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◆ WSJ NEWS EXCLUSIVE | HEALTHCARE

Generic Drugs Should Be Cheap, but Insurers Are Charging Thousands of Dollars for Them

Health insurers mark up prices of generics for cancer, multiple sclerosis and other complicated diseases

By *Joseph Walker*

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Pharmacy-benefit managers frequently steer patients to use their in-house pharmacies to fill prescriptions for specialty drugs like generic Gleevec. PHOTO: CARRIE ANTLFINGER/ASSOCIATED PRESS

The cancer drug Gleevec went generic in 2016 and can be bought today for as little as \$55 a month. But many patients' insurance plans are paying more than 100 times that.

CVS Health and Cigna can charge \$6,600 a month or more for Gleevec prescriptions, a Wall Street Journal analysis of pricing data found. They are able to do that because they set the prices with pharmacies, which they sometimes own.

Once the patent on an expensive medicine runs out, lower-priced copies go on sale, promising significant savings. But certain generic drugs—for cancer, multiple sclerosis and other complicated diseases—are still costing thousands of dollars monthly.

Across a selection of these so-called specialty generic drugs, Cigna and CVS's prices were at least 24 times higher on average than roughly what the medicines' manufacturers charge, the Journal found.

The prices at UnitedHealth Group, which also owns a large health insurer, were 3.5 times as much, according to the analysis of data compiled by 46brooklyn Research, a nonprofit drug-pricing analytics group.

“Someone in the middle of that transaction is making a lot of money, and they're doing it at the detriment of the consumers,” said Stacie Dusetzina, a health policy professor at Vanderbilt University School of Medicine who studies drug costs.

The hefty price tags are undermining the benefits of generics—a pillar of efforts to control Americans' spiraling healthcare spending—while saddling patients,

many on fixed incomes and insured by Medicare, with considerable deductible payments or other out-of-pocket costs.

The reason, health researchers and industry officials say, is the very companies that are supposed to keep a lid on drug spending can maximize their profits by marking up the prices. Other companies in the drug-supply chain won't stop them, because consolidation has swept many of the businesses under the same parent.

Cigna, CVS and UnitedHealth said that the prices they charge for drugs varies by pharmacy and location, and that most patients end up paying less out-of-pocket through their insurance than they would buying the drugs at lower cash prices offered by low-cost pharmacies.

The companies own the three largest pharmacy-benefit managers in the U.S. PBMs manage drug spending for employers as well as government programs.

In the name of keeping down drug costs, PBMs decide which medicines a patient's health plan will pay for and how much the patient will have to contribute to the cost, in the form of out-of-pocket expenses like deductibles and coinsurance.

PBMs also often direct patients to take lower-priced, generic versions of expensive brand-name medicines to limit the spending.

Generics are a cornerstone of American efforts to tackle high drug costs. Once patents on the branded drugs expire, generic manufacturers can jump in. The competition usually causes prices to plummet.

Yet the prices don't always fall when PBMs own their own pharmacies. And for specialty drugs like generic Gleevec, the PBMs frequently steer patients to use their in-house pharmacies to fill prescriptions.

PBMs try to pay as little as possible for drugs distributed through independent retail pharmacies. But when their own pharmacies dispense prescriptions, PBMs profit from the higher prices.

"The incentive is there for the PBMs and the specialty pharmacies to keep prices as high as possible," said Shannon Ambrose, co-founder and chief operating officer at Archimedes, a company that competes with PBMs to manage specialty drug spending.

Even when their health insurance picks up most of the cost of a drug, patients can face a larger expense from higher priced generics if they have an out-of-pocket contribution like a deductible or coinsurance pegged to the price.

