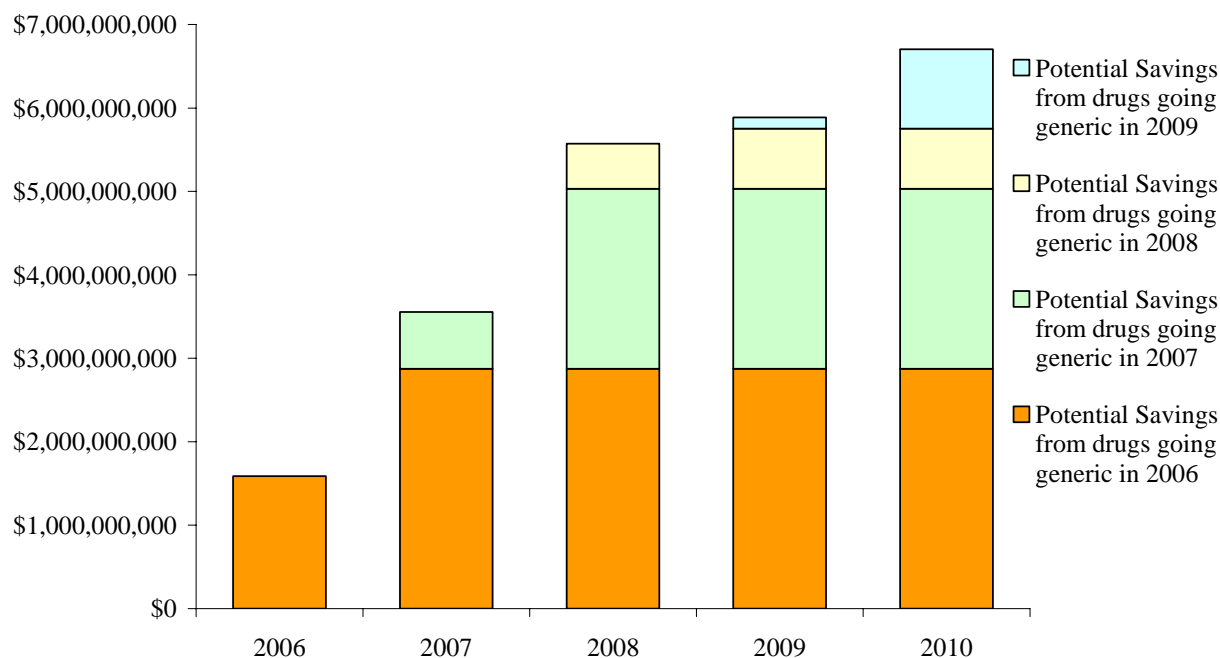


Potential Savings to Medicare from New Generic Drugs Becoming Available



Between now and 2009, 14 major brand-name drugs commonly used by seniors are anticipated to lose patent/exclusivity protection. Since generic drugs cost an average 30 to 80 percent less than brand-name drugs, the savings potential for the Medicare program is huge.¹ Based on PCMA analysis:

- Medicare stands to potentially save more than \$23 billion dollars during the next 5 years as major brand name drugs commonly used by the elderly likely to become available in generic form.
- In 2006 and 2007 alone, Medicare could potentially save approximately \$5 billion due to patents/exclusivity expiring on eleven major branded pharmaceuticals.

	2006	2007	2008	2009	2010	2006-2010
Potential Savings from drugs going generic in 2006	\$1,588,058,630	\$2,874,960,000	\$2,874,960,000	\$2,874,960,000	\$2,874,960,000	\$13,087,898,630
Potential Savings from drugs going generic in 2007	\$0	\$681,245,655	\$2,156,814,000	\$2,156,814,000	\$2,156,814,000	\$7,151,687,655
Potential Savings from drugs going generic in 2008	\$0	\$0	\$539,989,644	\$721,980,000	\$721,980,000	\$1,983,949,644
Potential Savings from drugs going generic in 2009	\$0	\$0	\$0	\$132,795,616	\$950,400,000	\$1,083,195,616
Total Potential Savings	\$1,588,058,630	\$3,556,205,655	\$5,571,763,644	\$5,886,549,616	\$6,704,154,000	\$23,306,731,545

¹ Generic Pharmaceutical Industry Association, "About Generics," Accessed April 6, 2006, available at <http://www.gphaonline.org/Content/NavigationMenu/AboutGenerics/Statistics/Statistics.htm>

