Insurers use high drug costs to deter some Obamacare patients, economist says

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Credit: University of Texas at Austin

An economist at The University of Texas at Austin will brief members of Congress on how insurers are using high out-of-pocket prescription drug costs to deter certain chronically ill patients from joining their plans in the individual markets.

Michael Geruso, an assistant professor of economics, will share his views during a panel discussion at 2 p.m. Thursday at the U.S. Capitol. The discussion, hosted by the Coalition for Accessible Treatments, will help inform continuing efforts in health care reform.

Geruso will report findings from his *National Bureau of Economic Research* (NBER) working paper released this week, which shows that despite the Affordable Care Act's popular provisions to protect consumers with pre-existing conditions from high health care costs, some consumers—including those with conditions such as multiple sclerosis (MS), rheumatoid arthritis and certain cancers—continue to face discrimination that results in thousands of dollars in out-of-pocket costs. President-elect Donald Trump and the Republican Congress have indicated their intention to keep the ACA's protections for pre-existing conditions.

"Any future scenario in which there is a goal of guaranteeing coverage for people with pre-existing conditions will face similar challenges," said Geruso, a faculty research associate in the university's Population Research Center.

In the study, Geruso and Harvard University researchers Timothy Layton and Daniel Prinz examined how ACA Exchange plans might use formulary benefit design—the arrangement of prescription drug coverage into various cost-sharing tiers—to screen out unprofitable patients by offering poor coverage for certain medications.

The core problem, Geruso said, is with risk adjustment and reinsurance—the regulatory mechanisms that compensate insurers for taking on a high-cost patient. For some expensive patients, the risk adjustment and reinsurance payments are too low to allow insurers to break even.

"If we observe insurers avoiding certain patient types, it means that risk adjustment and reinsurance do not adequately compensate the plan for enrolling such patients," Geruso said. "Understanding how this type of backdoor—which has featured prominently in the theory of adverse selection—functions in practice is critical to the continued reform of the managed-competition health insurance markets."

The researchers found that although risk adjustment and reinsurance subsidize costs and "neutralize selection incentives" for the majority of drug classes, some patients remain predictably unprofitable. Among the most unprofitable patients are those prescribed drugs in the Biological Response Modifiers class—such as Copaxone, a drug used to treat and prevent relapse of MS—who generate an average of $61,000 in claims but $47,000 in revenue after accounting for the large risk adjustment and reinsurance transfer payments.

The researchers said this creates a large incentive for a firm to avoid covering this patient, and while ACA Exchange plans are required to cover at least one drug in each therapeutic category and class, there is no requirement on how the drugs should be tiered within a formulary. That incentivizes insurers to place such drugs on specialty tiers, where patients face high out-of-pocket costs.

The study showed that for the few therapeutic classes of drugs with the strongest insurer incentives to avoid the corresponding patients, drugs were 50 percent more likely to be placed on a specialty tier, relative to the same drugs in employer plans, where the patient avoidance incentives do not exist. This design could lead to out-of-pocket consumer costs exceeding $1,000 per month for some drugs in a typical Exchange Silver plan, researchers said.

"While the current regulatory framework goes a long way toward weakening insurer incentives to avoid unhealthy enrollees, some patients

still imply large insurer losses, and insurers recognize that the benefit design can act as a screening mechanism," Geruso said. "The bottom line for consumers is exposure to high out-of-pocket costs and a system in which no plan will offer good coverage for certain illnesses."

Provided by University of Texas at Austin