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What rebates? Express Scripts touts a new plan to appease critics of the opaque drug-pricing system

By Ed Silverman @Pharmalot

November 13, 2018

AP Photo/Wilfredo Lee

Amid national angst over prescription drug pricing, Express Scripts (ESRX[1]), the big pharmacy benefit manager, is touting a new scheme it says will lessen the behind-the-scenes role that rebates play in rising costs.

The idea targets the complicated calculus used by drug makers and pharmacy benefit managers for negotiating formularies, the all-important lists of medicines for preferred insurance coverage. By doing so, Express Scripts argued costs should decline for some consumers, while appeasing critics — including Trump administration officials — who have urged these companies to eliminate their reliance on rebates.

“We’re trying to create new options in the marketplace,” Dr. Steve Miller, the Express Scripts chief medical officer told us. “The problem is that over the past several years, there has been a distortion in pricing. The national formulary (the existing template for setting coverage) uses rebates, but these often don't make it all the way to the patient."

Right now, drug makers typically pay rebates off their list, or wholesale, prices to PBMs to win insurance coverage. But as drug companies raise list prices to compensate, consumers pay more because their costs are tied to those list prices. Meanwhile, there are furious debates about the extent to which drug makers and PBMs profit off this opaque system, and how to fix it.

The details are wonky, but Express Scripts plans to roll out an alternate formulary that would encourage drug makers to use a sleight of hand: create alternate versions of their medicines by using different codes for insurance reimbursement. This approach, Miller explained, would allow drug companies to lower list prices, which would then lower costs for consumers.

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In effect, Express Scripts would create a two-tier system for its customers, such as health plans, which could choose between a formulary with a high list price and high rebate, or the newer plan that will offer a lower list price and lower or no rebate. Some health plans and employers may want the first option if they are counting on guaranteed rebates in their budgets.

Meanwhile, the notion also has the potential to mollify Health and Human Services Secretary Alex Azar, among others, who wants drug makers to lower list prices and eliminate rebates. However, drug companies balk at eliminating those discounts, because they generally have three-year contracts with PBMs. Lowering list prices while already committed to big rebates is not economically feasible.

"This plan would remove the excuses pharmaceutical companies have used for not dropping wholesale prices," said Roger Longman, chairman of Real Endpoints, a research and consulting firm that tracks reimbursement issues. "And the longer view is that PBMs will have to move away from relying so much on rebates for revenue and more on fees for their services, instead.

"Right now, if you are a patient, you get no benefit from the rebate because your copay is often based on the wholesale price, which could be very high. So if you could lower wholesale prices and rebates, it should be a benefit. In general, I think this is a good thing, but it's still going to be important to look at which drugs and categories (of drugs) move toward this option."

Miller acknowledged most drugs will not "qualify" initially for the new plan, but predicted it will catch on. As an example, he pointed to Amgen (AMGN[4]), which last month cut the list price[5] of Repatha, its injectable cholesterol medicine, by 60 percent — to $5,850 — and created a new National Drug Code for a lower-price version. This moved Repatha off a Medicare Part D specialty tier, which has higher patient copays.

Longman noted the extent to which the plan succeeds may depend on how fast a PBM will give up sizable rebates. As for drug makers, he suggested a company seeking to compete with established rivals could use a lower list price and new drug code to increase market share because its pricing could, theoretically, viably compete with an older product for which a high list price and rebate are in place.

Another point worth noting is transparency. Health plans will continue to struggle with a lack of clarity surrounding list prices and rebates in the existing Express Scripts national formulary, according to industry consultants. As a result, they will not be able to make a truly perfect comparison between the current formulary and the forthcoming Flex plan.

“Contrary to their claim, employers and health plans cannot intelligently choose which product to cover because Express Scripts refuses to disclose any information about the rebates for the original brand-name drug,” said Linda Cahn, a consultant who advises health plans and employers on PBM contracts.

“Also, Express Scripts is still not willing to disclose any information about the other monies — besides rebates — that it is collecting from manufacturers and not passing through at all to plans or insurers. As long as it continues to collect these monies, it has a glaring conflict of interest and creates incentives for manufacturers to increase their list prices to make up for its secretly extracted monies.”

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Ultimately, the Flex formulary may be a mixed bag, said Randy Vogenberg, a principal at the Institute for Integrated Healthcare, a consulting and research firm that specializes in health plan benefit designs.

“There are so many situations where we don’t know if the plan sponsor and patient would save money,” he told us. “There are too many variables. At the end of the day, we need a full transparent formulary with net costs, so everyone knows who benefits or not. They need to put all the cards on the table.

This is the second time, by the way, that a large pharmacy benefits manager has taken steps to alter its approach to coverage in recent weeks. In August, CVS Caremark (CVS[9]) disclosed an effort[10] to allow its clients — such as health plans and employers — to exclude from their formularies any new medicine that has a higher price than a specific threshold for determining value.

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