

PRICING OF SPECIALTY DRUGS

Analysis of the impact on premiums of provider
markups on specialty drugs

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1. Report Qualifications/Assumptions and Limiting Conditions

Oliver Wyman was commissioned by AHIP to analyze the costs differences between specialty drugs that are delivered through a specialty pharmacy when compared to those that are purchased and delivered by a provider. Oliver Wyman shall not have any liability to any third party in respect of this report or any actions taken or decisions made as a consequence of the results, advice or recommendations set forth herein.

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2. Executive Summary

At the request of the AHIP, we have analyzed medical and pharmacy data to assess the impact on the cost of health insurance of specialty drugs that are purchased by providers directly and are marked up before being billed to patients when they could alternatively be supplied by a specialty pharmacy at a lower cost to the patient. Our key findings include the following:

- The cost of specialty drugs that are supplied through a specialty pharmacy are less expensive to consumers than the same drugs when bought and billed by a provider.
- The cost of markups charged by providers on specialty drugs represents about 0.7% of total health expenditures.
- Consumers and employers will pay on average \$50 more for single coverage and \$175 more for family coverage in premiums in 2024 due to the markups charged by providers to supply specialty drugs that could have been supplied by a specialty pharmacy.
- The total value of health insurance premiums and premium equivalents that could have been saved if providers charged the same price for specialty drugs as those available from specialty pharmacies would be as much as \$13.1 billion in 2024.

3. Introduction and Background

Introduction

Oliver Wyman was retained by AHIP to examine medical and pharmacy claims data to determine the additional cost in the health care market that results from the markups that are charged by providers for specialty drugs. Our calculations project the cost of the markups and estimate the savings that would be realized if the pricing of specialty drugs that are supplied by a provider were identical to the cost of supplying the same drug through a specialty pharmacy. We convert these results to the impact on health insurance premiums by market and state.

This report contains the following sections: the executive summary describing the main results; this introduction and background section providing information about the pricing of specialty drugs that are supplied by providers; a section on methodology and data sources; and a results section. The report also includes an Appendix that provides the results by state and market.

Background

The health care market has recently seen an increase in health plans implementing programs that require certain provider-administered drugs to be delivered to a healthcare provider from a specialty pharmacy, often called white bagging. The alternative to white bagging is “buy and bill” which means that the healthcare provider purchases the specialty drugs directly and stores the drug until it is required for patient care. Typically, when “buy and bill” is utilized the provider will charge a markup for the drug that is passed through to the patient’s bill. Previously published studies have attempted to quantify the value of these markups. One study that reviewed hospital-administered cancer therapies found that the median markup ranged from 120% to 630% over hospital acquisition costs.¹ Another study, which measured the difference in price for physician administered drugs between Medicare, which is priced based on the average sales price, and employer-sponsored insurance (ESI), found that the ESI plans paid more for most physician-administered drugs.² The purpose of requiring specialty drugs to be delivered through white bagging is that the specialty pharmacy charges a lower cost to the patient and health plan than the provider-supplied drug because there is no additional markup.

¹ “Hospital-Administered Cancer Therapy Prices for Patients with Private Health Insurance”
<https://jamanetwork.com/journals/jamainternalmedicine/fullarticle/2791386>

² “Comparison of Prices for Commonly Administered Drugs in Employer-Sponsored Insurance Relative to Medicare”
<https://jamanetwork.com/journals/jama-health-forum/fullarticle/2801228>

4. Data and Methodology

Oliver Wyman used the 2021 commercial data set, commonly referred to as MarketScan, that has detailed medical and pharmacy claims data for nineteen million covered lives. From these data, we identified the claims that are processed as a pharmacy claim and reside in the pharmacy database as a specialty drug claim that is supplied by a specialty pharmacy. For buy-and-bill, we relied on medical claims data that is coded with HCPCS codes starting with “J.” Our assumption is that any specialty drug claim in the pharmacy database is a white bagged claim, and any specialty drug claim in the medical database is a buy-and-bill claim.

We worked with AHIP to identify the drugs to be used in our analysis. The list is specific to prescription drugs that are typically sourced through both a specialty pharmacy and a provider (buy and bill). Table 1 is a list of the specialty drugs that we used in our analysis. We understand that this is not an exhaustive list of the specialty drugs that are bought and billed by providers.

