

# State Health Plans Use Drug Rebates to Lower Premiums and Enhance Benefits



The Public Sector Healthcare Roundtable recently surveyed their state plan sponsors on their prescription drug plans. Ten Roundtable-affiliated state health plan sponsors responded to the survey, representing more than 2 million commercial and 1 million Medicare plan enrollees in a variety of state-sponsored employee and retiree plans. Plans answered questions on their total prescription drug spending and the amount of their drug rebates, as well as answering open-ended questions of their attitudes towards prescription drug rebates.

- ⇒ In 2019, there was **\$6 BILLION** in prescription drug spending for more than 3 million public-sector enrollees, with nearly **\$1.5 BILLION** in drug rebates, or 22% of total prescription drug spending.
- ⇒ All 10 surveyed state plan sponsors reported that prescription drug rebates are passed back to the plans and are used to lower enrollee premiums. Without exception, prescription drug rebates are used by plan sponsors to **REDUCE COSTS AND ENHANCE BENEFITS** for enrollees.
- ⇒ Two plan sponsors indicated that rebate dollars are used to lower enrollee premiums dollar-for-dollar. Across all 10 plans, on average, using prescription drug rebates in this way could reduce enrollee premiums by **\$430 PER PERSON PER YEAR**.
- ⇒ Rebates as a proportion of total drug spending increased each year between 2016 and 2019. On average, rebates rose from 16% of total prescription drug spending in 2016 to 22% in 2019.
- ⇒ State plan sponsors had high generic dispensing rates (GDRs) with many reporting GDRs above **90%**.
- ⇒ Plan sponsors are worried that federal action limiting their use of rebates will lead to higher premiums for their Medicare enrollees, while doing nothing to address the real problem: high drug prices set by manufacturers.

# Limiting the Use of Rebates in Part D will Hurt Seniors, While Doing Nothing to Limit Soaring Drug Prices

The President signed an executive order instructing the HHS Secretary to revive the agency's shelved 2019 rule essentially barring the use of rebates to reduce premiums in Part D. The administration's rebate rule would increase Medicare premiums, cause beneficiary disruption, create a massive windfall for drugmakers, and lead to higher drug prices.

## Here's What Others are Saying about Manufacturer Rebates in Part D and Regulations Seeking to Limit Them:

- ⇒ GAO: "Rebates and other price concessions reduce the cost of the Part D program to beneficiaries and the federal government."<sup>1</sup>
- ⇒ OIG: "Overall, we found that increases in rebates substantially reduced the percentage increase in reimbursement for brand-name drugs in Part D from 2011 to 2015."<sup>2</sup>
- ⇒ CBO: "Implementing the [2019 HHS rebate] rule as proposed would, CBO estimates, increase federal spending by about \$177 billion over the 2020–2029 period..."<sup>3</sup>
- ⇒ OACT: "Over the 10-year period 2020-2029, overall drug spending net of rebates and the new chargeback discounts would increase by approximately \$137 billion, and Federal spending would increase by \$196 billion. ... while premiums for households would increase by \$50 billion—an expense that would be borne by Medicare Part D enrollees."<sup>4</sup>
- ⇒ AAF: "Based on these [actuarial firm] analyses [of the 2019 HHS proposed rebate rule], beneficiary premiums are expected to increase between \$3.15 (Milliman) and \$3.73 (Wakely) per enrollee per month in 2020. This increase amounts to \$1.8 billion (Milliman) to \$2.2 billion (Wakely) in total additional premiums paid by beneficiaries over the course of the year."<sup>5</sup>
- ⇒ Pew: "The proposal is unlikely to reduce drug prices; indeed, it is more likely to increase drug prices. The CMS OACT model estimates that manufacturers will reduce their total discounts by 15 percent when switching from a rebate to a pharmacy discount; based on CMS OACT's estimated current 24 percent rebate, this correlates to a 5 percent increase in net drug prices for the Medicare Part D program."<sup>6</sup>
- ⇒ Cato: "Those rebate savings are passed onto Medicare Part D patients in the form of lower premiums. Thus, eliminating the rebates does nothing to reduce Medicare Part D's incentive to drug makers to raise drug prices."<sup>7</sup>

<sup>1</sup> Government Accountability Office, "Medicare Part D: Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization." July 2019.

<sup>2</sup> Department of Health and Human Services Office of the Inspector General, "Rebates for Brand-Name Drugs in Part D Substantially Reduced the Growth in Spending from 2011 to 2015." September 2019.

<sup>3</sup> Congressional Budget Office, "Incorporating the Effects of the Proposed Rule on Safe Harbors for Pharmaceutical Rebates in CBO's Budget Projections—Supplemental Material for Updated Budget Projections: 2019 to 2029." May 2019.

<sup>4</sup> Department of Health and Human Services Office of the Actuary, "Proposed Safe Harbor Regulation." August 2018.

<sup>5</sup> Hayes, TO. American Action Forum, "The Drug Rebate Rule: What's the Budget Impact?" May 2019.

<sup>6</sup> The Pew Charitable Trusts, "Letter to Inspector General Levinson." March 2019.

<sup>7</sup> Schlecht, EV. Cato Institute, "Eliminating Rebates in Medicare Part D Will Not Reduce Drug Prices." Fall 2020.