



JOHNS HOPKINS  
UNIVERSITY

Show me the savings from rebates?

---

Gerard Anderson, PhD  
Professor  
Johns Hopkins University

## 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

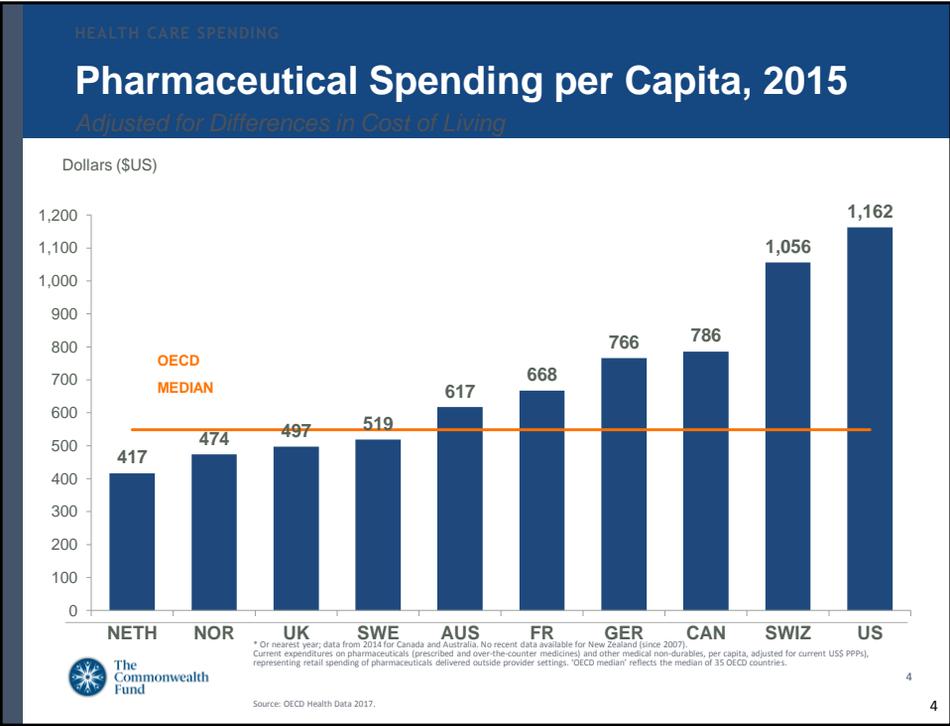
2

## 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**
- ▶ **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, Uwe E. Reinhardt, Peter S. Hussey, and Varduhi Petrosyan in Health Affairs
- ▶ Gerard F. Anderson, Peter S. Hussey, and Varduhi Petrosyan forthcoming in Health Affairs

3



## 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

5

## Prices of the 79 drugs on the US market for 3+ years with highest part D spending compared to UK, Japan, and Ontario, Canada

Country	Mean Price
US (post rebate)	<b>\$383</b>
UK	<b>\$111</b>
Japan	<b>\$69</b>
Ontario Canada	<b>\$137</b>

6

## 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

7

## Why Are Prices Higher in the US?

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>▶ 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</li> </ul> | <ul style="list-style-type: none"> <li>▶ <b>Pfizer to raise drug prices in January on 41 Drugs</b></li> </ul> |
|  | <p>USA Today</p>  |
| <ul style="list-style-type: none"> <li>▶ In other countries drug prices actually go down</li> </ul>  | <p>November 16, 2018</p>  |

8

## 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?

9

## 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

10

## PBM/PDPs From Rebates

- ▶ PBMs/ 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

11

## So Who Are the Losers

- ▶ Corporations who self insure
- ▶ Patients who pay greater cost sharing
- ▶ Medicare beneficiaries who get inappropriate formularies

12

## “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

13

## 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**

14

## 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

15