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Premium Impacts of POS Rebate Implementation in the ACA Market in the State of Arkansas

Commissioned by PhRMA

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Background

Pharmaceutical manufacturers often give significant rebates to pharmacy benefit managers (PBMs) or payers (including plan sponsors and health plans) on brand medications in exchange for favorable formulary placement and other demand incentives. Typically, payers use these rebates to reduce their pharmacy liability, which often translates into lower premium rates for all members.[1] Recent legislation in several states has required rebates to be passed along to members who use those prescription drugs at the point of sale. For members whose out-of-pocket costs are based on the cost of the drug (i.e., a coinsurance benefit or deductible), netting the rebates at the point of sale would also reduce their out-of-pocket cost.

In 2023, the Arkansas State Legislature passed Act 333, requiring health plans and PBMs to pass manufacturer rebates directly to members at the point of sale (POS) beginning August 1, 2023.[2] POS rebates reduce the gross cost of a rebated drug, and therefore, also reduce cost sharing for patients using those drugs when they pay a percentage of the gross cost (i.e., if they are subject to a coinsurance or deductible). In turn, under a deductible or coinsurance benefit structure the health plan forgoes a portion of the manufacturer rebate and their portion of claim costs increases. Plans generally build any changes in claim costs into their premiums.

PhRMA commissioned Milliman to study how the implementation of POS rebates impacted premiums in the Arkansas Affordable Care Act (ACA) market. The Individual market consists of medical health plan offers to a single individual or family, and the Small Group market consists of medical and / or dental insurance offerings to small businesses with 1 to 50 employees. In prior analyses in Arkansas and other states, POS rebates in the commercial market were expected to increase premiums by roughly 0.5% to 1.0%.[3,4,5] In this paper, we study actual 2024 filing submissions to understand if actual premium changes are consistent with these expectations.

ACA Rate Filings

Carriers in the ACA market are required to submit annual rate filings in early summer (typically May through July) for the following year. These filings explain how premiums were developed and are reviewed, and sometimes adjusted, by each state's department of insurance.

At a high level, premiums are developed in three steps:

1. Project plan claim costs: Claims from the prior full year are trended forward and adjusted for changes in expected member demographics, plan enrollment, morbidity, benefits, manufacturer rebates, and any other changes that may impact plan claim costs.

2. Incorporate risk adjustment transfers, reinsurance receipts (if applicable), administrative expenses, taxes and fees, and margin: These additional amounts are added to (or subtracted from) the projected plan costs.

3. Determine member premiums: Average premium is calculated for individual members using a base premium and adjusting for allowable rating factors (i.e., benefit design, geographic area, age, family size, and tobacco use).

[1] https://www.milliman.com/en/insight/A-primer-on-prescription-drug-rebates-Insights-into-why-rebates-are-a-target-for-reducing
[2] https://casetext.com/statute/arkansas-code-of-1987/title-23-public-utilities-and-regulated-industries/subtitle-3-insurance/chapter-92-multiple-employer-trusts-and-self-insured-plans/subchapter-7-arkansas-pharmacy-benefits-manager-share-the-savings-act/section-23-92-702-purpose
[3] https://www.milliman.com/-/media/milliman/pdfs/2022-articles/1-19-22-measuring-impact-point-of-sale-rebates-commercial-health-insurance-market.ashx
[4] https://www.milliman.com/-/media/milliman/pdfs/2023-articles/6-5-23_pos-rebate-study-colorado-hb-1370.ashx
[5] https://www.sciencedirect.com/science/article/abs/pii/S1098301522021416

Any expected premium impact due to the implementation of POS rebates would be reflected in the projection of plan claim costs. Prior year claims would reflect rebates collected ***after*** POS, so plans would need to reflect the expected impact of lost rebates in their projection of next year's costs. There is no specific requirement regarding where an adjustment would need to be made or if it needs to be explicitly disclosed. Carriers may reflect the impact of POS rebates as an adjustment to prescription drug cost trend, an explicit "other" adjustment to projected allowed costs, an adjustment to benefit relativities, or elsewhere in the filing.

States make ACA filings publicly available, though the content may be limited depending on the state. Some states allow carriers to redact information that may be considered trade secret. Rebate information in particular is often redacted due to its confidential nature for both payers and pharmaceutical manufacturers.

Reported Premium Impacts[6]

To assess the premium impact of the implementation of POS rebates imposed by Act 333, we reviewed publicly available individual and small group filings for plan year 2024.

