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Incorporating the Costs of Generic Drugs in the Valuation of Life Care Plans

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Abstract

This article addresses the issue of generic substitution for branded drugs included in life care plans. Such possible substitution is often usually ignored by life care planners and economists who value life care plans. This can be problematic for economists as the factors affecting generic substitution and its impact on health care costs has been a topic that has been extensively researched by health economists. The evolution of how drug regulation has evolved over time, allowing, and sometimes mandating, such substitution is reviewed. That review also covers the history of the generic drug approval process as that is relevant to the current state of generic drug approval. This has allowed generic manufacturers to thrive and consumers to enjoy the benefit of lower prices for prescription drugs. Relevant research on the effective market exclusivity period for branded drugs can be used by experts to determine the length of the period for which branded, monopoly prices could apply. Such adjustments, along with discounted prices of generic vis-à-vis branded drugs, could be used by economic experts when valuing the medication components of life care plans. Experts making such adjustments will show a lower cost of care. However, economists should be cautious applying such adjustments without indicating certain necessary caveats.

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About the Author:

Dr. Patrick Gaughan has published numerous books, including the newly released 3rd edition of Measuring Business Interruption Losses and Other Commercial Damages: An Economic Approach, 3rd Edition (Wiley, 2020) and the 7th Edition of the award winning Mergers, Acquisitions and Corporate Restructurings, (Wiley, 2017). He is president of Econometrix Research Associates, Inc. Econometrix conducts damages analysis in a variety of litigated matters and has done so for over 30 years.

Econometrix's clients include many of the leading law firms and top insurance companies in the United States as well as many Fortune 500 companies.

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