

# Patients Before Profits: Making Rebates Make Sense

## SB 873: Prescription Drugs: Cost Sharing



Health insurance companies and pharmacy benefit managers (PBMs) negotiate rebates when purchasing medications from drug manufacturers. The price they pay after rebates is significantly lower than the “list price” of the medicine – the price a patient with a commercial health plan pays at the pharmacy counter. Because health insurance companies and PBMs don’t share these savings, what a patient pays is often much higher than what their insurance company paid.

**40%** On average, health insurers and PBMs negotiate 40% off a medicine’s list price through rebates.

The Current Rebate System	The Reformed Rebate System (SB 873) <i>sharing 90% of rebates with patients</i>
List price..... \$100	List price..... \$100
Negotiated rebates..... \$40	Negotiated rebates..... \$40
What health insurers or PBMs pay..... \$60	What health insurers or PBMs pay..... \$60
What patients pay at the pharmacy.... <b>\$100</b>	What patients pay at the pharmacy.... <b>\$64</b>
A patient still within their deductible pays the \$100 list price at the counter, not the discounted \$60 their insurer paid. With a 25% coinsurance, a patient would pay \$25.	By sharing 90% of negotiated rebates, a patient still within their deductible pays \$64 at the counter, not the full \$100. With a 25% coinsurance, a patient would pay \$16.

Sharing rebates with patients at the point-of-sale through SB 873 will improve medication adherence rates – as demonstrated by UnitedHealth’s OptumRx practice of sharing rebates at the pharmacy counter, **which enabled patients to save an average of \$130 per eligible prescription and improved adherence rates between 4-16%.<sup>1</sup>**

**\$1.7B** Although rebates were never intended to flow to PBMs, in 2021, these rebates totaled \$1.7 billion in California alone, up from \$1.4 billion in 2020 and \$1.2 billion in 2019.<sup>2</sup>

Three major PBMs own 80% of the total market share: CVS Caremark (34%), Express Scripts (25%), and OptumRx (21%).<sup>3</sup> The Federal Trade Commission recently launched an investigation into PBMs’ unfair business practices and their impact on pharmacies, payers, doctors, and patients.<sup>4</sup>

**30%** The high cost at the pharmacy counter has led to 30% of Americans saying they haven’t taken their medications as directed.<sup>5</sup>

Reforming California’s rebate system will reduce patients’ out-of-pocket costs at the pharmacy counter. In addition to accountability and transparency requirements, SB 873:

- **Will** make prescriptions more affordable by requiring patients receive at least 90% of rebates at the point-of-sale.
- **Will not** significantly increase premiums – even if health insurance companies were required to share 100% of negotiated rebates with patients, premiums would increase at most 1% while patients could save up to \$800 each year on their medicine costs.<sup>6</sup>

<sup>1</sup> UnitedHealth Group: Successful Prescription Drug Discount Program Expands to Benefit More Consumers at Point-of-sale, March 12, 2019.  
<sup>2</sup> Department of Managed Health Care, *Prescription Drug Cost Transparency Report*, 2021.  
<sup>3</sup> Health Industries Research Companies, *Pharmacy Benefit Managers: Market Landscape and Strategic Imperatives* (HIRC, 2021).  
<sup>4</sup> *FTC Launches Inquiry Into Prescription Drug Middlemen Industry*, June 7, 2022.  
<sup>5</sup> KFF Health Tracking Poll (conducted February 14-24, 2019).  
<sup>6</sup> 2019 Milliman, “Can Voluntary POS Rebates Work for Medicare Part D?”

