Why Employers Are 'Flying Blind' on Healthcare Costs

“Drug costs and hospital costs are rising. Employers can't control it and they can't even see it... So even well-intentioned employers, they're essentially flying blind.” *Chuck Melendi*

911. What's your emergency?

America's healthcare system is broken, and people are dying.

Welcome to Code WACK!, where we shine a light on America's callous healthcare system, how it hurts us, and what we can do about it. I'm your host, Brenda Gazzar.

(music)

This time on **Code WACK!** What challenges do employers face when trying to provide quality, affordable health coverage for their employees? And why are prescription drugs so darn expensive?

To explore these questions, we spoke with **Chuck Melendi,** who brings more than three decades of experience in healthcare leadership, advocacy, and industry strategy. During his 25-year tenure at Johnson & Johnson, he worked on complex issues including drug pricing, payer negotiations, health policy, and commercial strategy.

After retiring in early 2025, Chuck launched ***Disruptive Dialogue*****,** a podcast and consulting platform where he shares insider perspectives on the U.S. healthcare system while exploring innovative ideas for reform. This conversation is part two of a two-part series.

Q: Welcome back to Code WACK! Chuck! As you mentioned in the last episode, you now do consulting work with employers. What are the biggest obstacles employers run into when they try to offer good coverage at a reasonable rate?

Melendi: Hmm. Oh boy, that's a loaded question. So I think that employers still struggle to offer good coverage at a reasonable cost for one core reason. And that is that they're trying to manage the system that they can't fully see or control. I mean, you know, first off, US healthcare is super complicated. As long as I've been in it, I learn new stuff every day. And then for us to expect an employer to run their core business, whether it's in textiles or retail or you know, restaurant, to run that and understand healthcare, that's impossible. So first off, they can't control it. It's super complicated.

And then the other big barrier we already touched on is the lack of transparency. Most employers, it is crazy, the more I get into it with the benefit consultants, most employers, they don't even have complete access to their own claims data and other key cost drivers like hospital pricing, the drug rebates, the PBM fees that are hiding behind complex contracts.

So it's complex, it's not transparent. And then you look at, ‘okay, you know, there are misaligned incentives, insurers and PBMs actually make more money when the cost of premiums go up. And especially now that they're vertically integrated and they have a PBM and a pharmacy and physicians, the more entities they have involved, the higher the cost, the more profit that they can make, and then they can hide it. And the other challenge is some employers are locked into two and three year contracts, and those are difficult to unwind. And a lot of employers don't wanna switch insurance companies because that messes with people's benefits and it's a disruptor. So, you know, you have all those.

And then lastly, you know, you touched on drug costs. Both drug costs and hospital costs are rising. Employers can't control it and they can't even see it with

how the system currently is opaque. So even well-intentioned employers, they're essentially flying blind and they're facing annual costs increases, well, while they're clear, an actionable way to push back. So they're really having to depend on their broker and hopefully legislators pass good laws.

Q; So how much influence do big insurance drug companies and Pharmacy Benefit Managers have over employer health plans?

Melendi: Actually they have a ton <laugh>. So, you know, I would say drug manufacturers don't have a ton of influence over health plans. Now, yes, You know, the cost of their drugs and how much they're utilized, that's definitely gonna have a say in, you know, maybe the out-of-pocket for a drug cost or a contributor to their premium. But drug spend in the US, people hear about it all the time, but it's less than 20%. It's usually around 17%. So it's not the huge driver. Actually, hospitals are around a third of the cost. There was a recent study that showed that they were responsible for 40% of the growth in healthcare costs this past year. But I would say the true influencers are probably gonna be the insurers and PBMs. And, and once again, it's because they're just not well regulated and they give an employer a price and the employer and their broker try to negotiate with 'em. But there's very little transparency and it puts 'em at a great disadvantage. And so I would say, yeah, currently, the system, and I think it's changing and evolving, but the employer and the broker, they send out an RFP or a request for proposal, insurers and PBMs will send them contracts. They try to redline it, negotiate the best deal, but they're between a rock and a hard place. They need insurance. The insurance companies know it. And so it's very challenging with the lack of transparency.

Q; So insurers and PBMs can claim their prices reflect rising costs, but there's no way to really know that's right.

Melendi: Yeah. They don't have to prove it. They don't have to prove it. And usually they'll just say, well, it's the cost of, you know, hospitals are going up in drug prices and now they're blaming tariffs. Although there's been studies saying the tariffs are not impacting it, but there's no way to prove that that's correct. So yes, they, in the current system, really challenging to tell them no, I thought it was very funny because the government came out and said the increase in what they'll

pay insurance companies for Medicare Advantage, next year is gonna be 0.09% or 0.9%. It was like less than 1%. And they went crazy. And the first thing they said was, 'well, we're just gonna have to use the leverage we have and we're gonna have to cut back on our benefits and we're gonna have to narrow our networks of who they can see and we're just gonna have to pull back on some of the benefits if you're not gonna give us a big raise.' And it's crazy that they have that kind of power.

Q; Wow. That is crazy. Yep. So you worked for Johnson and Johnson for 25 years. What insights can you share about the high cost prescription drugs and where do you see the biggest opportunities to bring those costs down?

