

# Prescription Drug Rebates in Colorado

## 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 and 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 Drug Rebate analysis provides insights on drug rebates the payers receive compared to overall drug spending they pay out for prescription drugs in Colorado. To view the full interactive drug rebate analysis and download an accompanying data file, please visit our website at [civhc.org](http://civhc.org).

## 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 (See graphic on page 2).

Drug manufacturers set prices and sell drugs to wholesalers, which then sell them to retail outlets, like local pharmacies. 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.

Rebates vary depending on 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. [Legislation](#) in Colorado now requires commercial payers to use drug rebates to reduce health care costs for employers and consumers.

## Important Definitions

**Prescription Drug Rebate** (according to the CO APCD 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 Submission 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.

**Generic Drug**

A medication created to be the same as an existing or approved brand or specialty drug in dosage form, safety, strength, route of administration, quality, and performance characteristics.

**Brand Drug**

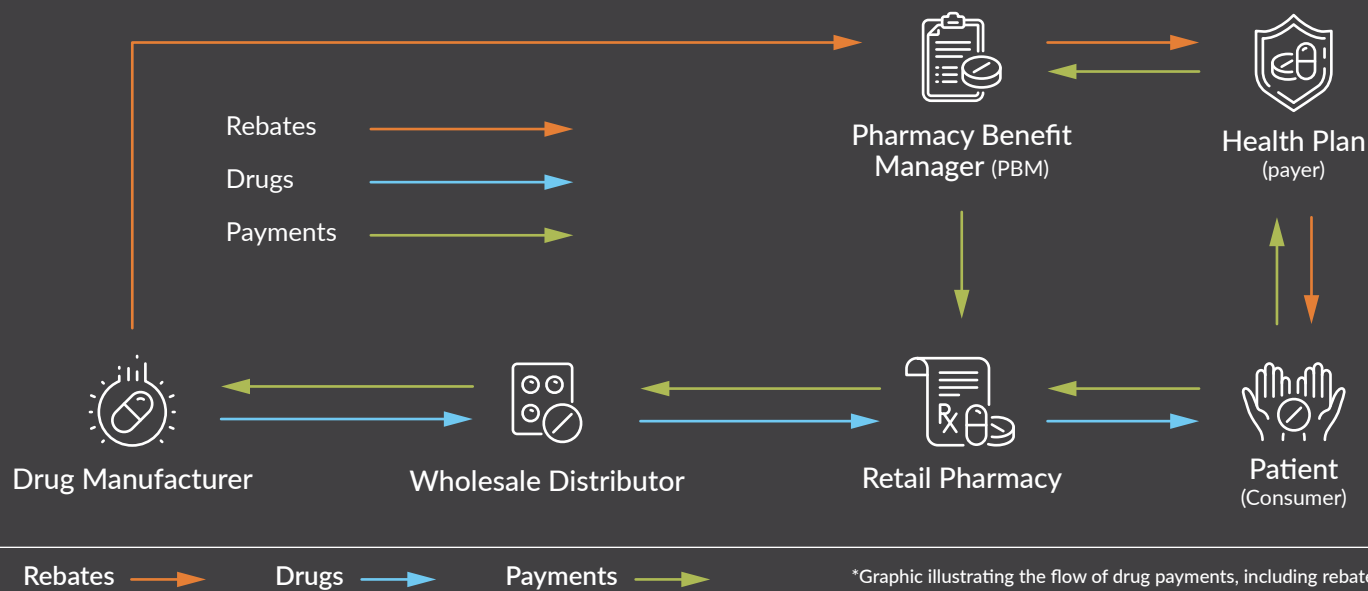
A drug sold by a drug company under a specific name or trademark that is protected by a patent.

**Specialty Drug**

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 brand drugs in that they are costly and often the only drug of their kind to treat certain conditions.



## Prescription Drug Supply Chain and Fund Flow



## Potential Uses of the Data

Colorado policymakers continue to prioritize addressing the price of prescription drugs, supported in part 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.

[Data Submission Guide 13](#), which went into effect in 2022, added new file submission criteria to support the work of the PDAB. The CO APCD now receives 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 is critical to CIVHC supporting this state-led work.

In addition, [legislation](#) requires health insurance payers to pass all rebates they receive on to employers and consumers, effective in 2023. The bill also sets “step therapy” standards requiring payers to have patients take a less expensive drug before advancing to more costly drugs.

## 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 drugs when alternatives exist.



### Consumers

Ask health providers about alternative drug options, including generics, that may provide the same results at a lower cost.



### Researchers

Study the pros and cons of drug rebates, their impact on utilization and prices of specialty and brand drugs, and how this affects spending and other clinical outcomes.



### Policy Makers

Seek greater transparency on how manufacturers set prices and how rebates and other compensations are being used.