



Stop Loss Partner Newsletter

July 2023

PBM Reform: Key Senate Committee Advances Legislation Targeting Drug Pricing Practices

Bipartisan legislation to reform pharmacy benefit manager practices and boost generic drug competition is one step closer to passage.

The Senate Health, Education, Labor and Pensions Committee on Thursday approved a package of four bills and a series of amendments just over a week after Chair Bernie Sanders (I-Vt.) postponed votes following criticism from Republicans who wanted more information about the potential impacts of a series of amendments offered by Democrats.

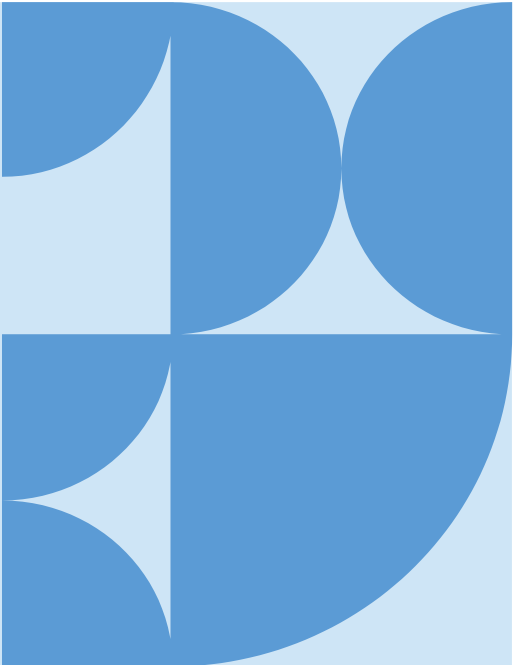
“We’re here to lower health care costs and improve access to the best possible care for fellow Americans, and the legislation we’re considering today to reform the rules that govern PBMs and generic drugs does that,” Sen. Bill Cassidy (R-La.), the committee’s top Republican, said in opening remarks at the markup.

The committee’s support of the bills, which include proposals to limit drug manufacturer use of the Food and Drug Administration’s citizen petition process and rare disease drug exclusivity to limit competition, marks a pivotal step in efforts to get a sweeping drug pricing package to the Senate floor. The most contentious part of the PBM bill is a provision that would prevent PBMs from deploying spread pricing models for their clients. In this model, a PBM would charge the insurer or plan sponsor more for a drug than it costs at the pharmacy and then pocket the difference.

Sen. Mitt Romney, R-Utah, introduced an amendment that instead would allow PBMs to offer spread pricing models but require that they also provide an alternative, allowing plan sponsors to select what works for them and

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injecting additional transparency into negotiations. It also would implement new requirements designed to increase the transparency of PBM contracts and pricing practices, and mandate that PBMs pass 100% of the rebates collected from drug makers to health plans.

Drug manufacturers have characterized PBMs as the main source of high U.S. drug costs because of rebates and fees that PBMs collect from manufacturers. PBMs counter that their main mission is to provide discounts to patients and that manufacturer price setting and use of patents to restrict generic competition are fueling high drug costs for Americans.

Patients for Affordable Drugs Now praised the favorable votes on the drug pricing bills, which the group's executive director, Merith Basey, called "a significant step toward restoring accountability to the U.S. drug price system so that it prioritizes patients rather than the bottom line of the pharma and PBM industries. We call on Senate Majority Leader (Chuck) Schumer to bring these bills to the floor for a vote as soon as possible."

Lawmakers now must work on putting together drug pricing proposals from various committees in both chambers and an agreement on lowering what Americans pay for insulin. Schumer hopes to bring a health package to the floor in the next couple of months.

Healthcare Cost Trends in the U.S.

Healthcare spending totaled \$4.1 trillion in 2020, representing 19.7% of U.S. gross domestic product, with hospitals and health systems constituting the largest segment of the U.S. health economy.

