



CENTER FOR IMPROVING
VALUE IN HEALTH CARE

Prescription Drug Rebates in Colorado

2018-2020

As health care costs continue to climb in Colorado and across the nation, it is essential to understand what is driving the increases and identify sustainable ways to curb prices. To capture this information, the Center for Improving Value in Health Care (CIVHC) created the [Affordability Dashboard](#), which provides high-level analyses of several key cost drivers and insights into potential ways to improve the affordability of health care in Colorado. CIVHC is releasing issue briefs to accompany several of these reports to explore further the importance, trends, and opportunities of key health care spending areas. In this issue brief, we will explore how addressing Prescription Drug Rebates can reduce the cost of prescription drugs and lower overall health care spending for Coloradans.

Overview

WHAT IS A PRESCRIPTION DRUG REBATE?

Prescription drug spending is a leading contributor to rising health care costs across the United States. Efforts are underway in Colorado and at the federal level to address high prescription drug costs, including understanding the impact of drug rebates on the cost and utilization of prescription drugs. At a broad level, drug rebates are provided by manufacturers to health insurance payers and Pharmacy Benefit Managers (PBMs) as an incentive to cover certain drugs under their health plans. Proponents of drug rebates argue that they help lower overall health care costs. While that is true for public payers like Medicaid and Medicare, it is unclear how commercial payers use drug rebates and whether or not they incentive the use of high cost drugs like specialty brand drugs.

To better understand drug rebates and their impact on the cost and use of drugs, CIVHC, administrator of the Colorado All Payer Claims Database (CO APCD), began collecting drug rebate information from health insurance payers in 2018. The most recent analysis in the [Affordability Dashboard](#) uses 2018-2020 data and provides insights on drug rebate spending compared to overall drug costs in Colorado. The current interactive report accompanies a [data file for download](#), an infographic, and a [detailed methodology](#).

HOW DO PRESCRIPTION DRUG REBATES WORK?

The exchange of drug rebate dollars is complex, involving multiple parties, including pharmaceutical manufacturers, health insurers, PBMs, pharmacies, wholesalers, and patients.

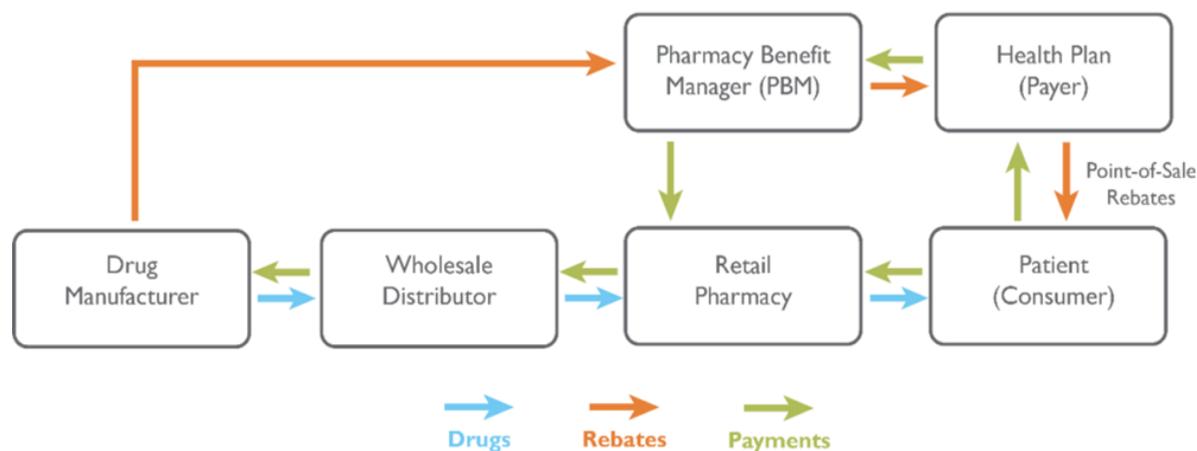
Drug manufacturers set prices and sell drugs to wholesalers, which then sell them to retail outlets, like a local pharmacy. Drug rebates refer to compensations provided by manufacturers to PBMs, typically negotiated by the PBM on behalf of the payer. Manufacturers then provide the drug rebates to the PBM, which in turn shares some or all of the rebates with health insurance payers to help reduce the cost of specific drugs.