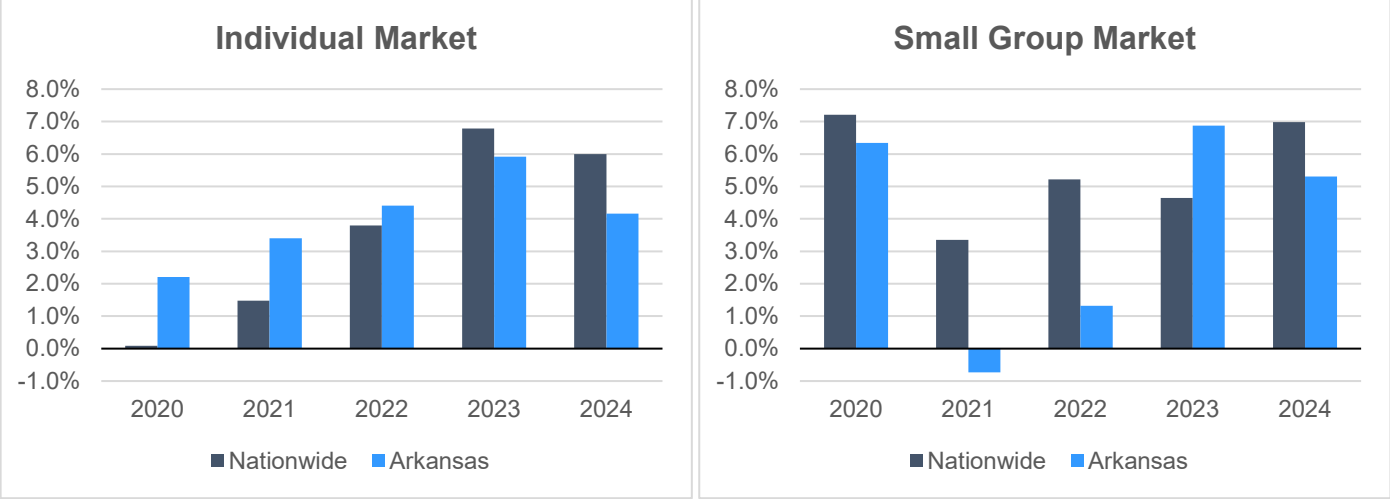
- In Arkansas, 250,000 members (or 56% of the ACA market) are currently enrolled in plans that stated in their filings that they made an adjustment for additional costs resulting from the implementation of Act 333. Specifically, filings stated "[Act 333] will increase claims paid by [the plan] because Rx rebates will be used to reduce member cost-sharing basis."[7] The amount of the adjustment was not stated in the filing.

- 200,000 members (or 44% of the ACA market) are currently enrolled in plans that did not publicly disclose if an adjustment was made to reflect the implementation of Act 333.

We also reviewed overall rate increases for ACA plans in Arkansas relative to other states, however, based on our analysis of available data, it is not possible to isolate the impact of Act 333 on ACA premiums in Arkansas. The average Individual ACA market rate increase in Arkansas for 2024 was a 4.2% increase compared to 6.0% nationwide. Similarly, the average Small Group ACA market rate increase in Arkansas for 2024 was a 5.3% increase compared to 7.0% nationwide. To the extent Arkansas rate increases were lower than nationwide averages, and considering POS rebates would typically be expected to produce a small increase in premium, it does not appear Act 333 caused a meaningful increase in premium, though it is not possible to isolate its impact.

Average rate changes reported in the Uniform Rate Review Template[8] from 2020 to 2024 for Arkansas and nationwide are shown in Figure 1.

FIGURE 1: 2020 to 2024 Average Rate Change for Arkansas and Nationwide



[6] Rate increases were calculated as the "current" membership and premium weighted average (consistent with URRT averaging logic) of submission level rate increases reported in the URRT
[7] insurance.arkansas.gov
[8] https://www.cms.gov/marketplace/resources/data/rate-review-data

