Cliff dwellers

How smart employers can take advantage of the 'patent cliff'

Normally, people are advised to stay away from cliffs. The steep vertical drop, the hard rocks, the water below — there's too much danger if you get too close.

However, a different kind of "cliff" is looming on the horizon and for employers it doesn't represent danger, but rather opportunity.

"They call it the 'patent cliff,'" says Chronis Manolis, RPh, the vice president of pharmacy for UPMC Health Plan. "It refers to the years 2012 to 2014, when many pharmaceutical companies will lose patent protection on some of their most popular products."

Smart Business talked with Manolis about the "patent cliff" and the opportunity it presents for employers.

Chronis Manolis, RPh
Vice president of pharmacy
UPMC Health Plan

What exactly is the 'patent cliff'?

The term 'cliff' is used because pharmaceutical companies are facing a steep revenue shortfall as their blockbuster products lose patent protection. It's estimated that drugs representing approximately $100 billion in sales will be available as generic drugs over the next several years. That loss to the pharmaceutical industry creates a significant opportunity for employers and employees alike.

When a pharmaceutical company develops and markets a new drug, it gets patent exclusivity for a specified number of years. What that means is that for that period there can be no generic equivalents to the brand-name drugs for the public to choose from. Over the next few years, a number of the most popular and biggest-selling drugs of recent years will all have their patents expire.

These include Lipitor, the top-selling anticholesterol drug in the world; Plavix, the top-selling antiplatelet medicine; Viagra, the most popular erectile-dysfunction drug; Singulair, an anti-asthma medicine; Lexapro, an antidepressant; and several others. Every year, drugs have their patents expire, but there have never been so many popular drugs all losing patent exclusivity at the same time as there will be over the next two to three years.

Why is this an opportunity for an employer?

This is a truly unique time for employers. They have the opportunity to leverage the introduction of all these generic versions of top-selling drugs to help them bring down their health care costs. Employers need to work with their health insurer to ensure their pharmacy benefit design can leverage this significant opportunity. Generic drugs are a win-win for both the employer and employee. In addition to the cost savings, there is substantial evidence to suggest that cost is a barrier to medication adherence and lower co-pays for generic drugs can remove these cost barriers.

In conjunction with innovative formulary management, co-pay designs that promote generic drugs are the easiest way to leverage the patent cliff. For example, having a material difference in co-pay amounts between brand and generic drugs is a powerful incentive for employees. Additional examples include applying deductibles to only brand drugs as well as having co-insurance only for brand drugs while having flat dollar co-pays on generic drugs.

Can employers increase awareness and acceptance of generics?

It's important to implement promotional and educational campaigns with your benefits administrator to educate employees. This can include educational materials, work-site promotional materials and pharmacist informational sessions to build employee awareness and confidence in generics.

There continues to be a general lack of confidence in generic drugs in regards to safety and effectiveness. Generic drugs save patients money without compromising quality and safety. The patent cliff will bring many 'first-in-class' generics to treat conditions such as diabetes, stroke, asthma and hypertension. We will have unprecedented access to high-quality generic drugs in almost all of the major therapeutic categories.

The ultimate goal is to get plan members talking to their physicians about therapeutic alternatives. This inquiry into generic drugs will provide a shift from brand name to generic drug utilization and help reduce benefit costs. For every 1 percent increase in generic drug use, employers can save approximately 1.5 percent in drug costs.

Is there a significant difference between generics and brand-name drugs?

The Food and Drug Administration requires generic drugs have the same effectiveness as the brand-name product. Generic drugs have exactly the same dosage, intended use, safety profile and side effects as the brand drug.

Brand-name drugs develop reputations with consumers, much of which is created through extensive media campaigns that raise awareness of the product and also increase its cost. Generic drugs have the same chemical make-up but are not backed by expensive advertising. That helps to make them less expensive and is the reason that insurance companies can offer these drugs to members for a much lower co-payment.

What kind of savings can be expected by going with generics?

For generics, employees pay, on average, co-pays that range from $5 to $15 compared to $20 to $40 for the brand-name drug. The average retail price plan sponsors pay for a brand-name drug is now approximately $128 compared to the average retail generic price of $18. So the savings are material for both employers and employees alike.

Will the 'patent cliff' help to increase the acceptance of generics?

Absolutely. With the influx of new generics, we should approach generic drug use rates greater than 80 percent. With high-cost biotech drugs projected to increase significantly in the next several years, maximizing generic drug adoption will be a key strategy to contain costs in the overall pharmacy benefit. Additionally, the savings is achieved without compromising safety and quality. <<

CHRONIS MANOLIS, RPh, is vice president of pharmacy for UPMC Health Plan. Contact him at manolisch@upmc.edu or (412) 454-7642.

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