Show me the savings from rebates?

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Performance: How Well is the US System Doing?

- My colleagues on the panel have done a masterful job at explaining how the rebate system operates
- Remember the rebate system is only one small part of the entire drug supply chain
- Let’s first look at the overall performance and then examine the role rebates play
My Thesis: All Health Care Prices Are Too High!

We compared the prices, utilization, and total spending across industrialized countries

- 2003 - It’s The Prices, Stupid: Why The United States Is So Different From Other Countries
  - Gerard F. Anderson, Uwe E. Reinhardt, Peter S. Hussey, and Varduhi Petrosyan in Health Affairs

- 2018 - It’s Still The Prices, Stupid: Why The US Spends So Much On Health Care And A Tribute To Uwe Reinhardt
  - Gerard F. Anderson, Peter S. Hussey, and Varduhi Petrosyan forthcoming in Health Affairs

* Or nearest year; data from 2014 for Canada and Australia. No recent data available for New Zealand (since 2007).

Current expenditures on pharmaceuticals (prescribed and over-the-counter medicines) and other medical non-durables, per capita, representing retail spending of pharmaceuticals delivered outside provider settings. OECD median reflects the median of 35 OECD countries.

Source: OECD Health Data 2017.
How much of this difference is attributable to prices?

- We examined the prices of 79 drugs with the highest level of Medicare Part D spending that had been on the market for at least 3 years and compared the prices in the US (post rebate) to the prices in UK, Japan and Ontario, Canada.

- We focused on the prices of established drugs so that we could get comparison prices in other countries.

- We included the reductions attributable to rebates in making the comparisons.

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean Price</th>
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<tbody>
<tr>
<td>US (post rebate)</td>
<td>$383</td>
</tr>
<tr>
<td>UK</td>
<td>$111</td>
</tr>
<tr>
<td>Japan</td>
<td>$69</td>
</tr>
<tr>
<td>Ontario Canada</td>
<td>$137</td>
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</tbody>
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Prices of the 79 drugs on the US market for 3+ years with highest part D spending compared to UK, Japan, and Ontario, Canada.
### Are all pharmaceutical prices high? – NO Just some

- Most generic drugs in US are priced at or below international prices
  - However, it is dependent on having a robust market for generic drugs – 3+ competitors
  - There are some dramatic market failures where there is limited competition (Shkreli)
  - Most of the policy attention has focused on these market failures

- Most branded drugs are priced 2-15 times what other countries pay
  - This takes into account the rebates and other price concessions
  - One frequent argument – other countries should pay higher prices for drugs
  - However, other countries are unlikely to increase the prices they pay, so the US needs to find ways to lower pharmaceutical prices

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### Why Are Prices Higher in the US?

- The longer a branded drug is on the market in the US the higher the list price and often the higher the actual sales price
- Pfizer to raise drug prices in January on 41 Drugs
  - USA Today
  - November 16, 2018
- In other countries drug prices actually go down
How do rebates figure in?

- Rebates are often determined by the difference between the list price and the sales price.
- Therefore, rebates can increase when the list price increases even if the sales price remains the same.
- Who benefits when the list price increases?

Branded Drug Companies Benefit From Rebates

- They have complete discretion over their list prices and can increase (or lower them) them at any time.
- Having a higher list price means the PBM is more likely to give them favorable placement on the formulary and therefore they will sell more drugs.
PBM/PDPs From Rebates

► PBM/PDPs benefit from payments from drug companies.

► Profits of the three largest PBMs increased from $3.4 billion in 2007 to $12.4 billion and much of this is attributable to rebates.

So Who Are the Losers

► Corporations who self insure

► Patients who pay greater cost sharing

► Medicare beneficiaries who get inappropriate formularies
"Waste Free" Formularies

- We are working with Pacific Business Group on Health to help them help large self insured corporations develop formularies that are not based on rebates

Medicare Formularies

- We examined the 750 PDPs Medicare beneficiaries use
- There are numerous examples of where the branded drug is given a more favorable placement than the generic alternative most likely because of rebates
- Numerous examples of where a much more expensive compound drug (duexis) is given a more favorable placement than the two generic compounds that form the compound drug
- When this occurs beneficiaries pay more out of pocket because generics have less cost sharing
So what can be done?

► Safe harbor
► “Waste Free” formularies
► External reference pricing — limit what the US will pay to some multiple of other countries
  ► Proposal for Part B is 1.26
► Include drugs in bundled payment
  ► Currently drugs are outside most bundled payments so providers do not have a financial incentive to choose the most cost effective drug