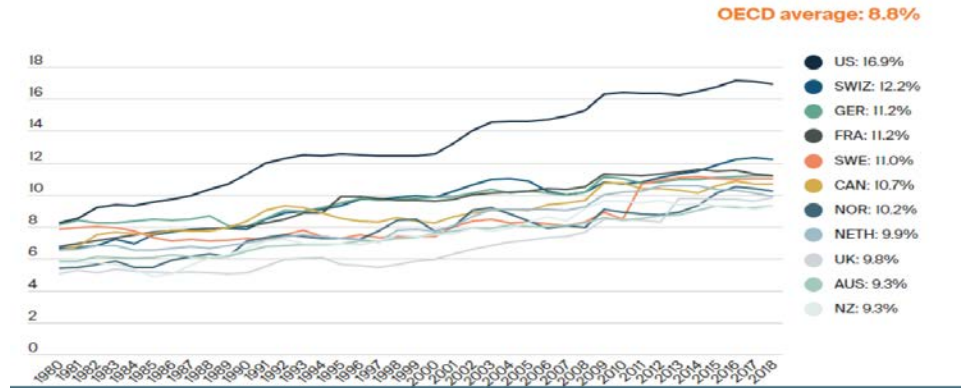
Over the last decade, family premiums for employer-sponsored health care have increased by 43%, according to the 2022 Employer Health Benefits Survey by Kaiser Family Foundations. The average family healthcare premium is \$22,221 which represents 1/3 of the median household income. From 2016-2020, the rate of increase in healthcare cost was double that of inflation.

In 2019, the latest year with internationally comparable data from the Organization for Economic Cooperation and Development (OECD), the U.S. spent \$1,126 per capita on prescribed medicines, while comparable countries spent \$552 on average. This includes spending from insurers and out-of-pocket costs from patients for prescription drugs filled at the pharmacy. See Figure 1 below.

Figure 1

The U.S. Spends More on Health Care Than Any Other Country

Percent (%) of GDP, adjusted for differences in cost of living
Legend shows 2018 data*



Data: OECD Health Statistics 2019

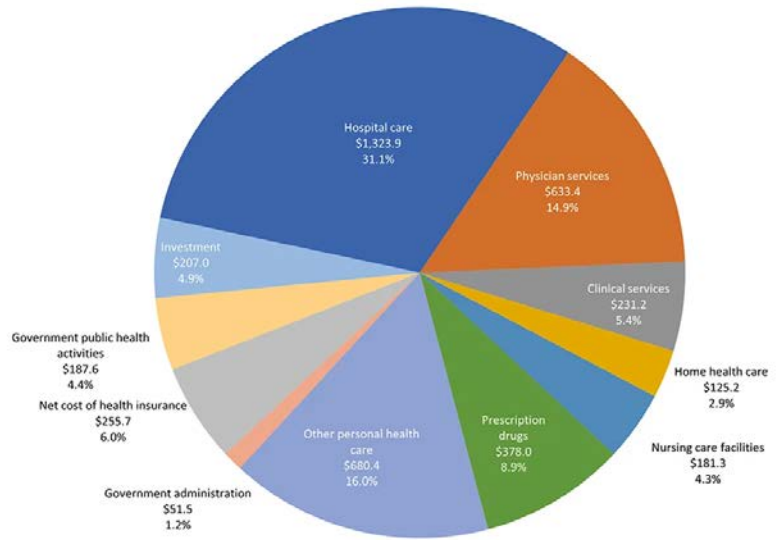
Generic drugs are prescribed 90% of the time but only account for 20% of the pharmacy cost. Most of the pharmacy cost is specialty drugs. There were 1,216 products whose price increases during the twelve-month period from July 2021 to July 2022 exceeded the inflation rate of 8.5 percent for that time period. The average price increase for these drugs was 31.6 percent. Some drugs in 2022 increased by more than \$20,000 or 500%.

