

Prescription Drug Rebates

You have probably seen rebates in the consumer market; you purchase a brand-new television at your local appliance store, you mail in some paperwork, and the next thing you know, you receive some money back. This rebate system is a great way to entice buyers to purchase a manufacturer's product and the buyer gets a lower cost product in the long run. But what place does a rebate system have in the prescription drug market? Rebates are given to managed care organizations (MCOs), such as health plans and pharmacy benefit managers (PBMs), by prescription drug manufacturers as the most common way to provide lower pricing in a high price landscape like the pharmaceutical industry¹.

Before we get into the specific role of rebates in the prescription drug market, let's talk a little about their history and how they came about in this industry. Originally, rebates came about in hospitals after implementing formularies to improve patient safety. Before formularies, each physician in the hospital would have their own group of medications that they regularly prescribed for each disease state and these groups of medications were often different from physician to physician. Therefore, with a plethora of physicians in the hospital using different medications, the pharmacy had to stock all these medications which was not only costly but introduced a greater risk of medication errors. The variabilities in dosing and dispensing for pharmacists to remember and administration and monitoring variabilities for nurses to be aware of created a significant patient safety issue. To improve patient safety, the physicians and pharmacists came together to find a solution and developed a drug formulary. This is where only specific medications were stocked in the pharmacy, and physicians would only prescribe the medications that were on the list. Implementing a formulary quickly reduced costs with the pharmacy stocking fewer medications. It also, reduced medication errors because it was less complicated than filtering through an abundance of drugs with different names, side effects, indications, administration, and monitoring parameters. However, in the process of developing a formulary with only certain medications on it, many medications were bumped from the hospital's ordering list. The drug manufacturers whose products were removed, began to realize a drop in revenue and began drawing up plans to get on this new formulary list. Drug manufacturers created rebates to entice hospitals to add their drug to the formulary. If the medication was safe and effective, the hospitals would consider adding the new drug or replacing an existing drug with another manufacturer's drug to lower overall cost to the hospital.

Now that we understand the history behind rebates, we can talk a little about their current role in pharmacy. The main players in prescription drug rebate negotiations are health plans, or PBM's on behalf of health plans, and drug manufacturers. The PBM or health plan negotiates with drug manufacturers with the same goals in mind as the hospitals, management of drug utilization and management of cost². Management of drug utilization includes trying to ensure safe and effective use of medications by the plan's members. The health plan does this through development of a formulary with preferred medications and that formulary is constantly being reviewed and updated by Pharmacy and Therapeutics (P&T) committees as new information and medications become available¹. These committees are made-up of pharmacists, physicians, and other healthcare professionals who assess medications based on their safety, efficacy, and place in therapy for relevant disease states¹.

Keeping the above information in mind, if the P&T committee determines that two or more drugs are just as safe and effective, rebate negotiations may come into play to determine which drug(s) is more cost effective. By negotiating rebates with drug manufacturers, PBMs or health plans can manage costs and lower overall drug expenditures. Rebates allow for lowering the costs of prescription drugs at point of sale for members². Also, by lowering overall costs for health plans can lower premium costs to the member².

Let's take a look at how price mitigation on prescription drugs through rebates impacts health plans. In 2016, U.S. prescription sales totaled \$425 billion, health plans paid \$368 billion, while patients paid the remainder through co-pays and manufacturer coupons³. It is estimated that about \$89 billion in rebates were returned to health plans, from drug manufacturers in 2016, reducing the overall cost of prescription drugs to health plans to \$279 billion, a 24% reduction in cost³.

Now, let's take a look at how price mitigation on prescription drugs through rebates impacts the member. First, it is important to remember our initial discussion related to a rebate on a brand-new television. The television manufacturer's goal with offering a rebate is to boost sales because the consumer is more likely to buy a television with a rebate to lower their purchase cost. If the consumer's end purchase cost was not lower, the manufacturer's sales may not increase, and the rebate would be purposeless. This same logic applies to the prescription drug market; drug manufacturers lower the ultimate cost to members, through rebates, to boost their prescription drug sales³. If the ultimate cost to members is not lowered, drug manufacturer sales may not increase, and the manufacturer would have no incentive to pay rebates³.

There are some instances where a member may not see rebates reflected in their purchase price, which is what makes this topic a little complex; let's use an example to explain how this might occur. Say a drug costs \$100 at the pharmacy for a member, but the health plan has received a \$30 rebate from the drug manufacturer behind the scenes³. Despite this rebate back to the health plan, a patient would still have to pay \$100 at the point of sale³. If that purchase was one-time-only, the member would not benefit from the \$30 rebate to the health plan³. However, members consistently getting refills on a medication will pay a smaller copay or co-insurance share, as a result of the \$30 rebate to the health plan, because the drug will have been placed in a more desirable tier of the formulary, lowering its cost³. The latter scenario is more common and reiterates the point of prescription drug rebates, lowering the cost of drugs for the member to boost sales for the drug manufacturer³.

As you can see, the general driving factor behind rebates, whether for a brand-new television or for your prescription medication, is lowering overall costs. However, it is important to realize that in the pharmaceutical industry, another big factor precedes cost determination, drug safety and efficacy. Once safety and efficacy are determined, price negotiations can ensue with all parties benefiting from this rebate system. The PBM or health plan negotiates a lower cost which decreases their overall spending. The patient receives a safe and effective drug, generally at a lower cost with lower premiums. And lastly, the manufacturer receives a place on the plan's formulary which improves their sales, an all-around efficient and helpful scenario for all parties involved.

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