



# Prescription Drug Rebates Impact on Policy in Colorado

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CENTER FOR IMPROVING  
**VALUE** IN HEALTH CARE

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# Agenda

- Introduction
- Prescription drug rebates – how do they work?
- Colorado initiative to collect rebate information
- Findings by payer type with focus on commercial payers
- Summary
- Policy impact

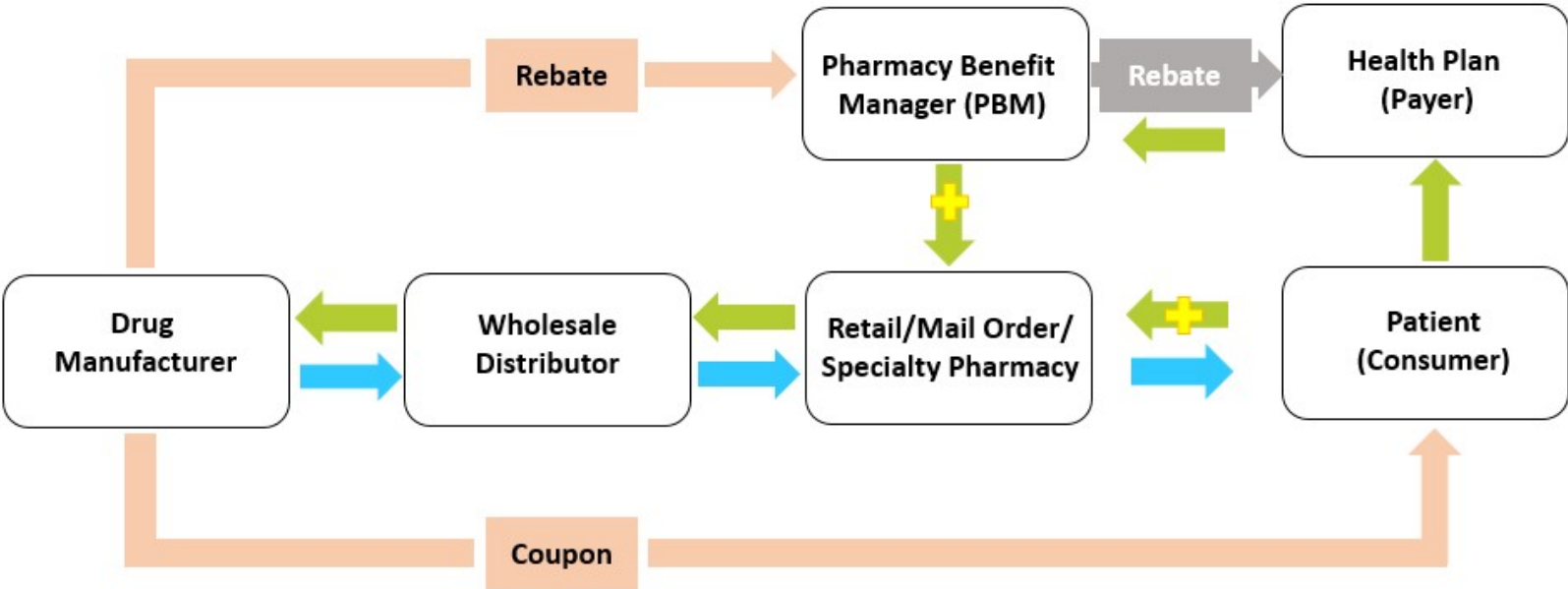


# Introduction

- Prescription drug expenditures are the fastest growing consumer health care expense in the U.S., largely due to increases in prices
- Measuring prescription drug expenditures is challenging because of lack of transparency about pricing and impact of manufacturer rebates and other compensation
- Objective – present results of an analysis of drug manufacturer rebates and other compensation, and their impact on prescription drug expenditures in Colorado



# Prescription Drug Funds Flow



- Drugs
- Rebates Passed to Payer
- + Included in APCD Allowed Amount
- Payments
- Rebates / Coupon Payments



# Drug Rebates

- Manufacturer rebates are paid to the PBM separately and often retrospectively, usually in exchange for favorable formulary tier placement and increased sales
- Rebates reduce the retail cost of drugs but may produce a net increase in prescription drug expenditures, if rebates lead to increased utilization of higher cost drugs
- Legal and market dynamics involved in negotiating rebates with drug manufacturers differ by payer type
  - Medicaid receives largest rebate as percentage of prescription drug expenditures, due to provisions of Medicaid Drug Rebate Program
  - Rebates for Medicare Part D typically larger than for commercial payers because formularies are more restrictive and manufacturer coupons for discounts at the point-of-sale are prohibited