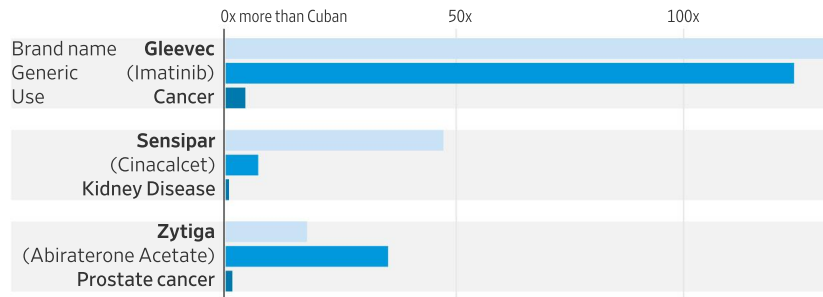
For its analysis, the Journal compared the average retail drug prices reported by the three big insurers to Medicare with the prices charged by the Mark Cuban Cost Plus Drug Company, which are close to what the generic companies making the drugs bill.

The Cuban pharmacy buys generic drugs from manufacturers and sells them online at a flat 15% profit markup, plus about \$10 in shipping and pharmacy labor fees.

Price Comparison

How much more each generic drug costs through insurers compared with prices at Mark Cuban Cost Plus Drug Company

Insurer: ■ CVS ■ Cigna ■ United Healthcare



Note: Insurer prices are an average of retail prices contracted for Medicare Part D plans
Source: 46brooklyn Research

The Journal's analysis is based on the average number of tablets per prescription dispensed to Medicare patients in 2021.

Across a selection of 20 generic drugs carried by the Cuban pharmacy, Cigna's prices were 27.4 times higher than Cuban's on average for the 19 drugs for which data was available.

CVS's prices were 24.2 times higher on average for 17 drugs for which data was available. UnitedHealth's prices were 3.5 times higher than Cuban's on average for the 19 drugs with available data.

A CVS spokesman said that the prices it submits to Medicare represent the highest contracted rate it has with retail pharmacies and doesn't include lower prices that other pharmacies in its network might accept.

UnitedHealth said that patients would pay less out-of-pocket using its insurance plan than they would buying 15 out of 20 drugs examined by the Journal through the Cuban pharmacy, and that none of the drugs are frequently used by its patient population.

Cigna said that "cherry-picking isolated examples of individual medications among the thousands covered on our formularies does not provide meaningful insights about the overall medication affordability and safety that we ensure for Medicare beneficiaries."

Cigna can charge roughly \$6,610 a month for Gleevec, the Journal's analysis found. CVS Health can charge more than \$7,000 a month. United Health can charge \$218.

A prescription for generic Tecfidera, a multiple-sclerosis therapy, costs \$54 a month through the Cuban pharmacy, compared with nearly \$1,215 through UnitedHealth. (Cigna and CVS didn't submit prices for the drug to Medicare.)

Generic copies of the lung cancer drug Tarceva cost about \$73 a month at the Cuban pharmacy, compared with \$4,409 with Cigna, \$2,063 through CVS and \$553 through UnitedHealth.

A monthly prescription for prostate-cancer drug Zytiga costs about \$118 on Cuban's website, compared with \$4,195 through Cigna, \$2,056 through CVS and \$205 through UnitedHealth.

CivicaScript, a nonprofit founded by hospitals, the Blue Cross Blue Shield Association and other insurers to reduce drug costs, launched its own generic version of Zytiga last year for the equivalent of about \$142 per prescription.

Yet it found very few specialty pharmacies willing to carry it, said Allan Coukell, senior vice president for public policy at Civica Rx, the parent of CivicaScript.



A nonprofit launched its own generic version of Zytiga last year. PHOTO: LIZ HAFALIA/THE SAN FRANCISCO CHRONICLE/GETTY IMAGES

Part of the problem is that Zytiga is sold through specialty pharmacies, the majority of which are owned by PBMs, Coukell wrote in a March letter to the Senate Finance Committee, which is investigating PBMs.

“The same entity that is theoretically working on behalf of health plans, consumers, and Medicare to reduce drug costs also has an incentive to maximize its revenues from dispensing,” Coukell wrote.

Coukell said in an interview that the specialty pharmacy of Express Scripts, a PBM owned by Cigna, has bought a few cases of its generic Zytiga, but that the vast majority of the drug is sold through an independent PBM’s specialty pharmacy.

“I’m not sure we knew it was going to be as hard as it is to deliver savings to consumers,” he said. An Express Scripts spokeswoman didn’t respond to requests for comment.

Write to Joseph Walker at joseph.walker@wsj.com

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