



Press Release

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Costs for Taxpayers Could Skyrocket Under Proposed Rebate Rule

Possible Impact: \$85.7 billion in higher premiums, \$410 billion more in government spending – costing as much as creating the Part D program

WASHINGTON, D.C. – April 8, 2019 – Today concludes the comment period for a new rule proposed by the Department of Health and Human Services (HHS) that would eliminate a negotiating tool holding down drug prices for seniors. Expressing serious concerns about the proposal, America's Health Insurance Plans (AHIP) [submitted a comment letter](#) detailing how the rule would hurt seniors, increase premiums, and raise taxpayer spending – all to create a windfall for pharmaceutical companies. And the consequences could be far worse than previously thought.

AHIP commissioned Avalere Health to model three scenarios based on the Office of the Actuary's (OACT) assumptions in the proposed rule to understand the impact on premiums and government costs if drug makers keep a larger portion of current rebate dollars than what HHS expects. **According to the analysis, premiums for seniors could rise as much as 40%, if manufacturers retain 50% of current pricing concessions; and government costs could increase by more than \$410 billion for drugs.** With the release of today's comment letter including these new data, AHIP's Executive Vice President of Policy and Strategy Keith Fontenot released the following statement:

“The question isn't whether costs will go up, but by how much. The numbers are eye-popping, and the administration should hit the brakes on this proposal. We should not force taxpayers to pay tens of billions more to fund a giveaway to Big Pharma.”

Placing Bets on What Big Pharma Will Do

The proposed rule would eliminate rebates in the Part D program that Pharmacy Benefit Managers (PBM) use to negotiate lower prices from drug makers. It relies on the hope that drug makers will lower prices on their own if no longer forced to negotiate with PBMs. But, there's nothing to prevent Big Pharma from keeping far more than that, or from padding their bottom line with the all the savings.

According to official estimates by the HHS's own Office of the Actuary (OACT), the proposed rule would [increase premiums in Medicare Part D by 25%](#). Costs to taxpayers would go up \$200 billion, while pharma companies would see a \$100 billion windfall.

OACT reached its numbers by assuming drug companies would pocket just 15% of eliminated savings that PBMs provide. But what if Big Pharma keeps more of the savings than OACT assumed in its estimates?

Costing Americans Even More Through Higher Premiums, Out-of-Pocket Costs, and Tax Burden

According to the analysis, which replicated OACT’s assumptions and modeled the impacts on Part D premiums and government costs, if drug makers retained 50% of current rebates:

- **Government spending** would increase **\$410 billion**, more than twice as much as OACT estimated.
- **Beneficiary premiums** would increase an estimated **\$85.7 billion**, or 48% higher than the OACT estimate.
- **Net out-of-pocket spending** would increase by **\$36.5 billion** (\$85 billion in higher premiums offset by \$49.2 billion in lower cost-sharing).
- Even based on the assumption that drug makers only retain 30% of current rebate dollars, government spending would increase by \$291.6 billion, beneficiary premiums would increase by \$70.5 billion, and net out-of-pocket spending would increase by \$1 billion.

Stakeholder Impact of Eliminating Rebates Under Alternative Scenarios, Includes Induced Demand, 2020-2029 (in billions)

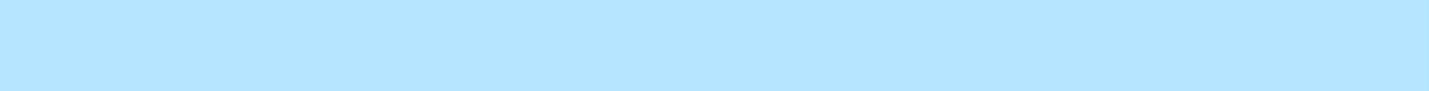
	OACT Estimates	Projections Based on OACT Estimates ¹	
		30%	50%
Share of Rebates Retained by Manufacturer	15%	30%	50%
Beneficiary Costs	-\$25.2	\$1.0	\$36.5
Cost Sharing	-\$83.2	-\$69.6	-\$49.2
Premium	\$58.0	\$70.5	\$85.7
Government Costs	\$196.1	\$291.6	\$410.2
Direct Subsidy	\$258.7	\$271.3	\$286.4
Reinsurance	-\$20.3	\$50.0	\$134.9
Low-Income Cost Sharing Subsidy	-\$57.7	-\$48.5	-\$34.1
Low-Income Premium Subsidy	\$15.4	\$18.9	\$23.0
Manufacturer Gap Discounts	-\$39.8	-\$33.2	-\$23.5

AHIP notes that this one effort by HHS to improve the Part D program could in fact cost more than the government spent to create and operate the entire Medicare Part D program during its first decade².

¹ Avalere analysis of the 2015 Medicare Current Beneficiary Survey, the 2018 Medicare Trustees Report, and data from the Centers for Medicare & Medicaid Services (CMS) Office of the Actuary (OACT).

For their analysis, Avalere was commissioned to develop a baseline estimate of Part D spending from 2020 to 2029, and then develop three alternative scenarios: 1) drug makers retain 15 percent of rebates, 2) drug makers retain 30 percent of rebates and 3) drug makers retain 50 percent of rebates. Under all three scenarios, the portion of the rebate not retained by the drug makers would be applied to prices at the point of sale, either through a price reduction or through a chargeback. Avalere also modeled the impact of induced demand from lower prices under all three scenarios.

² <https://fas.org/sgp/crs/misc/R40611.pdf> (see page 62)



Drug Prices Are a Bigger Problem

AHIP joins the Administration and members of Congress in their goal of lower drug costs. But drug pricing cannot be addressed in one rule. It is bigger than rebates. And it's bigger than Medicare Part D and Medicaid managed care. The problem is the price.

We call on the Administration to withdraw this Proposed Rule, and instead work with us, Congress, and other stakeholders genuinely interested in reducing drug prices on a comprehensive approach. Whether it involves incremental changes to upfront discounts or a major alternative to the entire rebate system, it must be a real solution that enables the private sector to negotiate fair prices and lower costs for *all* Americans.

About AHIP

America's Health Insurance Plans (AHIP) is the national trade association representing the health insurance community. AHIP's members provide health and supplemental benefits to millions of Americans through employer-provided coverage, the individual insurance market, and public programs such as Medicare and Medicaid. AHIP advocates for solutions that expand access to affordable health care coverage to all Americans through a competitive marketplace that fosters choice, quality, and innovation. Visit www.ahip.org for more information.