



## REBATES FOR ALL VS. SOME

### BACKGROUND ON REBATES FOR PURCHASERS

When employers or individuals purchase health insurance, they are entering into a contract with the health insurance provider to spread their relative health risk over a larger population. This spreading and sharing of risk across a larger population is what helps to make paying for healthcare services more affordable when you need it.

In exchange for holding this financial risk on behalf of the employer or individual, the health insurance provider charges a premium which is developed by applying mathematical and statistical methods to the systematic observation of natural events to assess the risk of events occurring and help formulate policies that minimize this risk and its financial impact. In other words – they use actuarial science to balance the financial risk across those that are potentially using health care services. The health benefit design and the science behind setting the premiums for the benefits are meticulously calculated and must be approved by state regulators before the product can be offered. The health insurance benefit includes intentional designs aimed at trying to change consumer behavior in order to minimize the collective financial impact of the risk. To the customer, this often takes the form of cost sharing (deductibles, co-pays, and/or percentage based cost sharing).

It's important to remember that consumers are not paying for the price of prescription drugs at a pharmacy. They're actually paying a pre-agreed cost-sharing amount for access to the drug – a cost sharing amount which was used in the actuarial calculation that reduced the monthly premium ALL people in the group agreed to pay. The consumer is not the purchaser; the health plan is the purchaser, so the individual is not entitled to a rebate. Any distortions to this pre-agreed way of distributing risk can alter consumer behavior in ways that ultimately harm the entire group.

Taking rebates away from the purchaser (the Health Insurance Provider) is the equivalent of giving your neighbor all your pop cans to redeem

### REBATES FOR ALL HOW TODAY'S REBATES WORK

Prescription drugs are a federally required Essential Health Benefit (EHB). In the world of health care, the government now mandates that health plans **purchase** and provide prescription drug coverage for almost every health insurance policy sold in Michigan. As such, health plans are the **purchasers** of prescription drugs for their customers. Their members may agree to cost-sharing structures for prescription drugs to help lower premium costs, but the health plan must purchase prescription drugs from pharmacies and provide access to these drugs for their members.

When the federal government required prescription drugs to be an EHB, they also prohibited insurers from individually pricing health care policies for their members. This means a health insurer can't price your health insurance policy premium differently from your neighbor just because your history of pharmacy expenses is greatly different. Health insurance policies are group policies, not individual policies, so the risk of an insuring an individual is distributed over a group. Unlike life insurance that can be individually priced, health insurance under the Affordable Care Act (ACA) considers individual pricing to be discriminatory and is outlawed.

Because of this risk-sharing pricing structure, rebate benefits must be given to all group members, not the individual.

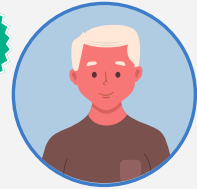
When a patient is insured, they have the financial security of knowing their health plan negotiates lower costs for prescription drugs and care that they get from hospitals, physicians, and other health care providers. Health plans do that in all sorts of ways – from value-based care agreements to volume discounts, to rebates for a handful of select brand-name drugs, and many other solutions to save money for their members. Health plans use those lower costs to reduce their members’ monthly premiums. The more savings they negotiate, the lower everyone’s premiums will be.

### SAVINGS PASSED ON TO ALL

Plans negotiate for rebates with savings passed on to everyone across all types of plans and benefit designs. **Everyone benefits.**



**\$40**  
POS  
REBATE

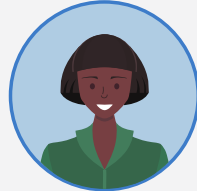


Premium: ~~\$100~~ \$90

Premium: ~~\$100~~ \$90



Premium: ~~\$100~~ \$90



Premium: ~~\$100~~ \$90

## REBATES FOR SOME

### HOW TOMORROW’S REBATES WILL HURT

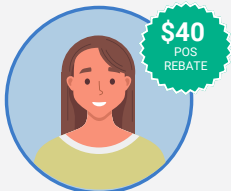
#### POINT OF SALE PROPOSAL - HB 5338

Advocates for House Bill 5338, like Big Pharma, argue that rebate savings should not be passed on to everyone in the group through lower premiums. Instead, they believe rebates should only go to patients at the pharmacy counter even though most patients are not paying the purchase price of the drug.

Health plans are paying for these drugs, purchasing them from pharmacies at a discounted rate by the drug manufacturer, and giving their customers access to these drugs through their group premiums.

### SAVINGS PASS ON TO SOME

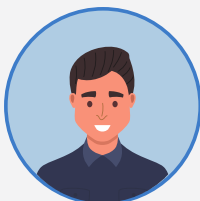
Negotiated savings passed on at point of sale to those who are taking particular drugs. **Few people benefit, premiums rise for everyone.**



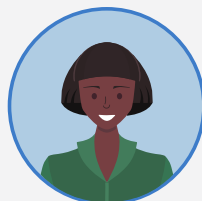
Premium: ~~\$100~~ \$60



Premium: ~~\$100~~ \$113.33



Premium: ~~\$100~~ \$113.33



Premium: ~~\$100~~ \$113.33

Unfortunately for patients, the point-of-sale rebate proposals will only make health care more expensive for nearly all customers– and undermine affordability and access for everyone. At the same time, drug manufacturers will continue charging high prices for unabated medications.

**Taking prescription drug rebates away from all members of the Health Plan and instead delivering them to a minimal number of patients at the pharmacy counter means that everyone’s premiums will go up.** Under this approach, only a few patients may see their costs go down at the pharmacy counter for one drug, but in turn, premiums and out-of-pocket costs will go up for everyone–maybe more than the discount for a particular drug for those affected patients would receive. Worse, this practice would reduce Big Pharma’s incentive to lower the prices of their drugs.

# TODAY'S REBATES WORKS. THE REAL PROBLEM IS THE PRICE.

## PRICE IS THE PROBLEM



The truth is the focus on rebates is a distraction from the real problem: out-of-control prices. Big Pharma wants you to believe that negotiating for lower drug costs for millions of Americans makes drug prices go up. Common sense – and a growing body of research – says that's not true. Big Pharma only offers rebates to drugs with competition so they can jockey for larger market share, get better placement on formularies, and ultimately make larger profits.

## POINT OF SALE REBATES WILL INCREASE PREMIUMS



If consumer out-of-pocket costs (copays/coinsurance) are reduced by rebates and or coupons at the point of sale, consumers will incorrectly perceive rebated medications to be less expensive overall than more cost-effective brands or generic medications. This will result in health plans needing to raise premiums to cover the increased utilization of higher-cost drugs. This will also cause health plans to increase premiums to replace rebates they share with consumers.