

Client Update

In 2018, Efforts in Transparency to Lower Medical and Drug Costs

By Michael S. Grant

It's no secret that the costs of medical and pharmaceutical care are so inflated, they are untenable expenses for many Americans, causing them to delay or altogether avoid receiving the medical care they need to prevent or manage illness. In 2018, we will see increased efforts to create price transparency and fairness to lower costs for consumers.

SOLUTIONS FOR EMPLOYERS

While consumers generally benefit from lower medical costs when they get their coverage through their jobs, employers are unremittingly challenged with obtaining the most cost-effective coverage solutions for their employees as well as their organizations in an ever-changing market.

Reference-Based Pricing

Increasingly, employers are exploring reference-based pricing (RBP) to mitigate medical costs. Under this approach, an employer may design its plan by considering the Medicare reimbursement rates (which are closer to the actual cost of providing a service) and setting provider reimbursement rates at some percentage above the Medicare reimbursement rate but below traditional rates. Employers can implement RBP by placing a cap on the amount they are willing to pay providers for a particular service.

It's important to keep in mind that certain providers may require employees to pay the difference between the reference-based price and what the provider charges (known as balance billing). However, if employees choose providers who provide services at the reference price, then they will pay little or no additional out-of-pocket costs. Employers may also consider limiting in-network providers to those that will accept reference-based pricing.

This pricing approach can be a very different experience from what your employees are accustomed to; education and consumer empowerment are key when implementing an RBP approach. At Crystal & Company we will collaborate closely with our clients to help them determine if an RBP approach is in their best interests.

Pharmacy Benefit Management (for Self-Insured Employers)

Pharmacy expenditures are a major cost driver for organizations. Self-funded organizations have the ability to identify their drug expenses and potentially obtain increased cost savings through contract negotiation.

At Crystal & Company, we use a pharmacy performance approach that details how much of an employer's costs are attributable to pharmaceutical costs at the individual drug level. From this objective standpoint, we can help self-funded clients determine what type of pharmacy benefit manager (PBM) results in the most effective cost savings for their organizations.

CHANGES IN FEDERAL AND STATE LEGISLATION

Trump Administration Calls on Redesign of Medicare and Medicaid Pricing

In February 2018, the President's Council of Economic Advisors published "[Reforming Biopharmaceutical Pricing at Home and Abroad](#)" in which they make various recommendations on ways to lower drug prices. One of the suggestions is to make changes to the Medicare and Medicaid policies for pricing drugs. They state that in the current systems, steep drug discounts provided to Medicare and Medicaid recipients cause drug makers to artificially inflate their drug prices for all other consumers. It is yet to be seen how Congress will respond to their recommendations.

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State Health Care Transparency Laws

In state legislatures, health care transparency has been a hot topic. From insurance plans disclosing price information, to health care facilities disclosing their average charges and providing estimates of costs prior to treatment, states have taken significant measures to help their residents make informed decisions about their health costs. (See the National Conference of State Legislatures website for a listing of enacted state legislation.)

Various states also have drug price transparency laws. In October 2017, California implemented the most comprehensive drug price transparency law to date. It requires drug manufacturers to notify state purchasers and health insurers 60 days in advance of a significant drug price increase, their reasons for doing so, and a breakdown of the drug's cost information. These types of laws help state lawmakers obtain information to better control costs, and are intended to translate into a lower cost burden on taxpayers and patients.

Congressional Bills Call for Drug Price Transparency

A number of bills currently in Congress call for health care cost transparency. Most notably are the bills that call for drug makers to be more transparent in regard to what's behind their drug sticker prices.

The **Fair Accountability and Innovative Research Drug Pricing Act of 2017 (H.R. 2439)** that was introduced in May 2017 requires manufacturers of certain drugs and biological products with a wholesale cost of \$100

or more per month to report to the Department of Health and Human Services (HHS) price increases that result in a 10% or more increase in the cost of a drug over a 12-month period or a 25% or more increase over a 36-month period.

The **Drug-Price Transparency in Communications Act (S. 2157)**, introduced to Congress in November 2017, requires drug manufacturers to disclose the wholesale acquisition cost of prescription drugs in any direct-to-consumer advertising and marketing to health care practitioners.

LOOKING AHEAD

While it may not be a magic pill, increased transparency (in whatever final forms it takes) appears to be a cost-containment solution of choice. The goals are to stimulate healthy price competition in the US, lower health care coverage costs, and ultimately motivate consumers to strive for their healthiest selves, as they'll be better able to afford the medical attention they need.

Employers face the challenge of maintaining an employee benefits program that is not only compliant with current requirements, but also considers future trends in legislation to stay ahead of the curve. At Crystal & Company, we research and analyze market and legislative trends so our clients don't have to.

[Contact us](#) for more information on potential cost saving measures for your organization.



About the Author **Michael S. Grant**

Michael S. Grant is an Executive Managing Director for Employee Benefits Solutions at Crystal & Company.

(212) 504-5926
michael.grant@crystalco.com

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