Table 1
List of Specialty Drugs Included in Analysis

Brand Name	Primary Conditions Treated	Brand Name	Primary Conditions Treated
Actemra	Rheumatoid Arthritis	Prolia	Osteoporosis
Entyvio	Crohn’s Disease and Ulcerative Colitis	Rituxan	Autoimmune Diseases and Cancer
Eylea	Macular Edema, Macular Degeneration and Diabetic Retinopathy	Sandostatin	Relieves Symptoms related to Tumors
Keytruda	Various forms of Cancer	Soliris	Blood Disorders
Lucentis	Macular Edema, Macular Degeneration and Diabetic Retinopathy	Somatuline Depot	Acromegaly
NPlate	Immune Thrombocytopenia	Stelara	Psoriasis, Crohn's Disease and Ulcerative Colitis
Nucala	Asthma	Tecentriq	Various forms of Cancer
Ocrevus	Multiple Sclerosis	Tysabri	Multiple Sclerosis
Opdivo	Various forms of Cancer	Udenyca	Complementary to Chemotherapy
Orencia	Rheumatoid Arthritis	Xolair	Asthma
Perjeta	Breast Cancer		

For these drugs, we determined the average cost of a prescription that is filled and supplied by a specialty pharmacy and compared the result to the average cost of a prescription that is bought and billed by a provider. We normalized the data to reflect a common measurement for each specialty drug so that the average cost is for the same quantity and dosage. We then calculated the difference in the average cost per dosage and multiplied this amount by the total number of dosages for each drug that are supplied by a provider. This amount represents the markup for prescriptions that are bought and billed by providers.

We calculated a markup for each drug in our analysis and accumulated this amount to determine the total value of the markups for buy and bill prescriptions when compared to the specialty pharmacy cost. We divided the aggregated amount by the total claims in our source database to convert this amount to a proportion of total medical and pharmacy spend. Finally, we applied this percentage increase to the average premiums in the marketplace to calculate a per member cost.^{3,4} This assumes that the increase in cost is directly applicable to the amount of premium that an insurer will charge for health insurance. We also estimated aggregate excess charges based on enrollment in each state and market segment.⁵

³ Individual and Small Group premiums and enrollment from “CMS Summary Report on Permanent Risk Adjustment Transfers for the 2022 Benefit Year”, Appendix A, trended to 2024 at a 6.0% annual trend.

⁴ Large Group Single and Family Premiums from Kaiser Family Foundation “State Health Facts” for 2022, trended to 2024 at a 6.0% annual trend (<https://www.kff.org/state-category/health-costs-budgets/employer-based-health-insurance-premiums/>)

