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Highlights

Highlights of GAO-13-358, a report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

April 2013

PRESCRIPTION DRUGS

Comparison of DOD and VA Direct Purchase Prices

Why GAO Did This Study

In fiscal year 2012, DOD and VA spent a combined $11.8 billion to purchase drugs on behalf of about 18.5 million beneficiaries. Both agencies purchase drugs directly from manufacturers via prime vendors—intermediaries that provide the drugs at a discount off the lowest price that would otherwise be available. The agencies dispense these drugs to beneficiaries through their medical facilities and pharmacies, including their mail order pharmacies.

GAO was asked to compare prices paid for prescription drugs across federal programs. This report describes direct purchase prices paid by DOD and VA for a sample of prescription drugs. GAO will compare drug prices paid using other approaches and by other federal programs in future work. Using prime vendor data provided by these agencies for the first quarter of 2012, GAO selected a sample of high-utilization and high-expenditure drugs important to both DOD and VA and compared average unit prices paid by these agencies for those drugs. The sample contained 43 brand-name and 40 generic drugs and accounted for 37 percent of DOD utilization, 32 percent of DOD expenditures, 28 percent of VA utilization, and 35 percent of VA expenditures for directly purchased drugs in that quarter. GAO calculated average unit prices by dividing total expenditures by total utilization for each drug, the entire sample, and the subsets of brand-name and generic drugs. GAO also compared DOD and VA average unit prices to the FSS and Big Four prices for each drug. GAO interviewed DOD and VA officials about their drug purchasing approaches and factors affecting the prices they are able to obtain.

View GAO-13-358. For more information, contact John E. Dicken at (202) 512-7114 or dickenj@gao.gov.

What GAO Found

When GAO compared prices paid by the Department of Defense (DOD) and the Department of Veterans Affairs (VA) for a sample of 83 drugs purchased in the first calendar quarter of 2012, DOD's average unit price for the entire sample was 31.8 percent ($0.11 per unit) higher than VA's average price, and DOD's average unit price for the subset of 40 generic drugs was 66.6 percent ($0.04 per unit) higher than VA's average price. However, VA's average unit price for the subset of 43 brand-name drugs was 136.9 percent ($1.01 per unit) higher than DOD's average price. These results were consistent with each agency obtaining better prices on the type of drugs that made up the majority of its utilization: generic drugs accounted for 83 percent of VA's utilization of the sample drugs and brand-name drugs accounted for 54 percent of DOD's utilization of the sample drugs. DOD officials told GAO that in certain circumstances they are able to obtain competitive prices for brand-name drugs—even below the prices for generic equivalents—and therefore will often preferentially purchase brand-name drugs.

At the individual drug level, DOD paid higher average unit prices than VA for 32 of the 40 generic drugs and for 23 of the 43 brand-name drugs in the sample, while VA paid higher average unit prices for the remaining 8 generic drugs and 20 brand-name drugs. In nearly every case, substantially higher prices paid by one agency were correlated with substantially lower utilization by that agency. Specifically, for 10 of the 11 drugs for which one agency paid more than 100 percent above the price paid by the other agency, the agency that paid a substantially higher price also had substantially lower utilization. However, even when one agency paid a substantially higher price than the other, in all 11 cases both agencies paid less than the highest of the Federal Supply Schedule (FSS) prices available to all direct federal purchasers or the Big Four prices available to the four largest government purchasers. Additionally, in most cases (9 out of 11 drugs) both agencies paid less than the lowest of these prices. The lower prices obtained by one agency may be due to factors such as differences in the agencies' formulary design and prescription practices, price and rebate negotiations with manufacturers that may not be available more broadly to the other agency, and differences in utilization practices between the agencies based on differences in their beneficiary populations.

DOD and VA face continued challenges in controlling drug costs. While the prescription drug market is complex and there are many factors affecting the prices DOD and VA are able to obtain for directly purchased drugs, differences in prices paid for specific drugs may provide insights into opportunities for each agency to obtain additional savings on at least some of the drugs they purchase.

In commenting on a draft of this report, DOD generally agreed with GAO's findings and described additional factors that may contribute to differences in prices paid by DOD and VA. VA expressed concerns with the content of the report. VA suggested additional analyses and highlighted the impact of program design on each agency's use of prescription drugs. GAO maintains that its analyses have value in identifying opportunities for savings and the report acknowledges the limitations involved with estimating potential cost savings in this complex area. DOD and VA also provided technical comments that GAO incorporated as appropriate.