

Prescription Drug Rebates: “Show me the Money”

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**By Gary R Goodhile, CLU
Principal & Co-owner
Sullivan Benefits**

Prescription drug (Rx) costs as a percentage of employers’ total health insurance claims are running at unprecedented levels. The time has come for greater transparency surrounding the actual cost of the prescriptions drugs your employees and their covered family members are taking. Truth be told, it is long overdue and extremely complicated.

Rx claim cost for the longest time hovered at around 10 – 12% of a given group’s total claim spend. Today we are seeing closer to 20 to 25%, and rising. There are many reasons, but the most significant driver is specialty drug claims (I will save that topic for another article). Our focus today is how insurance companies price these plans.

Experience Rated Employers

Typically, employers with health plans covering 100 or more employees are experience rated. This means that their insurer takes the actual claim utilization for the group, trends it forward to account for rising healthcare costs, adds to that their cost of doing business (retention and margin), and develops your renewal rate. This is a simplistic description of the process. Every insurer has their own “pricing formula”, but they are all similar and get to the same general place.

These formulas have been tweaked over time, but have not changed much in the past 25+ years. One of the more significant tweaks along the way was breaking medical and pharmacy cost out, and applying different trends to each. This makes sense given all we have heard on the news about newly developed drugs and soaring costs. That brings us to what is troubling about the process and needs to be changed.

Prescription Drug Claim Data

Rx claim data provided by the insurers is not the true claim cost. Claims are overstated by approximately 15 percent (and if you could get to the real figure, probably more). One of the reasons is due to rebates paid by the manufacturer of the drug. These rebates are paid on most brand drugs, and in some instances on certain generics. They are paid directly to the pharmacy benefit manager (PBM) utilized by the insurance company, for example Express Scripts and CVS Caremark are two of the larger PBM’s accessed locally.

For years the PBM’s kept the rebates for themselves. As time went on the insurers got wise to the practice and demanded their piece of the action (that would have been a great time to transparently pass those savings on to their customers, but to my knowledge none have, certainly not locally). Until very recently, most denied that they received any rebates. Some went to great lengths spinning stories about how much money they were saving their customers through their “pharmacy management” initiatives. In fact, none of the local insurers disclose how much they are receiving in rebates on their insured plans, regardless of the size of the group. The amount of money involved is substantial!

Rx Pricing at Renewal

As mentioned above, the Rx claims that your insurer uses to develop your renewal are overstated due to a number of factors (rebates for sure, and possibly spread pricing techniques that actually load the cost of each

claim processed). I am comfortable stating 15% is a conservative assumption. At renewal the overstated claims are then trended at levels that vary from 11 to 18% per year (locally) in an effort to predict next year's claims. When you compound this trend over 18 months (typically the claims experience utilized during the renewal process is from 6 months prior to the renewal date) you are looking at 16.5 to 27% trend, which is applied to claims that are overstated by 15% to begin with. This will result in a total medical insured rate between 4 and 5% higher than it actually should be!

The Secret is out

I am a believer that the time has come for greater transparency relating to the actual cost of prescription drugs. I was around when insurers first introduced PBM's to employer sponsored plans back in the 80's. The intent was to save money for the plans. The actual outcome was that they created a tremendous profit center for PBM's, and eventually themselves.

The secret is out, "Rx is a cash cow". It is unfortunate for insurers because their secret would probably have been safe had they done their job and kept pharmacy costs in check. You need not look any further than your next claim utilization report to see what a great job they have done. We have achieved greater transparency in other employer sponsored plans (401k plans come to mind). Why not pharmacy cost? Press your broker, your insurer, trade groups and local representatives – the stakes are high and they are going up!

As always, feel free to contact me or any member of the [Sullivan Benefits](#) Team with any questions, comments or concerns.