



NATIONAL ASSOCIATION OF
CHAIN DRUG STORES

February 7, 2012

Co-Chair Mitch Greenlick
Co-Chair Jim Thompson
Honorable Members of the House Health Care Committee
Oregon State Capitol
900 Court Street NE
Salem, OR 97301

RE: Opposition to House Bill 4109 – Generic drug purchasing through competitive bidding by the Oregon Health Authority

Honorable Representatives of the House Health Care Committee

On behalf of the members of the National Association of Chain Drug Stores (NACDS) operating in Oregon, I am writing to oppose the passage of House Bill 4109 – Generic Drug Purchasing. NACDS members in Oregon include Costco, Haggen/Top Food, Health Mart Systems, Hi-School Pharmacy, Medicine Shoppe, Pharmaca Integrative, Rite Aid, Safeway, Sears/Kmart, Shopko, Supervalu/Albertsons, Target, Walgreen and Wal-Mart. Chain pharmacies in Oregon employ over 43,000 full and part-time employees, and pay over \$240 million in state and local taxes.

House Bill 4109 directs the Oregon Health Authority to use a competitive bidding process for the purchase of generic drugs for Medicaid recipients. Such a program would require all generic drug manufacturers whose products are provided to Medicaid recipients to compete in a competitive bidding process. Chain pharmacy has serious concerns with this concept and believes that such a program would be unworkable.

One of the reasons why generic drugs are so inexpensive already (especially when compared to their brand counterparts) is that chain pharmacies, which buy products to stock multiple locations and have a large market share spanning the country, have successfully negotiated down the cost of generic medications. A competitive bidding program for generic drugs would undermine this system, as the state of Oregon (not pharmacies) would set the price for a particular generic product based on whatever the lowest bid received by the state would be. In this scenario, there would be no guarantee that the lowest bid would be the best price. Moreover, competing generic manufacturers would then lose the incentive to negotiate lower prices with pharmacies in the state of Oregon, impacting healthcare costs for Medicaid as well as consumers, health insurers and other third party payors.

Since states don't purchase drugs, rather pharmacies do, it's unclear as to how a generic drug competitive bidding program could even work. Would all pharmacies be expected to buy special stock from the manufacturers who won the bid and keep that "Medicaid" stock separate and aside from their stock for other patients? What would happen if the

winning manufacturer was unable to meet the demand of all of the pharmacies? Would pharmacies then be expected to fill the order with other generics they have on hand for their non-Medicaid patients, and then potentially be reimbursed at a lower rate than the rate at which they acquired the product? Putting pharmacy providers in the position of having to dispense products at a loss could threaten patient access to critical pharmacy services.

While we appreciate that state budget concerns amplify the need to explore new ways to control costs in the Medicaid program, we believe that implementing a generic drug competitive bidding program would be misguided.

One of the biggest cost drivers in the Medicaid drug spend is the cost of brand drugs. Notably, brand prescriptions cost the Medicaid program an average of \$242.28 per prescription; by comparison, generic drugs costs the Medicaid program an average \$16.47. Clearly, significant savings could be achieved through encouraging a higher rate of generic dispensing.

One of the ways the state could do this is to incentivize the dispensing of generic drugs. A generic drug competitive bidding program would do the opposite. It would create a system that impedes pharmacies' ability to obtain the best price for generics and removes incentives to continue to drive down the price of generic medications. For this reason, we would strongly encourage the members of the Oregon House Health Care Committee to oppose such a program.

We respectfully ask you for a no vote on House Bill 4109.

Sincerely,

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