# Drug Rebates (continued)

- Rebates for Medicaid and Medicare are reported publicly and used to reduce government subsidies and, in the case of Medicare, reduce premiums
- Flow of rebates for commercial payers not transparent; not clear whether retained by PBMs and health plans or passed through and used to reduce premiums and out-of-pocket costs for employers and consumers
- CIVHC analysis presents the first public information about rebates paid to commercial payers in Colorado

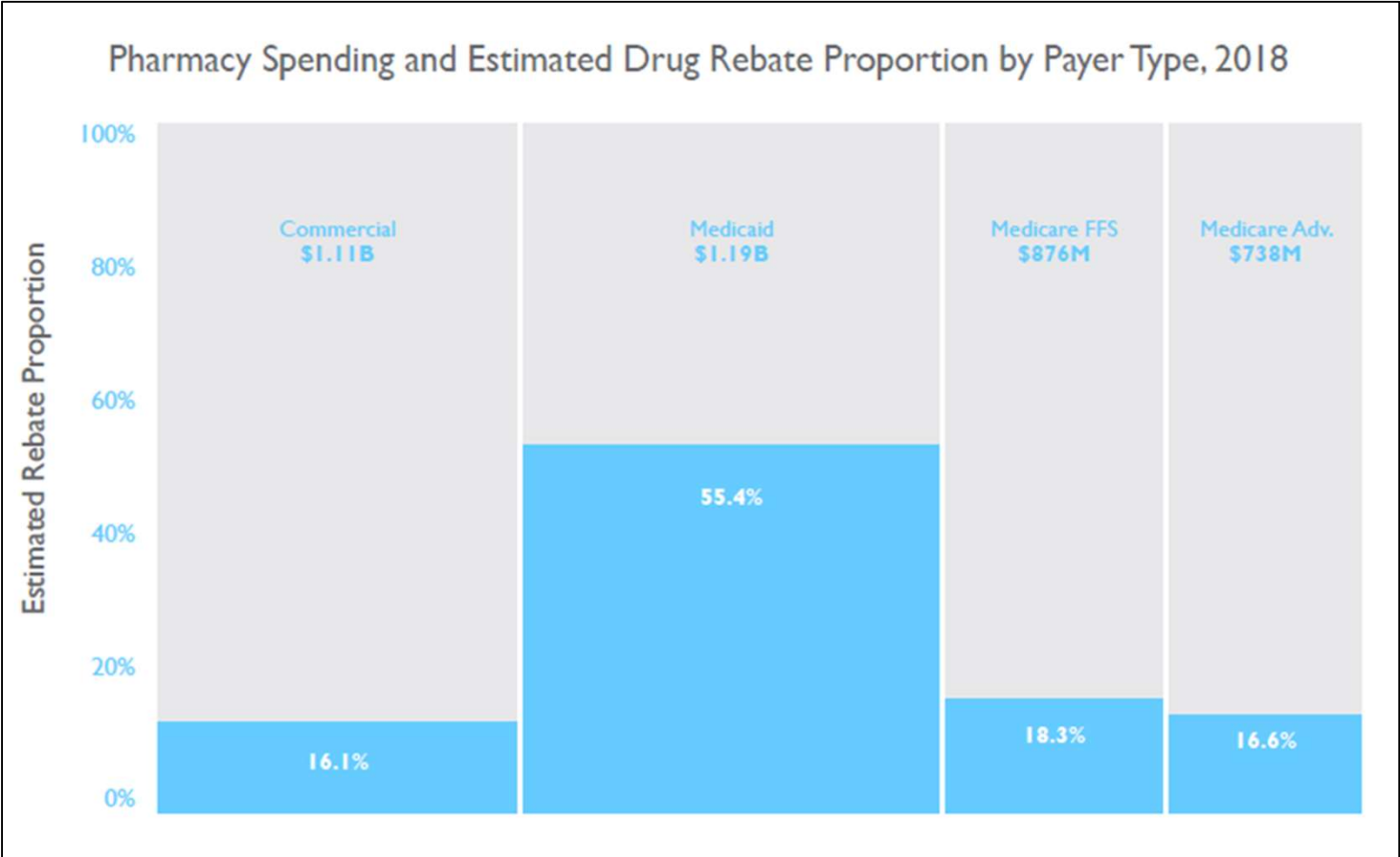


# Drug Rebate Data Collection

- As part of a state effort to constrain health care costs, payers required to submit prescription drug rebate information to CIVHC each year beginning September 2019
