

# To Reduce Prescription Prices, Hold Middlemen Accountable

By **George Huntley** (June 23, 2021)

President Joe Biden froze all the rules and regulations issued in the Trump administration's final days. Such pauses are fairly common; new presidents typically want to review, and sometimes shelve, their predecessors' last-minute gambits.

But unfortunately, Biden's freeze has delayed a prescription drug reform that could save Medicare beneficiaries billions at the pharmacy counter.[1] Quickly implementing that rule — which targets middlemen in the drug supply chain — would help safeguard seniors' health.



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Tens of millions of Americans struggle at the pharmacy. The Kaiser Family Foundation found that 30% of patients don't take their prescriptions as prescribed due to cost — choosing instead to cut pills, skip doses or not fill prescriptions at all.[2]

COVID-19 has only exacerbated this problem. The pandemic has devastated wide swaths of the economy, leading to mass layoffs and pay cuts for many Americans battling expensive chronic conditions like diabetes.[3]

Diabetes has proven one of the greatest risk factors for COVID-19 deaths.[4] A recent study found that 40% of people who died from COVID-19 lived with the condition — even though just 10.5% of the population has diabetes.[5]

The Centers for Disease Control and Prevention stresses the importance for people with diabetes to "continue taking ... diabetes pills and insulin as usual," to reduce the potential for severe complications from COVID-19.[6]

Unfortunately, the average list price of diabetes medications and supplies jumped 58% from 2014 to 2019.[7] List prices for insulin in particular, a vital medicine for more than 8 million[8] Americans with diabetes, have tripled over the past decade.[9]

While list prices have been rising,[10] manufacturer net revenues for insulin have declined[11] and net revenues from brand-name drugs have remained nearly flat.[12]

Middlemen known as pharmacy benefit managers, or PBMs, contribute to rising list prices. Insurance companies — including the insurers that sponsor Medicare prescription drug plans — hire these PBMs to negotiate with drug companies and determine which treatments to cover.

Drugmakers offer significant rebates to PBMs to incentivize them to cover their medicines — and thus make them available to more potential patients. It's just like when cereal or toilet paper manufacturers offer discounts to retailers to ensure their products are stocked on the most accessible, eye-level shelves. In 2018, pharmaceutical companies offered \$166 billion in rebates, up 63% from the \$102 billion they offered in 2014.[13]

Essentially, middlemen are demanding bigger and bigger rebates and companies are granting those demands in return for access. In the case of insulin, rebates often exceed 70%. So if a vial of insulin has a list price of \$300, the PBM will typically obtain it for just \$90.

There's a catch, though. These negotiated rebates are secret. When patients go to the pharmacy to fill their prescriptions, their copays and co-insurance payments are calculated based on the list price — not the price the PBM paid.

If an insurance plan requires a 20% co-insurance payment, a patient would pay \$60 to fill his or her prescription — one-fifth of the \$300 list price. But if the discounts were shared at the pharmacy, the patient would instead owe \$18 — one-fifth of the \$90 discounted price.

Forcing middlemen to pass along these savings through lower copays could save Americans with diabetes up to \$900 annually.[14] In total, the rebate rule could save Americans with diabetes \$20 billion over the first 10 years of its introduction.[15]

But without decisive action from the Biden administration, self-interested middlemen will continue to pocket billions in discounts meant for patients.

PBMs and insurers defending the status quo argue that premiums will rise sharply if the rebate rule goes into effect. But actuarial studies show that's not true. A 2019 study from Milliman projects an increase in premiums of less than 1% — and that's not even counting the savings from reduced hospitalizations that would result from patients taking their medications as prescribed.[16]

In its final months, the Trump administration issued a rebate rule, making it illegal for PBMs to accept rebates unless these discounts are passed along to patients at the pharmacy counter. Many Democrats have long supported similar proposals.[17]

Unfortunately, as part of its across-the-board freeze — and also in response to *Pharmaceutical Care Management Association v. U.S. Department of Health and Human Services*, a lawsuit from the PBM industry challenging the rule — the Biden administration delayed implementation.[18]

Patients can't afford this delay. The rebate rule would help ensure millions of Medicare beneficiaries can afford their out-of-pocket costs and fill the prescriptions they need to stay healthy.

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