IMPORTANT DEFINITIONS

- ➔ **Prescription Drug Rebate (according to the data submission guide for payers)** – Total rebates, compensation (see below), remuneration, and any other price concessions (including concessions from price protection and hold harmless contract clauses) provided by pharmaceutical manufacturers for prescription drugs with specified dates of fill, excluding manufacturer-provided fair market value bona fide service fees. For the full definition of rebates and compensations, please see CIVHC’s [Data Submissions Guide](#).
- ➔ **Pharmacy Benefit Manager (PBM)** – Intermediary between the health insurer and the pharmacy. They develop and maintain formularies for health insurers and negotiate rebates and discounts.
- ➔ **Brand Name Drug** – A drug sold by a drug company under a specific name or trademark that is protected by a patent.
- ➔ **Generic Drug** – A medication created to be the same as an existing or approved brand-name drug in dosage form, safety, strength, route of administration, quality, and performance characteristics.
- ➔ **Specialty Drug** – A subcategory of brand name drugs, specialty drugs usually treat complex and rare conditions and diseases and require special handling, storage, administration, and patient monitoring. Specialty drugs are most notably different than generic and non-specialty brand name drugs in that they are costly and often the only drug of their kind to treat certain conditions.

The graphic below illustrates the flow of drug payments, including rebates:

PRESCRIPTION DRUG SUPPLY CHAIN AND FUND FLOW



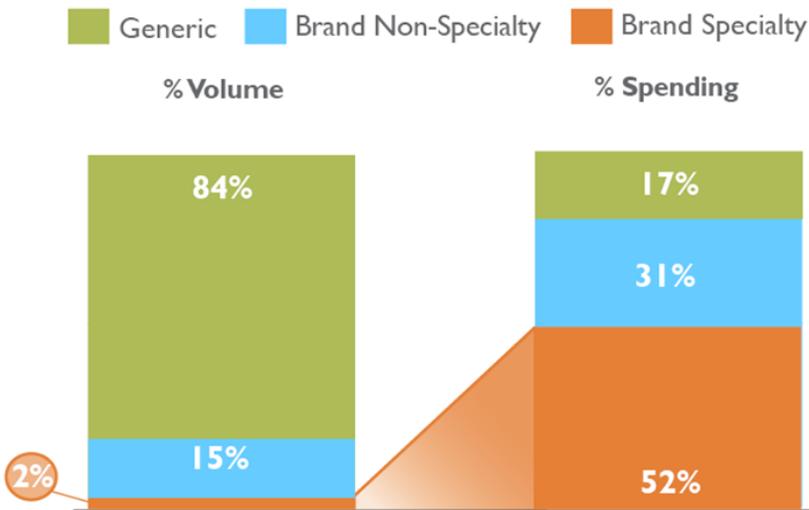
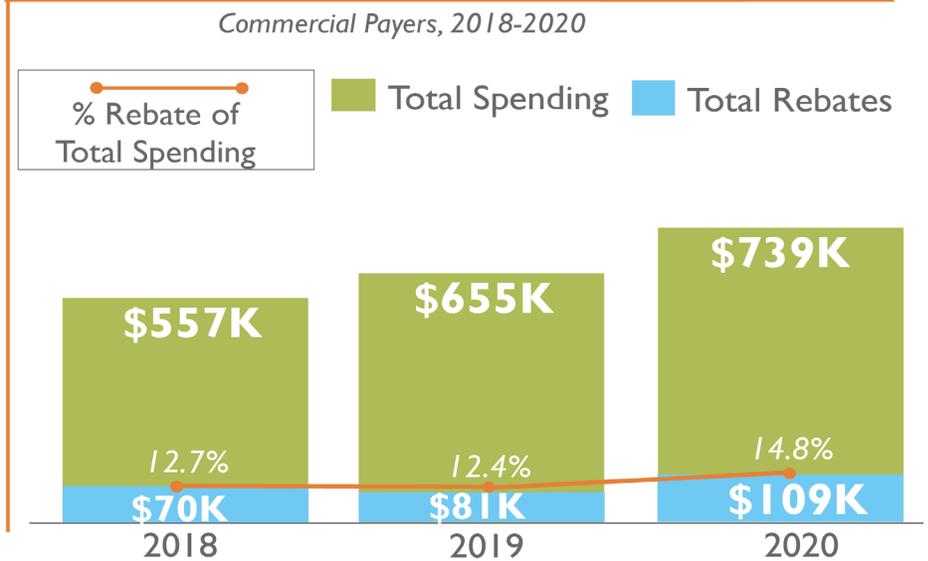
Rebates vary depending on the negotiations between manufacturers and PBMs, but typically function as a lever of negotiation by manufacturers to increase a drug’s market share by incentivizing health plans to cover the drug. Although rebate amounts are negotiated “up front,” except for point-of-sale rebates directly to patients, rebates are retroactively provided to PBMs and payers.