Primary Healthcare Cost Drivers include:

- Physician, facility, and drug cost increases
- Expensive technologies and procedures
- High administrative expenses
- Fee for service reimbursement
- Unhealthy behaviors
- Provider consolidation
- Lack of cost consideration from patients
- Fragmented, uncoordinated care

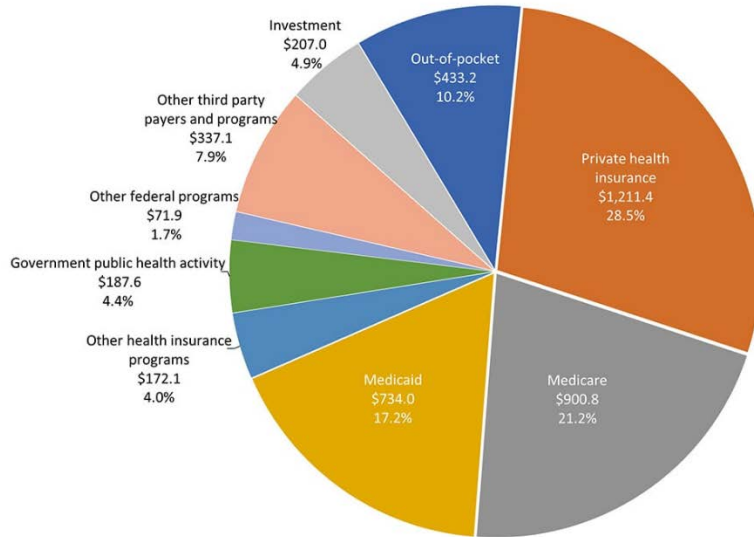
Information from: OECD Health Statistics 2019

**The U.S. spent \$4,255.1 billion on health care in 2021
where did it go?**



Centers for Medicare and Medicaid Services. National Health Expenditure Accounts: Methodology Paper, 2020 Definitions, Sources, and Methods (PDF). Centers for Medicare & Medicaid Services. December 2021.

**Who pays the bill?
2021 health care spending decomposed by source of funds**



Centers for Medicare and Medicaid Services. National Health Expenditure Accounts: Methodology Paper, 2020 Definitions, Sources, and Methods (PDF). Centers for Medicare & Medicaid Services. December 2021.

Large Claim Incidence Study 2023

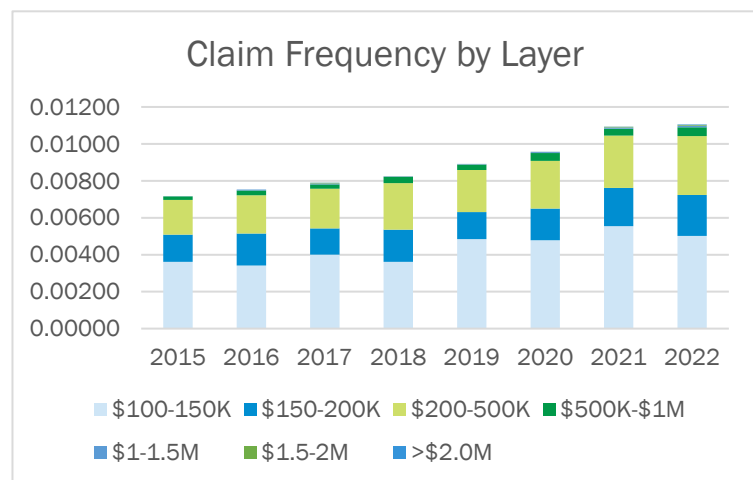
The incidence of large claims has continued to rise in recent years. While COVID claims have certainly contributed, evidence shows that leveraged trend will continue to drive stop loss claims costs higher as well as bring more and more claims into the excess layers.

About the Data

The data used in this study is from our own book of business. It represents approximately 1.4M employee life years and over 5,000 claims above \$100,000 in the last 8 years. Exposures have been counted on an earned basis, and claims on date of notification. Claims category is based on their primary ICD-10 diagnosis as determined by our claims department.

Claim Frequency

Below is a graph showing the frequency of claims by layer of loss above \$100K:



As can be seen, total frequency of potential stop loss claims continues to rise year over year. A rolling 3-year average through 2022 shows a 7.3% increase in frequency of claims above \$100K in recent years, a 23.5% increase in frequency of claims above \$500K, a 51.2% increase in frequency of claims above \$1M and a 69.6% increase in frequency of claims above \$2M.

