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Challenges with Pharmacy Coverage and the Facts About Rebates

Last month the Trump Administration pressured pharmaceutical manufacturers to freeze and/or lower the list prices of certain prescription drugs. As a result of this and mounting pressure on the industry to address rising costs, the media has and continues to focus attention on the sheer dysfunction of the pharmaceutical supply chain model and its contribution to high and rising drug prices. In its exposé "Meet the Rebate, the New Villain of High Drug Prices", the New York Times laid out a "sort of drug rebate 101", calling out insurers, PBMs, and even employers around the use of rebates while patient deductibles and list prices continuously rise.

However, missing from the Times piece is an appreciation for the fact that high deductible health plans (HDHPs) have put a spotlight on what has been for employers and employees an ongoing problem: high prices and escalating expenditures for certain prescription drugs. Furthermore, almost entirely overlooked, patients with the greatest exposure to drug prices are many times those who require high-priced specialty medicines for which there may be no drug rebate available. Plus, even where plan sponsors have implemented point-of-sale (POS) rebate pass-through programs, members most affected by high drug prices get no relief. While rebates are far from perfect, in the current broken model they are an essential and needed tool for employers and plan sponsors. With so much attention on the issue, it is important to note these salient facts:

- Reimbursements, discounts and rebates in the current supply chain contracting model remain important tools in reducing plan spend on drugs. Many employers have historically considered rebates important to keeping drug costs low which in turn, keeps premiums affordable for their members; in essence, any savings realized from manufacturer rebates are used to reduce total plan costs and employee premiums.
- There are various contractual arrangements between employers and their drug plan administrators, which may include nuanced provisions around rebate pass-through from a PBM to an employer – many pass-through guarantees are limited to "client-specific" rebates; the definition of "100% pass-through" can vary by contract and often requires legal interpretation.
- Although some PBMs and carriers have developed the capability to bring rebates forward to the point-of-sale (POS) for plan members, this effort seeks only to adapt a legacy contracting model to today's high-deductible plan reality. Further, most pharmacy vendors charge employers and plan sponsors a fee to administer POS models, which rely on vendor estimates of future rebates, and require a complicated true up process after transactions occur.

Focusing on how employers use rebates to help control their pharmacy plan cost is a diversionary tactic from the real pricing conundrum created by the dynamics of the supply chain, starting from initial pricing all the way down to the sale at the pharmacy counter. The issue is far bigger than “rebates”. The bottom line is that the pharmacy acquisition and distribution chain is severely broken and it will likely take major disruptors like Amazon and others to drive a re-thinking of the current model. In the end, getting the lowest possible cost for a drug is the best outcome. However, until then rebates are essential for employers and plan sponsors, and efforts to curtail them, absent other major overhauls, would be problematic for employers and plan sponsors.

We are monitoring the re-shaping of the pharmacy benefits business closely and will continue to share information for your consideration.

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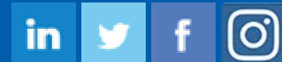

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