Prescription Drug Trends

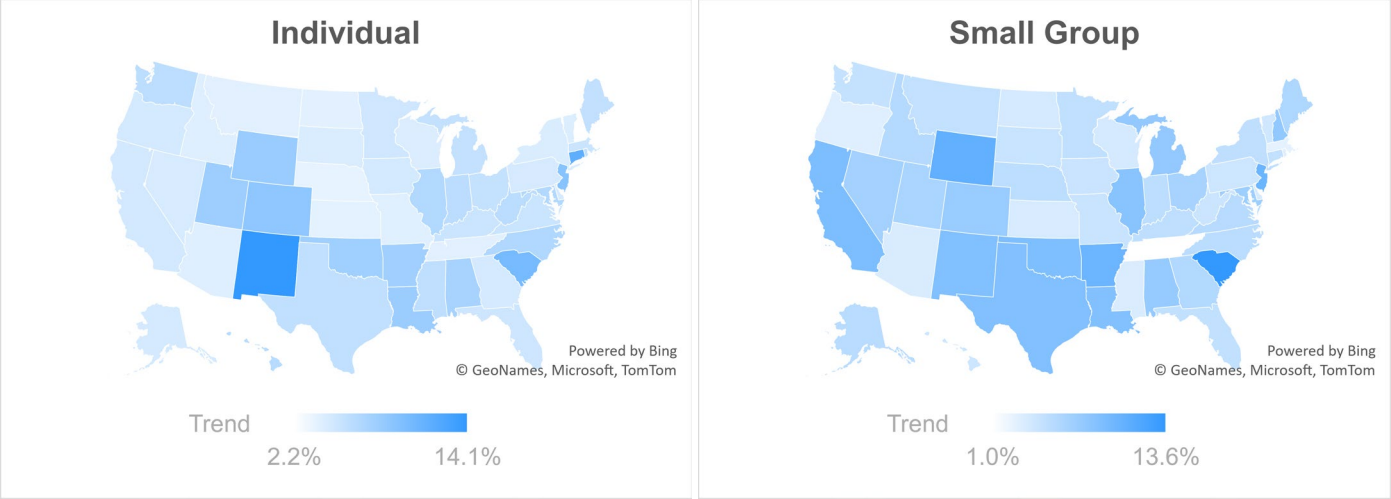
Further, we reviewed prescription drug cost trends reported in the same filings. Act 333 would be expected to decrease POS drug costs, which carriers may have potentially reflected in their assumptions. We utilized the trend information from the Part I Uniform Rate Review Template[9] for pricing year 2024 from the Centers for Medicare and Medicaid Services Rate Filing Justification for Single Risk Pool Plans that all carriers are required to submit for ACA filings. We also utilized public versions of actuarial memorandums submitted for carriers' ACA filings.

Individual Market: The projected prescription drug cost trend from 2023 to 2024 in 2024 Arkansas Individual ACA market rate filings was reported between 4.9% and 9.8% for filings that included an experience rating component (i.e., claim experience in the experience period was considered partially or fully credible for pricing purposes), with an average projected prescription drug trend across all 2024 Arkansas Individual ACA market filings of 7.7% for the 2023 to 2024 projection period for credible filings. While filings often use the same trend assumption for both years, we observed the prescription drug trend from 2023 to 2024 to be 1.2% higher than the 2022 to 2023 assumption in two (of five) filings. Carriers have not explicitly stated a specific trend adjustment for the impact of POS rebates, although it is possible carriers may have included this adjustment elsewhere or spread it across the two years. Arkansas's 7.7% trend was above the nationwide average of 5.7%, with nine states showing a higher trend.

Small Group Market: Similarly, the projected prescription drug cost trend from 2023 to 2024 in 2024 Arkansas Small Group ACA market rate filings was reported between 3.4% to 12.3% for filings that included an experience rating component, with an average projected prescription drug trend across all 2024 Arkansas Small Group ACA market filings of 10.1% for the 2023 to 2024 projection period for credible filings. We observed the prescription drug trend from 2023 to 2024 to be 2.4% higher than the 2022 to 2023 assumption in two (of seven) filings and 0.4% higher in three (of seven) filings. Carriers have not explicitly stated a specific trend adjustment for the impact of POS rebates, although it is possible carriers may have included this adjustment elsewhere or spread it across the two years. Arkansas's 10.1% trend was above the nationwide average of 6.6%, with two states showing a higher trend.

Assumed prescription drug cost trends from 2023 to 2024 included in 2024 ACA filings are shown in Figure 2.

FIGURE 2: 2023 to 2024 Prescription Drug Cost Trend Assumptions by State and Market



Many carriers within the state did not provide detail regarding the development of their prescription drug trend in their Actuarial Memorandum, citing trade secret information for the development. The development of a carrier's prescription drug trend may adjust for the impact of POS rebates without being explicitly stated.

Conclusion

Upon review of publicly available materials from 2024 Arkansas Individual and Small Group market rate filings, the passing of Act 333 may have been reflected in prescription drug trends, but we did not find evidence in rate filing documents that the Act had a material impact on premium rate increases for Arkansas. This is consistent with prior studies, which showed the premium impact to be less than 1%. Actual impacts may differ from pricing estimates and plans may adjust strategies in light of the change going forward.

[9] https://www.cms.gov/marketplace/resources/data/rate-review-data

Caveats and Limitations

This information was developed to summarize reported prescription drug trends and premium impacts due to POS rebates. This information may not be appropriate, and should not be used, for other purposes.

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We relied upon the Centers for Medicare and Medicaid Services Rate Filing Justification for Single Risk Pool Plans and publicly available rate filing information available through SERFF and department of insurance websites. We accepted these items without audit. To the extent the data and information is not accurate or is not complete, the values provided in this report may, likewise, be inaccurate or incomplete.

Michelle Klein is an actuary for Milliman and a member of the American Academy of Actuaries. She meets the Qualification Standards of the Academy to render the actuarial opinion contained herein. To the best of their knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

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