Drug Name	Used to Treat	Patent Expiration	Top 100 Rank	2004 U.S. Sales	Annual Potential Medicare Savings
Zocor	Cholesterol	Jun-06	12	\$5,500,000,000	\$1,574,100,000
Zoloft	Depression/Anxiety	Jun-06	9	\$3,000,000,000	\$664,200,000
Pravachol	Cholesterol	Apr-06	31	\$1,900,000,000	\$543,780,000
Proscar	Prostititis	Jun-06	91	\$400,000,000	\$92,880,000
Annual Medicare savings from drugs going generic in 2006					\$2,874,960,000
Norvasc	Heart Disease	Sep-07	8	\$2,300,000,000	\$732,780,000
Ambien	Sleep Disorder	Apr-07	19	\$1,800,000,000	\$417,960,000
Lotrel	Heart Disease	Sep-07	41	\$1,000,000,000	\$318,600,000
Zyrtec	Allergies	Dec-07	25	\$1,300,000,000	\$301,860,000
Coreg	Hypertension	Sep-07	73	\$840,000,000	\$267,624,000
Lamisil	Fungal infection	Jun-07	90	\$710,000,000	\$88,182,000
Tequin	Antibiotic	Dec-07	94	\$240,000,000	\$29,808,000
Annual Medicare savings from drugs going generic in 2007					\$2,156,814,000
Fosamax	Osteoporosis	Feb-08	24	\$1,900,000,000	\$441,180,000
Risperdal	Psychosis	Jun-08	54	\$2,000,000,000	\$280,800,000
Annual Medicare savings from drugs going generic in 2008					\$721,980,000
Prevacid	GI Disorders	Nov-09	14	\$4,000,000,000	\$950,400,000
Annual Medicare savings from drugs going generic in 2009					\$950,400,000

Methodology

“Average Potential Medicare Savings” resulting from brand drugs going off patent provide a snapshot of potential savings and are approximations based on PCMA analysis. PCMA used 2004 U.S. drug sales data at the wholesale acquisition level compiled by NDCHealth and published by Drugs.com. To be conservative, PCMA did not add pharmacy margins, dispensing fees, or price inflation to these 2004 wholesale drug sales data. PCMA did assume that generic drugs would achieve 90 percent market share upon patent expiration of the branded drug, whereas in practice this level of generic penetration may take a month or more after patent/exclusivity expiration to occur. Likewise, these estimates assume 90% of patients on a particular branded medication will switch to available generic versions rather than switch to an extended release version of the originator product or a therapeutically similar branded product. PCMA also assumed generics would be immediately available at a 60 percent discount to the branded product upon its patent expiration, whereas in practice generic manufacturers may secure 180 days of generic exclusivity due to patent challenges and price their products higher during that period. The 60 percent generic discount assumption is somewhat conservative given IMS data published by the Generic Pharmaceutical Industry Association showing that the average price of a generic prescription drug

in 2004 was \$28.71, while the average price of a branded product was \$95.54.² However, a 60 percent generic price discount to the brand is consistent with an FDA analysis that shows such discounts only exceed 60 percent when four or more generic versions of the brand are available.³ PCMA calculated approximate drug-by-drug sales likely to flow through the Medicare program using therapeutic class data derived from the Medical Expenditure Panel Survey (MEPS) compiled by the U.S. Agency for Healthcare Research and Quality (AHRQ). Anticipated patent/exclusivity expirations were derived from data reported in by Express Scripts in its *2004 Drug Trend Report* cross-referenced with data in the FDA's *Approved Drug Products With Therapeutic Equivalence Evaluations* (Orange Book) report.

The formula PCMA used to calculate potential Medicare Savings is:

$$S = AB - .9C - .4D = C - D - E$$

Where

A = 2004 U.S. Drug Sales

B = Approximate share of expenditures by Medicare eligibles

C = Medicare Sales = (A x B)

D = Adjustment for continued branded sales in Medicare = (C x 90%)

E = Cost of generics = (D x 40%)

S = Annual Potential Medicare Savings (C - D - E)

During the year of patent expiration, "Annual Potential Medicare Savings" were calculated based on the number of days each drug could potentially be available in generic form.

² Generic Pharmaceutical Industry Association, "About Generics," Accessed April 6, 2006, available at <http://www.gphaonline.org/Content/NavigationMenu/AboutGenerics/Statistics/Statistics.htm>

³ Food and Drug Administration, "Generic Competition and Drug Prices," April 4, 2006, available at http://www.fda.gov/cder/ogd/generic_competition.htm