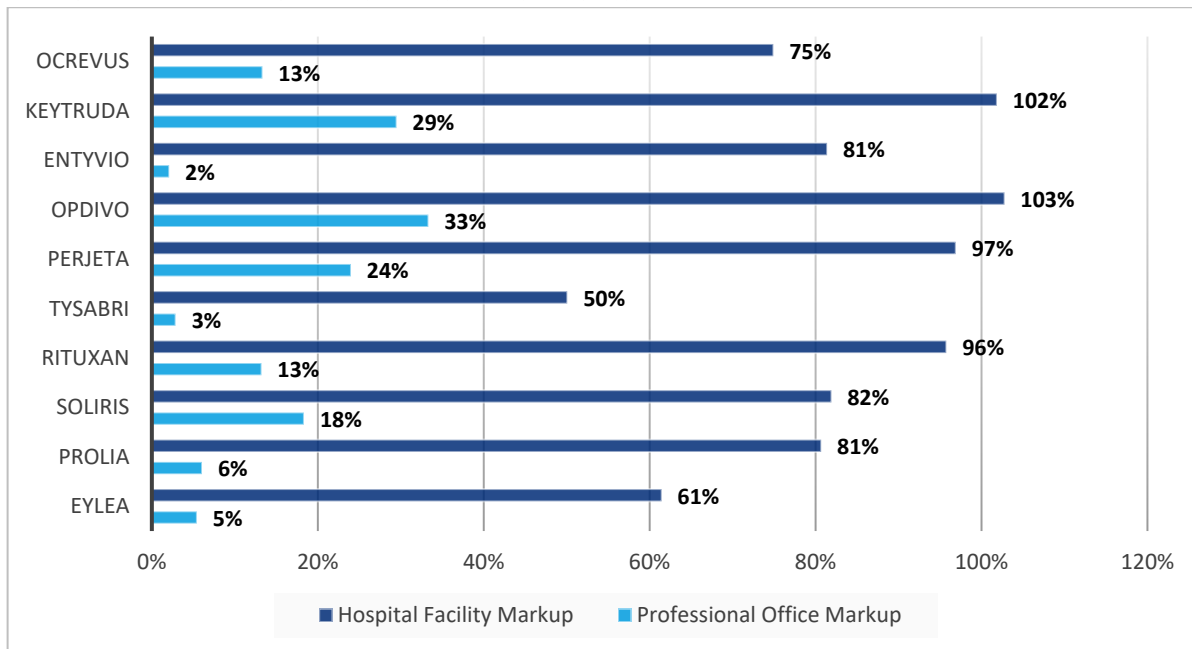
⁵ 2022 Large Group (50+) enrollment from “Medical Expenditure Panel Survey (MEPS) Insurance Component (IC)”, Table II.B.1 (<https://datatools.ahrq.gov/meps-ic/>)

5. Results

Our analysis examined the expense related to the markup of specialty drugs when supplied by a provider rather than supplied through a specialty pharmacy. The results of our analysis are to calculate the value of the markup charged by providers and to estimate the additional health insurance premiums paid by consumers and employers as a result. Chart 1 below shows the top ten drugs that we reviewed based on total dollars. Of these ten specialty drugs, the average cost of the specialty drugs that are buy and bill are 50% to 103% higher if they are supplied by a hospital facility, and 2% to 33% higher if they are supplied by a professional office when compared to the average cost when supplied by a specialty pharmacy.