- First submissions included rebate data for three years: 2016, 2017 and 2018
- CIVHC modeled data submission requirements after a program administered by the Center for Health Information and Analysis (CHIA) in Massachusetts
- Payers submitted prescription drug rebate files based on data from their PBM
  - Prescription drug expenditures excluding rebates, in total and by type of drug (specialty, non-specialty brand and generic)
  - Prescription drug rebate amounts, in total and by type of drug



# Drug Rebates by Payer Type



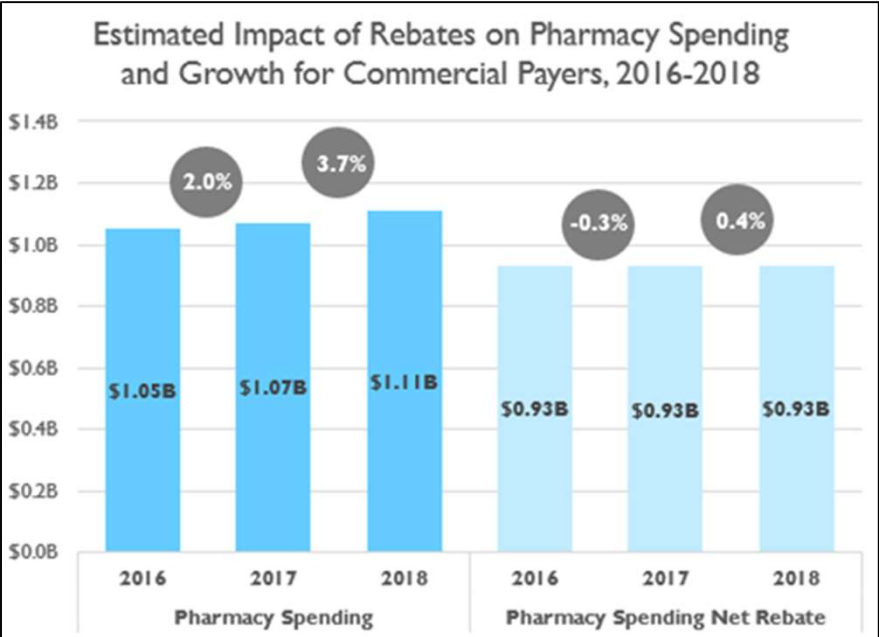
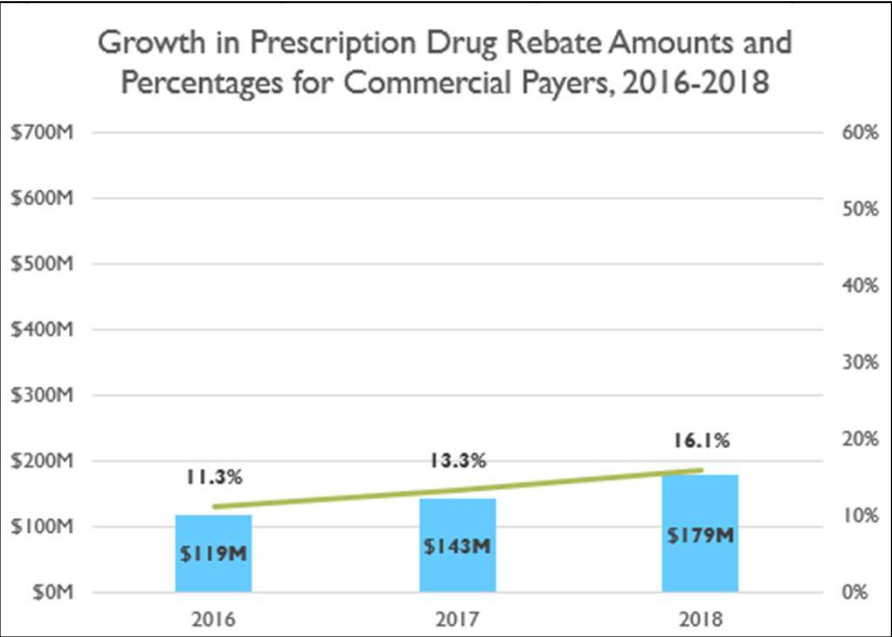
Note: Graphic modeled after format presented in the CHIA Annual Report of Performance of the Massachusetts Health Care System





