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# Medicaid Commission

## DWM Presentation Outline

- Medicaid achieves substantial cost savings when generics are dispensed, even at prevailing levels of reimbursement.

- The generic dispensing rate in Medicaid is substantial:

  - 90% of all opportunities for generic sub
  - 56% dispensing rate in 2006.

- December 2004 CBO report:

  - Spreads, on average, are comparable in dollar terms
  - Spreads are, however, concentrated in newer generics for which MAC pricing is not yet available.

- In percentage terms, margins are much higher on generics:

  - Partially due to AWP-based pricing of ingredients
  - Dispensing fees, however, comprise a much higher percentage of ingredient costs for generics.

- This state of affairs poses a dilemma for policymakers:

  - Basing reimbursements more closely on acquisition costs is commonly cited as an objective of policy.
  - Yet doing so would represent a marked reduction in reimbursements for generics, potentially affecting pharmacy incentives for generic substitution when choice is available at the point of sale.
  - MAC pricing and state mandatory generic substitution laws constrain how much switching is truly "optional."
  - Yet we estimate that generic dispensing rates might change by 3-4% if generic spreads relative to brands were markedly reduced.

- If such a drop were to occur:

  - Higher ingredient costs would offset some or all of the savings from lower reimbursement spreads for generics.
  - The reduction in gross product margins paid to pharmacies may, therefore, be much larger than the net Federal savings achievable under such policies.

- Caution, therefore, is warranted in assessing reimbursement policies that materially lower generic spreads.