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The Right Pharmaceutical at the Right Price – The Significance of an Initial Generic Substitution

David Granlund

David Granlund is Associate Professor of Economics at Umeå University. The report is based on joint research with Aljoscha Janssen, Assistant Professor in Economics at Singapore Management University.

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Since 2002, Swedish pharmacies are obliged in most cases to offer a switch from the prescribed pharmaceutical if an equivalent but cheaper pharmaceutical is available. The purpose of this so-called generic substitution is to reduce costs for both taxpayers and the individual consumers. However, consumers refrain from switching in 12 % of cases where they had a choice, and the additional costs of doing so accounted for one third of co-payments for subsidized pharmacy pharmaceuticals. Also, the additional costs caused by rejected substitutions are concentrated to a small group of people, and previous research indicates that it primarily affects those with low education and income.

This report studies how consumers' choice to refuse or accept a substitution of the prescribed pharmaceutical is affected by the fact that they previously had to switch because the prescribed pharmaceutical was no longer available in Sweden. The results show that an initial substitution reduces the probability of opposing subsequent substitution by 39 %. Thus, the likelihood of getting the consumer to accept a generic substitution increases if it has happened once. Moreover, the effect appears to be persistent, and consumers are also less likely to refuse substitution of other types of pharmaceuticals.

The results suggest that limited knowledge about the equivalence of a generic alternative is an important explanation for some refusals to generic substitution and that those who have tried switching have a greater understanding that cheaper generic alternatives are of the same quality as prescribed pharmaceuticals. Previous research also indicates that ignorance is an important reason why consumers refuse to switch and that consumers underestimate the quality of generic alternatives.

I propose three measures to reduce the unnecessary additional costs of refused switching:

1. Physicians should prescribe generic pharmaceuticals with generic names when available, as people are more likely to accept substitution for these.
2. Physicians and pharmacists should spend more time explaining the medical equivalence and safety of cheaper generics to those who have repeatedly refused substitution. To facilitate this, health care providers and pharmacies should make doctors and pharmacists aware of who these individuals are in the data systems they use.
3. The Parliament should strengthen the financial incentives for an initial substitution, for example by allowing people to receive the cheapest

equivalent pharmaceutical without a co-payment the first time they agree to a substitution. This would increase the price difference between the cheapest available alternative and the prescribed pharmaceutical, and thus increase the likelihood of a substitution. In addition, previous research shows that for a given price difference between pharmaceuticals, a co-payment of zero for the cheapest alternative results in more people authorizing substitution.

SNS
Box 5629, 114 86 Stockholm
Phone: +46 8-507 025 00
info@sns.se www.sns.se