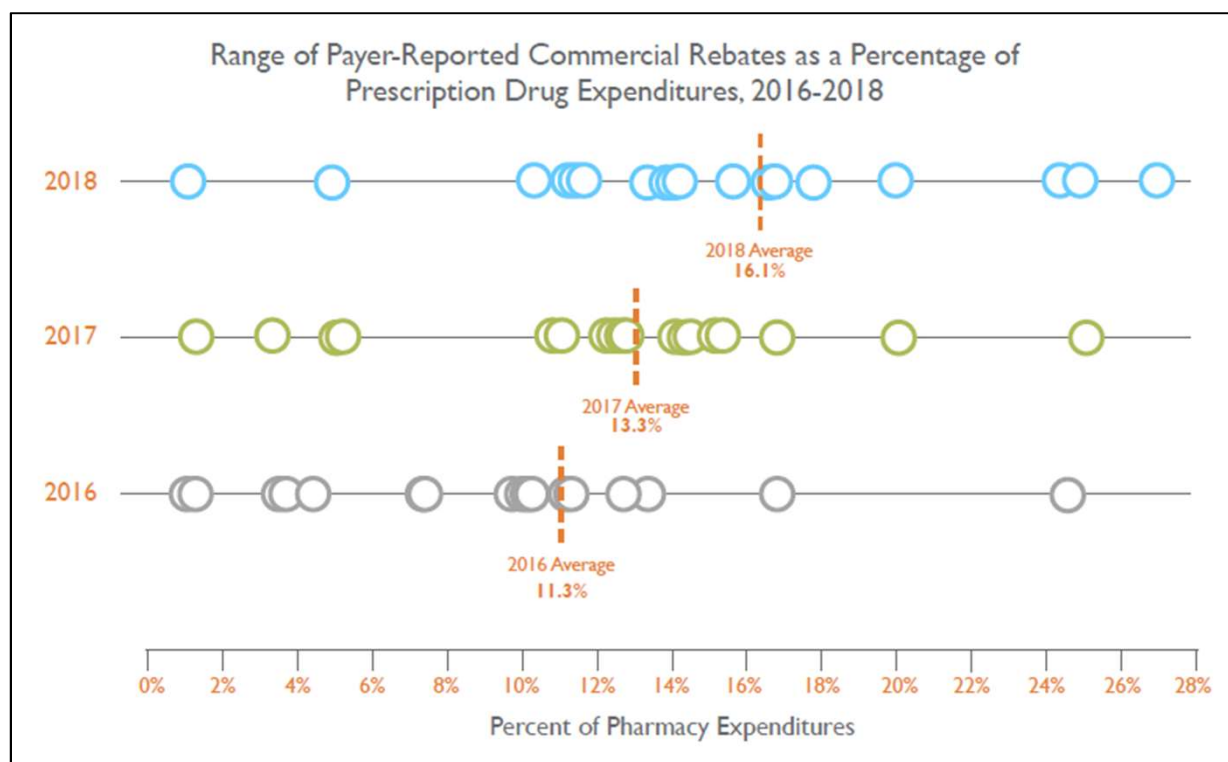
# Drug Rebates for Commercial Plans

Prescription drug rebates increased \$60 M (50%) over three years, which significantly reduced the size and growth of total drug expenditures



# Drug Rebate Variation - Commercial Plans

Rebates as a percentage of total prescription drug expenditures exhibited significant variation across payers in each year