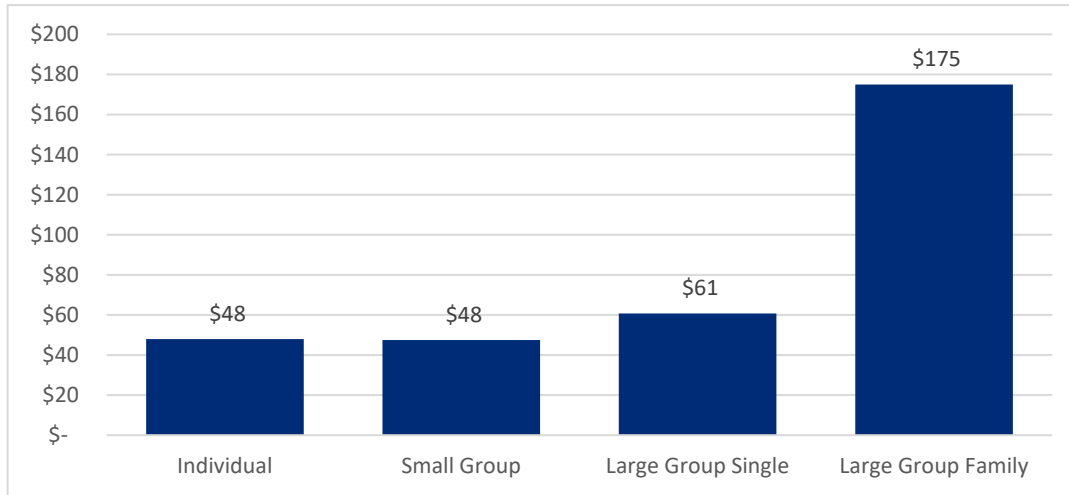
Chart 1

Average Provider Markup for Top Ten Specialty Drugs by Total Claim Dollars



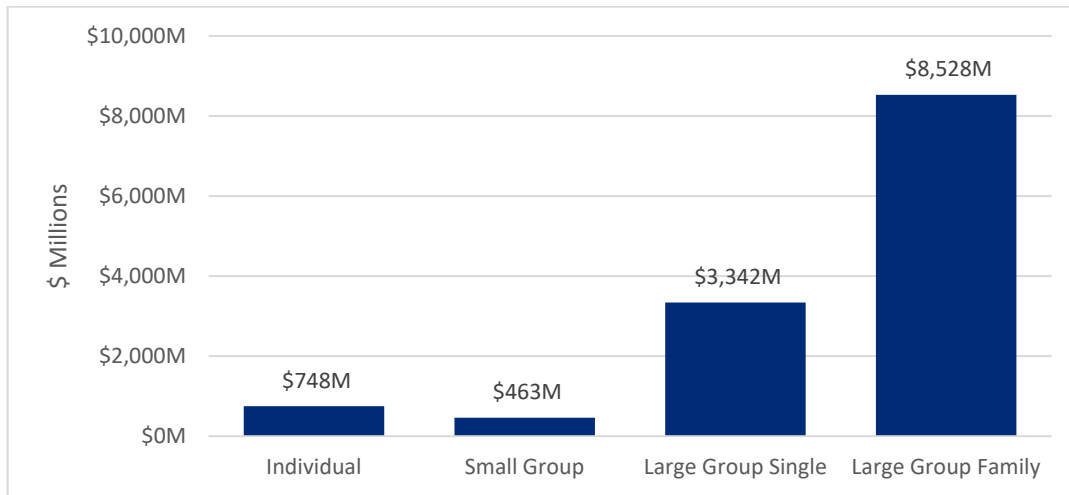
When all the specialty drugs that we reviewed are included in the analysis, the weighted-average markup is 42% and the total amount of all markups represent 0.7% of total medical and pharmacy claim dollars. We applied the 0.7% to average health insurance premiums (or premium equivalents for self-insured employers) by market and found that the impact on the premium is, on average, between \$48 and \$175 per contract per year. We show the amount by market in Chart 2.

Chart 2
Per Contract Premium Due to Buy and Bill Markups⁶
Estimated 2024 Annual Premiums



Furthermore, we applied these amounts to the membership in each marketplace to determine the total amount of premium. Based on estimated 2023 enrollment counts, the total amount of premium estimated to be paid on behalf of all consumers and employees in these markets in 2024 is \$13.1 billion. We show the amount by market in Chart 3.

Chart 3
Total Premium Due to Buy and Bill Markup
Estimated 2024 Annual Premiums



We show the detailed output by market and state in the Appendix.

⁶ Individual and Small Group represent members enrolled in the ACA Health Insurance Marketplace. Large Group represents private-sector employers, either fully-insured or self-insured, with more than 50 employees.

Appendix A

Per Contract Premium Value of Provider Markups

State	Individual	Small Group	Large Group - Single	Large Group - Family	State	Individual	Small Group	Large Group - Single	Large Group - Family
Alabama	\$63	\$41	\$54	\$156	Montana	\$47	\$41	\$62	\$170
Alaska	61	72	69	207	Nebraska	58	53	61	174
Arizona	46	42	58	171	Nevada	42	41	55	166
Arkansas	41	36	55	156	New Hampshire	37	47	64	192
California	47	46	60	178	New Jersey	51	56	65	198
Colorado	38	44	56	163	New Mexico	43	48	62	174
Connecticut	62	59	66	197	New York	53	69	71	194
Delaware	58	57	65	189	North Carolina	52	45	62	159
District of Columbia	49	46	69	193	North Dakota	43	42	63	177
Florida	50	49	60	171	Ohio	48	66	62	174
Georgia	43	61	59	177	Oklahoma	50	38	54	152
Hawaii	51	42	59	166	Oregon	47	40	57	163
Idaho	42	35	58	169	Pennsylvania	49	47	65	186
Illinois	53	47	60	167	Rhode Island	41	47	66	183
Indiana	47	56	61	172	South Carolina	48	55	58	169
Iowa	55	40	59	173	South Dakota	57	44	61	190
Kansas	52	42	55	155	Tennessee	51	41	57	161
Kentucky	48	58	56	177	Texas	46	50	59	178
Louisiana	63	45	59	162	Utah	34	32	54	159
Maine	45	46	64	181	Vermont	59	54	67	191
Maryland	36	43	64	178	Virginia	47	46	61	159
Massachusetts	47	47	64	186	Washington	44	43	57	172
Michigan	42	36	58	161	West Virginia	94	64	64	193
Minnesota	40	46	60	183	Wisconsin	52	49	61	181
Mississippi	50	37	54	163	Wyoming	70	55	64	177
Missouri	52	51	62	174	US Total	\$48	\$48	\$61	\$175

