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Leveraging drug rebates for medical stop loss product innovation

Kevin P. Pierce, ASA, MAAA
Thomas D. Murawski, FSA, MAAA

Milliman

Rising drug costs present new challenges for medical stop loss (MSL) insurers. As costs increase, drugs and associated rebates present an opportunity for product innovation. This paper explores potential innovations and key strategies for MSL insurers.

Rebates account for 21% of total drug costs in 2016 and are expected to rise in the future.[1,2] Currently, most MSL products do not consider drug rebates when determining MSL claim payments. A policy provision that allows MSL insurers to earn a portion of formulary driven rebates could reduce premiums and align incentives between MSL insurers and customers.

Figure 1 shows two potential approaches to reflect rebates in MSL products:

- **Pro rata.** This approach credits MSL insurers with a share of rebates based on the customer's portion of claims covered by the MSL insurer. This approach is similar to the Medicare Part D program approach used to determine federal reinsurance.
- **Pass-through.** In this approach, rebates attributable to drug spend above attachment points decrease MSL claims. This approach is more complex than the pro rata approach but may lead to greater premium savings and lower MSL insurer risk. A similar alternative to this approach would involve reflecting rebates at the point-of-sale, which would reduce claims prior to applying an MSL attachment point.

FIGURE 1: DRUG REBATE APPROACHES FOR MSL PRODUCT INNOVATION

	PRO RATA	PASS-THROUGH
Description	Share a proportion of rebates equal to MSL claims divided by total medical claims	Reduce MSL claims by rebates attributable to drug spend above attachment points
Complexity	Low	High
Premium savings	4% to 6%	5% to 10%
MSL insurer risk	Similar	Reduced

[1] "The Impact of Prescription Drug Rebates on Health Plans and Consumers." Charles Roehrig, PhD. April 2018. Retrieved on September 7, 2018, from https://altarum.org/sites/default/files/Altarum-Prescription-Drug-Rebate-Report_April-2018.pdf

Premium savings vary by specific MSL attachment point. We used attachment points from $25,000 to $250,000 to estimate premium savings shown in Figure 1.

Benefits

PREMIUM SAVINGS

Both approaches could reduce premiums as sharing rebates reduces MSL coverage. A premium reduction may increase product attractiveness to potential customers. The pass-through approach may result in greater premium savings as members progress more slowly to attachment points than in the pro rata approach. Our research indicates the opportunity for pass-through savings is greater with lower attachment points.

DECREASED RISK

The pass-through approach may reduce MSL insurer risk as MSL claim volatility decreases when claims are net of rebates. We found that the pro rata approach decreases the overall claim level but does not decrease the variability in MSL insurer risk.

ALIGNED INCENTIVES

Both of these approaches better align incentives for MSL insurers and customers. As members approach attachment points, MSL insurers may play a greater role in case management. Under a standard product design, MSL insurers have a bias toward drugs with low gross cost and low or no rebates compared to a drug with an otherwise equivalent net drug cost after rebates.

Consider a member who has accumulated $75,000 in claims toward a $100,000 attachment point. The member may take one of two high-cost medications, one with a $50,000 cost with no rebate and one with a $100,000 cost with a $50,000 rebate. Figure 2 illustrates this example with potential MSL claim costs under each approach:

- **Standard (no rebates).** With this approach, MSL claims are equal to the gross cost of the drug less the amount remaining to the attachment point ($25,000).
- **Pro rata rebates.** The MSL insurer receives a portion of rebates based on the proportion of MSL claims to total claims. The MSL insurer receives approximately 40% of rebates.[3]

[2] "2018 Medicare Trustees Report." Centers for Medicare and Medicaid Services. June 2018. Retrieved on September 7, 2018, from https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2018.pdf

[3] The 40% value used in this example is not necessarily indicative of stop loss coverage levels in practice.

- **Pass-through rebates.** Rebates are deducted from the members' claims before comparing to the attachment point. MSL claims are equal for both drugs with this approach.

FIGURE 2: ILLUSTRATIVE ADDITIONAL MSL CLAIMS FOR TWO MEDICATIONS GIVEN MEMBER ALREADY HAS $75K IN CLAIMS TOWARD $100K ATTACHMENT POINT

APPROACH	$50K DRUG WITH NO REBATE	$100K DRUG WITH $50K REBATE
Standard (no rebates)	$25,000	$75,000
Pro rata rebates	$25,000	$55,000
Pass-through rebates	$25,000	$25,000

The MSL insurer cost is the same for each medication in the pass-through approach. As a result, MSL insurer and customer interests are better aligned in this scenario as drug decisions focus on clinical efficacy and stakeholder costs are defined on a more consistent basis.

Keys to success

OPERATIONAL COMPLEXITY

Both approaches require additional operational complexity and greater integration among MSL insurers, their customers, and their pharmacy benefit managers (PBMs). The pro rata approach is slightly more complex than most MSL policy provisions available today. The pass-through approach is considerably more complex than current MSL product offerings, but may provide greater premium savings and lower MSL insurer risk. The pass-through approach may also provide challenges due to rebate confidentiality agreements. Alternatively, MSL insurers could offer a discount to plans reflecting rebates at the point-of-sale to achieve savings while reducing operational complexity.

REBATE NEGOTIATION

MSL insurers that reflect rebates in products should understand whether its customer or a PBM negotiates rebates. If a customer negotiates rebates directly, the MSL insurer should ensure that rebate strategies are not affected by the stop loss products.

CONTRACT TIMING

MSL contracts typically have a defined coverage period (e.g., paid basis, 12 months of incurred claims/15 months of paid claims, etc.). Rebates are lagged and typically credited on a quarterly basis. This timing should be considered when developing an MSL product that reflects rebates.

POLICY CHANGES

Drug price reform and rebates are receiving increased scrutiny from policymakers. It is unclear how the role of rebates will evolve in the future. However, a dynamic regulatory environment can create risk—and opportunity—for the stakeholders involved.

MSL LASERING

Lasering is a common MSL practice where members with certain diagnoses are excluded from coverage or are covered at higher attachment points. Rebate-sharing may provide an alternative to lasering for high-cost drug therapies with large rebates. It could also supplement lasering to provide additional premium savings. We did not model the impact of lasering in our analysis.

Methodology

We relied on Milliman's Health Cost Guidelines™ and Consolidated Health Cost Guidelines Sources Database (CHSD) to develop our premium savings estimates. We specifically focused on the commercial population with both medical and pharmacy coverage where members were continuously enrolled for 12 months. We grouped the data by medical and drug type and applied separate rebate assumptions to brand and specialty drugs. We ran Monte Carlo simulations at various attachment points to develop our premium savings estimates. We relied upon the standard plan design underlying the Health Cost Guidelines™ to estimate plan costs and simulated 10,000 life and 1,000 life groups to test variability in claim costs.

CONTACT

Kevin P. Pierce
kevin.pierce@milliman.com

Thomas D. Murawski
tom.murawski@milliman.com