

Smart Spending in Health

Pharmaceutical Expenditure

How much could Chilean households save if they switched toward generic drugs?

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In Latin America and the Caribbean, pharmaceutical expenditure ranges from 8.5% (Costa Rica) to 22.1% (Mexico) of total health expenditure^[1]. Governments cover part of this expenditure, but in many countries households foot a considerable part of the cost.

In Chile, for example, direct outlay by households represents 32% of the total health expenditure, with expenditure on outpatient drugs as the main out-of-pocket expense (40%)^[2].

Switching to generic drugs can reduce the burden of the region's households. Generic drugs are versions of the innovator or original drug (i. e., the same active ingredient) brought to market once the original drug's patent has expired and regulators have certified the quality, safety and efficacy of the alternative.

Generally, generic drugs, and especially unbranded generic drugs (i. e., those marketed with no brand under their International Nonproprietary Name) are sold at lower prices than their original or branded generic counterparts.

An Inter-American Development Bank study (Atal, J. P., Zitko, P., Gutiérrez, C. and Giedion, U., 2023) estimates how much Chilean households could save if they were to buy unbranded generic drugs instead of their equivalents. The estimations, and

the breakdown by socioeconomic level, are based on data from the 2016-2017 *Encuesta Nacional de Salud* (ENS, National Health Survey) and market data, including prices and quantities sold, from IQVIA.

Switching is possible for 29% of the Chilean market where unbranded generic competition is available. On average, branded drugs are six times more expensive than unbranded generics, but they can be up to 35 times costlier. These price differences mean that...

...the annual estimated savings of switching branded drugs for their unbranded equivalents amount to US\$283.2 million.

For Chilean households, these savings represent 0.4% of total expenditure, 3.8% of out-of-pocket health expenditure and...

...10.3% of their out-of-pocket drug expenditures. On average, these savings would allow households, for example, to pay for approximately two months worth of transportation per year. In households with lower educational attainment, switching towards generic drugs could reduce the overall expenditure in outpatient drugs even more, ranging from 12% to 18%.

Another way to visualize the magnitude of these savings is the following: the US\$283.2 million annual savings would lift 223,239 Chilean households out of extreme poverty.

Moreover, the potential savings are much greater if unbranded generic versions of all drugs that have already lost their patents were to be marketed in Chile. The aforementioned study also found that for 62% of the total market there could be an unbranded generic competition, but none currently exist.

A health system seeking to move toward universal coverage should strive to reduce out-of-pocket expenditure. One strategy toward that end is to incentivize the increased supply and demand of unbranded generic drugs, which are usually less expensive than their branded alternatives. Several policies can foster competition through regulatory incentives and pricing, the commitment of doctors to write prescriptions using international non-proprietary denominations, allowing the switch toward generics at the point of dispensation and promoting the benefits of unbranded generic drugs.



REFERENCES

^[1] OECD (2019). Health at a glance. Technical report, OECD.

^[2] Bruzzo, S., Henríquez, J. and Velasco, C. (2018). “Radiografía del gasto de bolsillo en salud en Chile: una mirada desagregada”.

Atal, J. P., Zitko, P., Gutiérrez, C. and Giedion, U. (2023) “¿Cuánto podrían ahorrar y qué ganarían los hogares chilenos usando medicamentos genéricos en vez de sus equivalentes de marca?” Technical Note. Inter-American Development Bank.

See the full study here