Over the last 3 years, the 6 most frequent claims above \$100K were:

1. Neoplasms (Cancers)
2. Diseases of the Circulatory System
3. Infectious and Parasitic Diseases
4. Musculoskeletal
5. Diseases of the Digestive System
6. Diseases of the Kidney/Urinary System

During the same time period, the 6 most frequent claims above \$1M were:

1. Neoplasms (Cancers)
2. Infectious and Parasitic Diseases
3. Neonatal
3. Diseases of the Circulatory System
5. Injury/Poison
5. Diseases of the Kidney/Urinary System

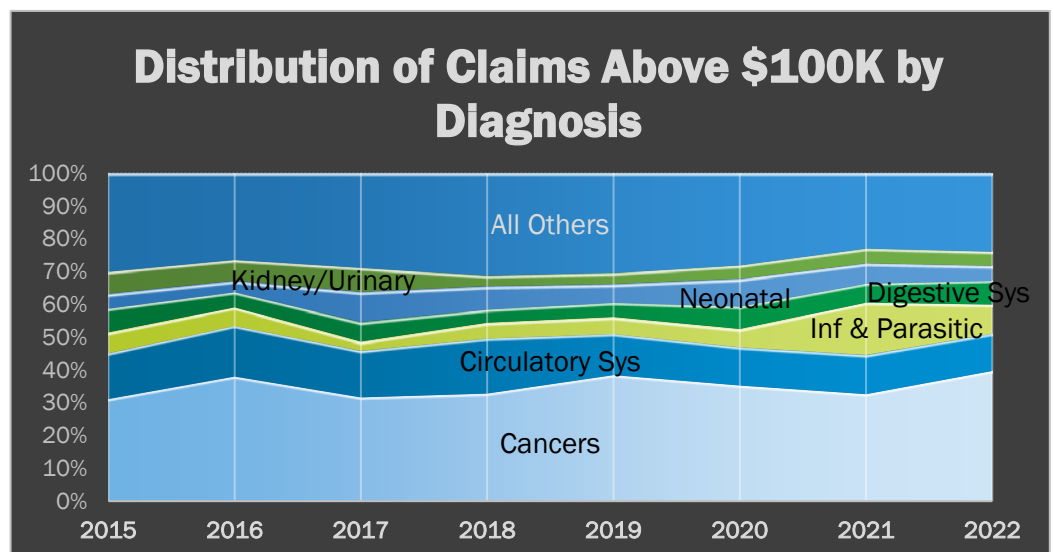
It is worth noting that while Musculoskeletal and Diseases of the Digestive System are highly frequent among all claims over \$100K, they rank 13th and 7th respectively for claims over \$1M. Meanwhile, Neonatal ranks 8th among +\$100K claims, and are among the top claims over \$1M.

Unsurprisingly, the top trending category for frequency of claims over \$100K in 2021 was Infectious & Parasitic Diseases. Fortunately, 2022 has seen this category decline by 43% from 2021. We hope to see this continue to drop in 2023.

Among the more common categories, the next largest frequency trend is in Digestive System diseases. The most common condition being Crohn's Disease. An increase in high-cost drugs for this condition may be to blame.

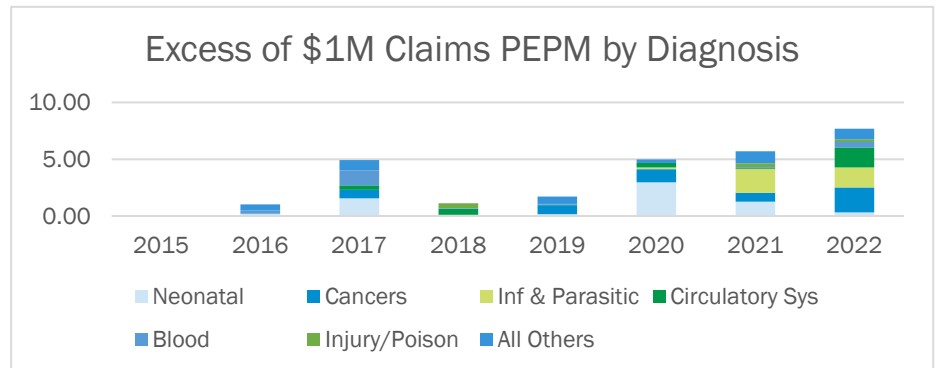
Total Claims Dollars

In recent years, for stop loss claims above \$100K the top diagnoses include the following, and account for roughly 70-80% of claims dollars:



Of note, Injury and Poison dropped out of the top 6 in recent years, while diseases of the Digestive System were added. This is not due to a decline in injuries and poisoning, but rather a lack of growth in it. Meanwhile, the frequency of high-cost digestive conditions appears to be on the rise with a 16-19% rise in frequency of claims above \$100K. The most frequent cause of which appears to be Crohn's disease. This is likely due to some of the high-cost drugs being used to treat it.

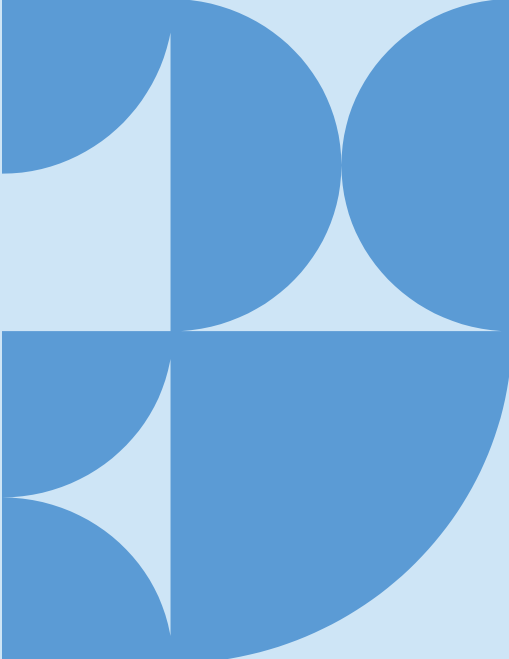
For stop loss claims above \$1M, most of the same categories hold. The exception is that injury and poisoning back on the list and digestive system diseases are replaced by diseases of the blood. As is expected, these claims are more volatile.




There are two main categories to point out. Cancers and Infectious & Parasitic diseases.

The increase in 2020 is for the obvious reason. Prior to COVID, infectious diseases almost never breached the \$1M layer. However, long ICU stays resulted in many COVID claims that exceeded \$1M. In fact, a large portion of the Neonatal claims were due to an extended COVID related NICU stay. 2020 saw an incidence rate of 1.2 COVID related claims over \$1M per 100K employee lives. 2021 saw that rate increase to 10.47. 2022 has seen that number drop back down to 0.8. Since COVID has become endemic, it is unlikely we will see these cases go away entirely. However, hopefully the frequency will continue to drop.

Unfortunately, the second category is not likely to see a decrease any time soon. In 2019, the number of large cancer claims skyrocketed. The frequency of cancer claims over \$1M spiked in 2019. This is likely due to some of the cell therapies being used to treat cancers. 2020 and 2021 saw some leveling off. Likely due to interruption of services from COVID lockdowns. In 2022 we saw the large claim dollars for cancer related claims jump. As these treatments become more common, the amount of cancer related claims over \$1M is set to increase even further. Hopefully, the impact will be softened somewhat by the decline in COVID claims.



Our mission at  is
to bring competitive and innovative products to the market,
to provide excellent service to our clients/partners and
to guarantee support before and after the sale.

Our Vision

- £ Excellence in People
- £ Excellence in Service
- £ Excellence in Product

References:

1. PBM Reform: Key Senate Committee Advances Legislation Targeting Drug Pricing Practices. Retrieved June 13, 2023 from [PBM reform: Key Senate committee advances legislation targeting drug pricing practices | BenefitsPRO](#)
2. Healthcare Cost Trends in the US. Retrieved June 14, 2023 from Debbie Hoffer, AVP Companion Life
3. Large Claim Incidence Study 2023. Retrieved June 30, 2023 from Brian Cupp, Actuary ISU