Public payers like Medicare and Medicaid use drug rebates to reduce the overall cost of providing coverage. However, how commercial payers use rebates has historically been unclear. [Recent legislation](#) in Colorado now requires commercial payers to use drug rebates to reduce health care costs for employers and consumers.

Impact on Colorado

Opponents of drug rebates argue that rebates may incentivize the prioritization of more expensive drugs like specialty and brand name drugs. The most recent data shows that from 2018 to 2020, total spending for commercial payers for brand specialty drugs increased by 33%, and rebates for brand specialty drugs increased by 54%. For brand specialty drugs, costs continue to rise yearly, as do rebates for these high cost drugs. Increases in total cost and rebates signal that rebates may potentially drive higher use of brand specialty drugs.

Costs for brand specialty drugs continue to rise year over year



The analysis also shows that across all payers, brand non-specialty and brand specialty drugs make up approximately 15% of the volume of drugs dispensed through pharmacies, but they represent more than 80% of all pharmacy spending.

To see further breakdowns of the data, view the infographic or [interactive report](#) online.

Potential Uses of the Data

Colorado policymakers continue to prioritize addressing the price of prescription drugs, supported by the insights provided by CIVHC’s reporting, to evaluate rebate trends and progress toward curbing costs of prescription drugs. In collaboration with CIVHC, the Department of Health Care Policy and Finance (HCPF) has taken several steps toward these goals.

In January 2021, HCPF released the second edition of the [Reducing Prescription Drug Costs in Colorado Report](#), using CO APCD data. In June 2021, the passage of [SB21-175](#) created a Prescription Drug Affordability Board (PDAB). The PDAB creates upper payment limits for certain drugs, sets drug payment limits for manufacturers, and requires the submission of more detailed prescription drug rebate information to the CO APCD.

[DSG 13](#) added new file submission criteria to support the work of the PDAB. The CO APCD will now receive data to see the drugs accounting for the highest costs in Colorado and data to better understand how value-based pharmaceutical contracts (VBPC) reimbursements are structured. Continued enhancement of data collected in the CO APCD will be critical to CIVHC supporting this state-led work.

In addition, [new legislation](#) was recently passed requiring health insurance payers to pass all rebates paid to health insurers and PBMs to be passed on to employers and consumers. The bill also sets “step therapy” standards to make payers require patients to take a less expensive drug before advancing to more costly drugs. The legislation will take effect in 2023.

POTENTIAL OF THE DATA

- ➔ **Employers:** Discuss rebate shared savings with payers and PBMs, and design benefit plans to limit the use of specialty and brand name drugs when alternatives exist.
- ➔ **Policy Makers:** Seek greater transparency on how manufacturers set prices and how rebates and other compensations are being used.
- ➔ **Researchers:** Study the pros and cons of drug rebates, their impact on utilization and prices of specialty and brand name drugs, and how this affects spending and other clinical outcomes.
- ➔ **Consumers:** Ask health providers about alternative drug options, including generics, that may provide the same results at a lower cost.

To learn more, visit our [Affordability Dashboard](#), or contact us at info@civhc.org.