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Memo

Date: January 24, 2023

To: Scott Miller
Executive Director, North Dakota Public Employees Retirement System

From: Tim Egan & Dan Plante & Drew Rasmussen, Deloitte Consulting LLP

Subject: **ACTUARIAL REVIEW OF PROPOSED SENATE BILL NO. 2140**

The following summarizes our review of the proposed legislation as it relates to the financial impact on the uniform group insurance program administered by NDPERS as well as other considerations that may contribute to the evaluation of the legislation.

OVERVIEW OF PROPOSED BILL

The proposed bill would create section 26.1-36-09.16 of the North Dakota Century Code, relating to health insurance coverage of diabetes drugs and supplies. The legislation does the following:

- defines "insulin drug" and "medical supplies for insulin dosing and administration" (page 1, lines 12-23 and page 2, lines 1-14)
- provides a $25 member cost-share limit per thirty-day supply of insulin drugs and medical supplies for insulin dosing and administration (page 2, lines 23-30 and page 3, lines 1-6)
- restricts the use of a formulary to determine coverage of an insulin drug or medical supplies for insulin dosing and administration (page 3, lines 7-8)
- clarifies that cost-sharing is not limited on an insulin pump, an electronic insulin-administering smart pen, or a continuous glucose monitor (page 3, lines 9-15)

ESTIMATED FINANCIAL IMPACT

The primary components of the proposed bill that will have a financial impact on the uniform group insurance program are the imposed $25 limit on member cost-sharing for insulin and insulin supplies and the restriction from use of a drug formulary to determine what types of insulin and supplies are covered under the plan.

The uniform group insurance program requires members to pay a copay and coinsurance for insulin. Depending on the cost of the insulin prescribed and/or the cost of the supplies purchased, the member cost-share can exceed the proposed $25 limit. Therefore, imposing this limit will shift cost from members to the plan.

Using 12 months of NDPERS claims data from September 2021 through August 2022, Sanford Health Plan estimated that a $25 per month limit on member cost share would have shifted $445,000 from the member to the uniform group insurance program in that period. Assuming prescription drug trend of 10% per year, the cost in the 2023-2025 biennium is estimated to be approximately $1,100,000. The estimate does not assume changes to drug mix or formulary changes that could impact member out-of-pocket payments (pharmacy benefit managers typically update their formularies at least twice per year).

Prescription drug formularies help to manage cost by providing health insurers and prescription benefit managers a tool to negotiate favorable pricing and rebates from drug manufacturers in exchange for coverage on the formulary or preferred placement in the formulary.

Insulin, in particular, is a therapeutic category that typically is associated with high discounts and rebates. A study published by Milliman in 2021 demonstrated how insulin pricing has changed between 2007 and 2021[1]. The study showed that the average gross cost (defined as the list price or wholesale acquisition cost) per insulin patient per year was $1,597 in 2007 while the net revenue earned by manufacturers, after discounts and rebates, was $1,319 per insulin patient per year, a $278 difference (17%). In 2021 the gross price had increased to $6,429 per insulin patient per year while the net revenue fell to $1,055 per insulin patient per year, a $5,372 difference (84%). The Milliman study shows that gross prices on insulin have increased over 300% between 2007 and 2021 while net revenue has decreased 20%, which suggests that insulin rebates have ballooned over the same time period.

Eliminating use of a formulary for insulin reduces the rebates and pricing concessions that health insurers are able to derive from negotiating formulary placement with the manufacturers. Sanford Health Plan estimates that including all insulin products and supplies for coverage on the formulary would have reduced drug rebates in the September 2021 to August 2022 period by approximately $3,700,000 to $4,000,000. Assuming rebates trend at the same rate as drug cost increases, 10% per year, the impact to the 2023-2025 biennium could be between $9,400,000 and $10,200,000 in rebate reductions by eliminating a formulary for insulin.

Combining the estimated cost of capping the out-of-pocket amount at $25 per month and the rebate reduction estimate from eliminating a formulary for insulin has the effect of increasing the premium in the uniform group insurance program 1.5%-1.6% in the 2023-2025 biennium.

Clinical outcomes associated with lowering member out-of-pocket costs on insulin drugs and medical supplies for insulin dosing and administration may have a favorable impact on the uniform group insurance program, but such effects are difficult to quantify. If insulin and supplies are more affordable, member adherence may increase and result in fewer adverse health effects that result in significant expenditures to the plan such as increased doctor and emergency department visits and prolonged hospitalization.

Source:

1. Analysis of Insulin Competition and Costs in the United States, Milliman, 2021.