Aggregate Premium Value of Provider Markups (thousands)

State	Individual	Small Group	Large Grp - Single	Large Grp - Family	Total	State	Individual	Small Group	Large Grp - Single	Large Grp - Family	Total
Alabama	\$14,061	\$7,643	\$37,379	\$108,095	\$167,178	Montana	\$2,731	\$1,905	\$8,327	\$17,258	\$30,221
Alaska	1,398	913	6,773	20,336	29,420	Nebraska	5,352	1,732	22,042	47,607	76,733
Arizona	8,603	5,790	68,816	204,397	287,606	Nevada	4,781	3,340	28,641	65,552	102,314
Arkansas	16,113	2,086	24,205	68,839	111,243	New Hampshire	2,135	2,977	15,597	35,103	55,812
California	103,831	95,063	393,534	1,161,360	1,753,788	New Jersey	19,187	15,186	91,084	208,536	333,993
Colorado	9,083	10,016	52,900	153,983	225,982	New Mexico	1,909	2,136	14,604	30,886	49,535
Connecticut	7,071	5,647	39,665	119,163	171,546	New York	13,085	51,200	239,448	492,420	796,153
Delaware	1,929	1,302	11,599	33,627	48,457	North Carolina	34,835	8,941	99,656	193,338	336,770
Dist. of Columbia	679	3,952	15,078	42,130	61,839	North Dakota	1,932	1,776	8,230	17,570	29,508
Florida	137,259	16,761	237,315	673,853	1,065,188	Ohio	12,344	2,876	128,306	271,922	415,448
Georgia	29,002	4,830	102,046	307,787	443,665	Oklahoma	9,131	6,331	27,802	59,351	102,615
Hawaii	1,634	1,911	11,841	33,439	48,825	Oregon	8,030	7,372	33,651	72,886	121,939
Idaho	3,251	2,871	14,660	42,526	63,308	Pennsylvania	20,958	18,407	147,346	319,030	505,741
Illinois	18,547	20,344	139,212	386,316	564,419	Rhode Island	1,685	2,261	11,262	23,732	38,940
Indiana	6,857	3,889	75,520	213,635	299,901	South Carolina	14,795	2,915	49,690	109,638	177,038
Iowa	3,803	3,805	32,222	94,052	133,882	South Dakota	2,501	1,460	7,983	18,803	30,747
Kansas	5,483	3,115	26,652	75,333	110,583	Tennessee	13,446	6,688	66,355	140,932	227,421
Kentucky	3,103	1,271	39,436	125,388	169,198	Texas	82,504	31,725	286,143	655,617	1,055,989
Louisiana	6,729	5,619	35,368	96,950	144,666	Utah	9,115	4,545	32,576	72,425	118,661
Maine	3,050	2,217	12,329	34,962	52,558	Vermont	1,693	2,000	6,188	13,240	23,121
Maryland	8,170	10,682	64,917	181,790	265,559	Virginia	14,562	14,158	84,574	165,382	278,676
Massachusetts	16,251	15,407	90,231	261,573	383,462	Washington	10,636	10,006	67,377	152,660	240,679
Michigan	14,204	15,679	92,913	257,630	380,426	West Virginia	2,132	951	14,122	31,910	49,115
Minnesota	6,304	10,540	70,262	214,109	301,215	Wisconsin	11,008	5,274	67,959	151,378	235,619
Mississippi	7,072	1,483	19,742	59,907	88,204	Wyoming	2,507	420	3,670	7,707	14,304
Missouri	11,512	3,833	64,649	182,357	262,351	US Total	\$747,993	\$463,251	\$3,341,897	\$8,528,419	\$13,081,560



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