Melendi: Yeah, so, you know, a lot goes into how drug prices are set. You know, there are things such as what's the need in the marketplace for a type of therapy. You know, like if you're bringing a new drug to market and there's no other drugs, then you can charge a higher price. It's like any, you know, commodity out there. If there's a bunch of, you know, drugs that are gonna treat migraines and you're bringing a migraine drug with no big advantages, you really can't outprice what's out there. So what's the marketplace for that type of therapy, how much competition's out there? Also, how much is spent in R&D that, you know, R&D is research and development. So it usually takes 10 to 12 years for them to get a molecule, put it through all the trials and bring it to market.

So that's gonna come into play and then getting the drug to market and honestly probably most important is what will the market bear? Or in other words, how much do they think they can get away with? So they're like everybody else, they're profit driven, and if they think they can charge $10,000 bucks for a drug instead of $8,000, they're gonna charge $10,000 bucks. Now, knowing that the challenge for employers and the public is what will insurers and hospitals pay for a drug that's often hidden? So just because the drug manufacturers set a price for their drug, what after negotiations, the insurance companies, the PBMs or the hospitals are paying, no one really knows what that is, and transparency is out there, but they call it proprietary information. So really and truly they can, they can bake in whatever they want – using the price of the drug to say, this is what our premium's gonna be, this is what your out of pocket's gonna be.

So we don't know 'cause the lack of transparency, whether they're making a huge profit or a little profit, whether the drug cost to them is high or low, no one knows that right now, which is why there's always a push to have patients co-insurance be based on the net price, not the list 'cause then people would have insight to what is the cost after all the discounts, but over half the time, your co-insurance is gonna be based on the list price, which once again, is just a starting point of negotiations and isn't really what is the cost to the system. Another thing that people don't realize when it comes to the price of drugs is that unlike insurers, drug manufacturers are highly regulated. And it makes sense, the government wants to make sure that the drugs are safe and that they're effective.

So they make the drug companies monitor their drug safety and side effects before and after the drug goes to market. And to do that costs a lot of money, which obviously will go into the price of the drug. And one example that I love to give is that Johnson & Johnson, I wanna say about three or four years ago, came out with a new oncology drug and it was called Carvykti. And it was a new class of drugs called [CAR T-cell therapy] So I mean, super high tech, it's crazy, but super effective. But one of the requirements when it went to market to get FDA approval was that J&J had to follow the first 1500 patients that went on that drug for over 18 years to track all the safety signals and make sure that it was effective. So if you have, if you have to track 1500 patients over 18 years, that is super expensive. You need a team of people to do that. That also goes into drug pricing that few people know about.

Oh, wow.

Yeah. So I would say the last thing, and we already talked about this, and this goes into it also, is all the rebates that the physician that the manufacturers have to pay. So basically every year, and I used to do this, we have to go see the insurance companies and the PBMs and to get our drugs placed on a formulary, which allows physicians and patients to use our drugs, we'd have to give them rebates or discounts. And basically those are kickbacks. And so that power to basically say docs will or will not be able to use your drug. Basically you have drug manufacturers going into bidding wars every year. And it’s just brutal. And

honestly, it's why I left that department after nine years. It was very, just very frustrating.

Q; Got it. So what do you think the solution is then as far as drug costs?

Melendi: So are you asking me like, how could manufacturers help bring down the cost of drugs?

Q: Yeah and how can we lower them in general?

Melendi: Well, I do think that it would start with manufacturers. There's a couple things that they can do. And, and one is, I absolutely hate the branded advertising that we see on TV. It's on TV. It's on the internet. It's in magazines. And, and Brenda, I don't know, you're, you're probably not old like me, but that was not always the case. In the 1990s, drug manufacturers could not mention their drugs on TV, believe it or not. All they could talk about was a disease state. And the commercials would say, if you have this condition, please go see your doctor and they will tell you what the appropriate medication is. Boy, would that be nice to have today, <laugh>. But that's not the case today. And so today they spend hundreds of millions of dollars every year on advertising. It drives up drug utilization, which means more drugs get used.

It causes headaches for the doctors because patients come in and say, I want this drug that's gonna work. And all that is definitely going to play into drug pricing going up. The other thing is, you know, you just said everybody, I think that it comes once again, back down to transparency, that if a hospital charges you a certain amount for a drug, you should be able to know what that cost of that drug was to that hospital. It's crazy. Mark Cuban's done a great job with Cost Plus RX. I mean, he basically says, 'look, what we're gonna sell is the cost of the drugs plus 15% plus the shipping.' And that's the kind of model that I think would be really, really good. And that's the kind of model that hospitals, insurers and PBMs would hate because that's where they make a ton of money. So I just think it's gonna have to come down to transparency.

And the crazy thing is, Brenda, transparency laws have been put in place in the last five years, both, both for hospitals and for insurance companies. But the

adherence to those laws has been very slow on the uptake. And one of the reasons why is because the only penalties are financial penalties. And these companies make so much money that they just pay the penalty because that's a lot less expensive than giving up this profit making machine that they've created. So it's gonna be challenging to lower drugs, but it can be done.

Thank you Chuck Melendi! Check out his podcast Disruptive Dialogue at disruptivedialogue.org for more insight on why U.S. health care costs so darn much!! You can also reach Chuck at chuck@disruptivedialogue.org.

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