Workers' Comp

AWP Trends — Understanding the Forces That Drive Drug Prices

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4 MIN READ

A drug's Average Wholesale Price (AWP) is a simple benchmark for distinguishing the cost of one medication from that of another. Policymakers and insurers use this important figure in determining fee schedules and reimbursement rates. The effect of AWP on a client depends on the mix of drugs prescribed and the utilization controls that are in place. Regardless, by examining the forces that conspire to push AWP higher or lower, we can gain a deeper understanding of the pharmacy landscape.

The AWP trends revealed in our 2017 Drug Trends report offer a helpful look at what's driving drug costs. Last year, First Script's overall AWP increased 4.4%. This was less than the previous year's AWP growth of 5.9%. An increase of 10.9% in the cost of brand drugs accounted for nearly all of the increase in overall AWP. The AWP increase for generic drugs was negligible and therefore helped mitigate the overall AWP impact on the prescription cost per claim. Among brand drugs, OxyContin® and Lyrica® stood out for their role in propelling AWP. OxyContin® was the most expensive and most utilized sustained-release opioid brand medication in our book of business. OxyContin® experienced a 10.5% increase in AWP. Lyrica®, an anticonvulsant used to treat neuropathic pain, was the most costly and utilized brand medication overall in our book of business. It saw an AWP increase of 15.2% in 2017. There were also noteworthy AWP increases for the short-acting opioid, topical, and nonsteroidal anti-inflammatory drug (NSAID) classes. Short-acting opioids increased 9.9% overall. Increases in Percocet® (8.8%) and Nucynta® (14.0%) drove the higher costs. Topicals, meanwhile, increased 12.8%. The overall increase followed jumps in the price of Flector® (13.1%) and Pennsaid® (22.7%). NSAIDs increased 20.2%. Sizable increases in Duexis® (24.5%) and Vimovo® (26.8%) pushed overall prices higher. So what causes these changes in AWP each year? Unfortunately, there isn't a single driver. Many factors can have an impact. The following are some of the most common elements that typically drive changes in AWP:

Price hikes ahead of a patent expiration

- When a brand drug nears the end of its patent protection we typically see the price of that drug increase as the manufacturer attempts to recoup the research and development costs it put into developing the drug.

Consolidation among drug manufacturers

- Over the last decade, drug makers began to consolidate to achieve the scale needed to maintain profitability. Typically, when a branded drug loses patent protection, multiple generic manufacturers

produce the drug and compete on price. However, following a wave of industry consolidation, fewer manufacturers are applying to the U.S. Food and Drug Administration (FDA) for permission to produce drugs that have come off patent. With substantially fewer manufacturers churning out a particular generic drug—in some cases only two or three producers—generic prices have crept up with time.

Stricter regulations

- The FDA has tightened quality control, which has forced manufacturers to invest more in their quality systems.

Drug shortages due to manufacturing issues

- When one or more manufacturers producing a drug runs short of inventory, demand overtakes supply and prices rise. According to the FDA, quality issues and manufacturing challenges are major causes of drug shortages.

A focus on new and more profitable drugs

- A manufacturer might cease production of a drug simply to reallocate resources to another product or to invest in more profitable initiatives (e.g., biosimilars).

The continued growth in AWP emphasizes the importance of working with a Pharmacy Benefit Manager (PBM) to manage both cost and utilization. First Script offers many tools and strategies to help mitigate the impact of AWP inflation. These include:

- Increasing network penetration — for the greatest control over both cost and utilization, the script must be captured in-network
- Generic enforcement — requiring the substitution of a brand medication for a generic equivalent when available
- Evidenced-based clinical programs — various provider-outreach programs, therapeutic-alternative education, and advanced analytics

In addition, open communication and collaboration among pharmacies, payers, injured workers and treating physicians remain critical to confirming a medication is appropriate in terms of how it is used and its cost. The result of such a synchronized effort is a decrease in overall medication costs while maintaining high standards of care. That’s a win for everyone.



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