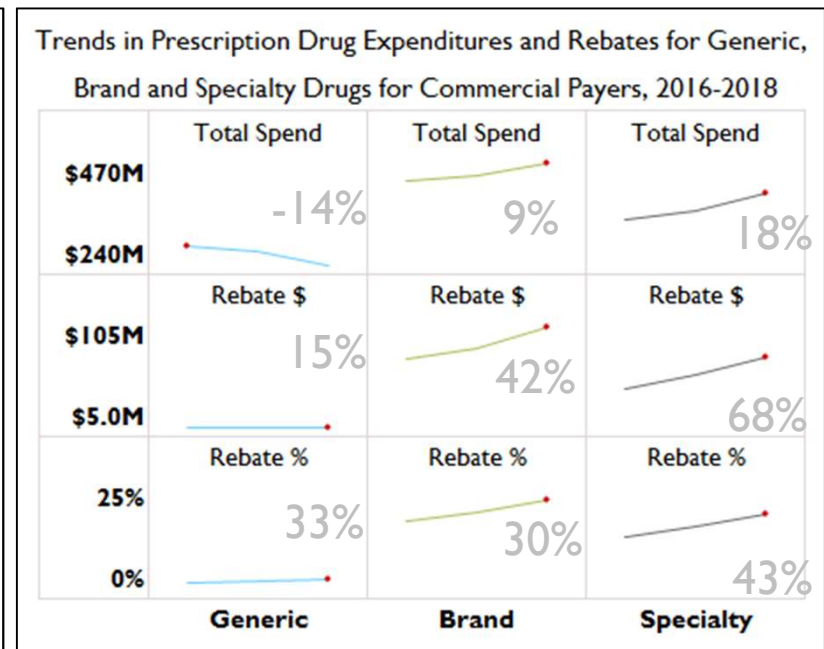
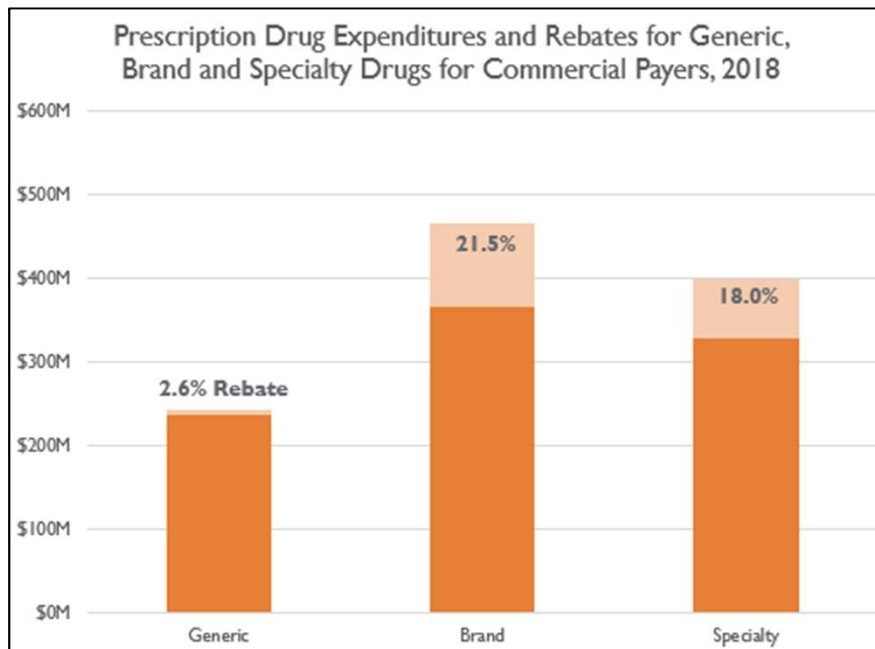


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# Rebates by Drug Type for Commercial Plans

Increase in rebates highly correlated with increase in total spend for both specialty and non-specialty brand name drugs; rebates for these drugs grew \$59 M from 2016 to 2018, but spending increased \$100 M



# Summary

- Prescription drug rebates are substantial and have the effect of reducing both the size and growth of overall prescription drug expenditures
- Rebates for Medicaid and Medicare are used to reduce government subsidies and, for Medicare, to reduce premiums
- Unclear if commercial payers pass rebates on to employers; if not, employers paying full price of increasingly more expensive drugs
- Increases in drug rebates linked to increases in expenditures for higher cost specialty and non-specialty brand name drugs
  - What is impact of rebates on the price of individual drugs?
  - To what extent do rebates increase utilization of high priced drugs and reduce utilization of lower priced alternatives?



# Drug Rebate Impact on Policy

- Policy prescriptions emphasize manufacturer drug pricing transparency and pass-through of rebates to offset employer drug expenditures
- Colorado General Assembly pursuing legislation to address the high cost of prescription drugs
  - Ensure rebate dollars are passed through to employers (HB20-1160)
  - Increase transparency in manufacturer drug pricing (HB20-1160) and production costs (SB20-107)
  - Expand a program to import drugs from other countries (SB20-119)
  - Sound alerts about large cost increases for individual drugs (HB20-1160)



# Center for Improving Value in Health Care, Colorado ([www.civhc.org](http://www.civhc.org))

