector General. Special Advisory Bulletin: Pharmaceutical Manufacturer Copayment Coupons. September 2014.

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HCIFS Members,

I hope this message finds you all well. My client, Sam Hallemier of PCMA, submitted his written testimony on LD 1783 this evening, but we wanted to ensure you also had the two attached documents for his time before you tomorrow.

See attached:
• “Explaining Manufacturer Coupons” is a one pager explaining what copay coupons are and the impact they have on costs.
• IRS letter outlining that copay assistance cards are banned for HDHP.
If you have any questions about these or his testimony tomorrow, please do not hesitate to ask him while he is with you or reach out to me at any time.

Thank you and we look forward to another session before your committee!

Keith