



## The Health Insurance Black Box: Why Employer Healthcare Costs Keep Rising

**“The true cost drivers of premiums such as negotiated rates or drug rebates or hospital costs, they're largely invisible — even to employers who are paying the bill for that.” 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 providing health coverage to their employees? And what role do health insurers and Pharmacy Benefit Managers—prescription drug middlemen known as PBMs—play in shaping costs, coverage, and access to care?

To find out, we recently spoke with **Chuck Melendi**, who has more than three decades of experience in healthcare leadership, advocacy, and industry strategy. He spent 25 years at Johnson & Johnson, where he tackled issues such as drug pricing, payer negotiations, policy, and commercial strategy.

Chuck retired from Johnson & Johnson in early 2025 and went on to launch Disruptive Dialogue, a podcast and consulting platform where he shares insights from inside the U.S. healthcare system – while exploring ideas for reform.

***Welcome to Code WACK!, Chuck!***

**Melendi:** Thanks Brenda. Super excited to be on.

***Q: Oh, we're super excited to have you. So who are you and what led you into the world of healthcare reform?***

**Melendi:** I am a 61-year-old guy, married to my wife. We just celebrated our 32nd anniversary this past week and I have two beautiful daughters. Very fortunate to have been in the healthcare industry for over 35 years. The last 25 with Johnson & Johnson. Basically I was just the corporate guy in the healthcare industry and really enjoyed my time there. But over time I just was seeing what it was turning into and sometimes when you're sitting there and you see things that are happening because of your role, you can't say anything. It gets frustrating. And so I made a change and I think it's led me here to talk to you today.

***Q: Got it. So tell us about the consulting work you do with employers.***

**Melendi:** Sure. So basically I do a lot of consulting work for a benefit consultant firm that is employee-owned. Like I said, when I left J & J last January, I said, okay, it's time for me to give back and to try to make a difference in health care. And there's a number of different things that I've done to do that. But bottom line is I have my platform, which you know, we'll talk about, which is my podcast. We have newsletters, we have advocacy letters. But I was like, you know, how can I get on the ground and make a difference? Not just explaining to people the healthcare system, but going to employers and helping to educate them. And what a lot of people probably don't realize is employers aren't experts in health care. And for them to try and negotiate with the insurance companies or hospitals or pharmacy benefit managers would be nearly impossible.

So they work with benefit consultants who are also known as brokers. Well, I had a buddy who I've known since college and very honest guy and great guy. He said, 'hey, come over and train us on what you know about drug pricing cause it's really

complicated and it's super expensive. So I was giving them training sessions on the different aspects of drug pricing cause I used to negotiate with insurers and PBMs and they're like, 'oh my God, this is so complicated. We thought we knew this stuff and we don't.' And that just wasn't them. That's how it is with most of the brokers. Healthcare as you know is so complex that it's impossible to be an expert in every facet, and our relationship evolved and I worked with another consultant of theirs to create a PBM contract, which is fairly rare in the industry.

Usually you get contracts from insurers and PBMs, you red line it, give it back to 'em and they accept or they don't. And there's always hidden language in there. Our PBM contract, we wrote the language so we know what's in there and we have PBMs that agreed to it. And so I'm really excited. That's kind of like my grassroots effort. In addition to the other stuff I do is I go to actual employers and tell 'em what we know and, and how we think it's an advantage to them and we're getting some good reception.

***Great. For those who don't know, can you briefly explain what a Pharmacy Benefit Manager or PBM is and what it does?***

**Melendi:** Absolutely. So everybody's already heard of most of these. You see the CVS pharmacies, so they're owned by A PBM or a Pharmacy Benefit Manager called CVS Caremark. They bought an insurance company called Aetna, another PBM. There's really three big ones is called Express Scripts and they were bought by Cigna and then another large PBM called Optum. And they are owned by UnitedHealth. And those three PBMs, Optum CVS Caremark and Express Scripts, we call 'em the big three and they handle about 80% of the prescriptions in the United States. So more than likely, eight outta 10 people are getting their prescriptions through these Pharmacy Benefit Managers. And they're the ones that determine what drugs that your physician or hospitals can order for you and what that cost is gonna be for you. You know, whether through a copay or a co-insurance when you go and pick up your prescription. So as you can imagine, they're very, very powerful. They make revenues in the hundreds of billions of dollars every year.

***Q: In 2026, average employer sponsored health insurance skyrocketed to \$18,500 per employee up about 6.7% from last year. What do you think is driving this increase?***

**Melendi:** Oh, so many things <laugh>, but we don't have all that time. But I would say really truly if we're looking at it from a strategic standpoint or a macro standpoint, I think there's three things. The first one is the lack of transparency in the system. You know, healthcare pricing truly lacks transparency. And so, you know, you mentioned premiums. Well, technically they have to be filed and approved, but the underlying drivers of price for these premiums remain largely invisible to employers and even to the regulators. You know, it's crazy Brenda, because in most major financial decisions that we make, whether you're working with a bank or you're buying a home or even purchasing a car, you get to see what the price is. You get to compare options. You understand what you're paying for before you make a decision. As we all know, that's not the case in health care.

The banking industry, I usually compare it to them cause my wife used to work for a bank and she's learning about how health insurance is pretty much unregulated. And she's like, 'cause she was a banker. She's like, 'oh my god, we couldn't do that as a bank. And they let them do it for health insurance?' But basically, you know, they're not regulated under federal guidelines. The true cost drivers of premiums such as negotiated rates or drug rebates or hospital costs, they're largely invisible — even to employers who are paying the bill for that. And so, while these other industries that I mentioned compete on clear comparable pricing, health insurance is basically a black box. Prices go up, but why they're going up often is not verified and so there are some federal laws out there that have been put in place both for insurers and in hospitals to provide transparency. Unfortunately, adherence to these policies has been limited because the penalties are just fines and these organizations make so much money that it's just the cost of doing business. So transparency is, I think the main one.

The second one I touched on it already is a lack of regulations. Basically insurers operate under a fragmented regulatory system where oversight is pretty much split across state laws and federal rules. That means that there's really no

consistency and no single regulator that sees the full picture. And that has allowed insurers to vertically integrate. And when I say vertically integrate, what I mean is the insurance company, as we already mentioned, they own Pharmacy Benefit Managers, they also own pharmacies, they even own physicians like UnitedHealth Group is the largest employer of physicians in our country with over 90,000 physicians and there's no one that is supervising this. And I mean like United has over 2,700 subsidiaries. And what that allows them to do is they can shift costs and profits across their different entities and they can hide profits and revenue. It is crazy. And they just play by a different set of rules.

One of the biggest, I think, anomalies or hypocrisies is that like physicians, they are restricted by something called the Stark Law, which doesn't allow them to own different types of facilities like MRI, you know, facility or whatever so they can self-referral and make money off that. Well, insurers are not. They don't have any kind of thing like that. So they can send, you know, if a patient is in their network, they can make the patient go to their doctors, they can make 'em go to their pharmacies, they can make 'em use their PBMs. They just make money almost in every step of the patient journey. And it's crazy that doctors are limited, but these a hundred billion dollar organizations are not.. So I said transparency, lack of regulation. And then the last one, these companies as insurance companies are publicly traded.

And that's crazy that the very organizations that we have running our healthcare system today that are tasked to keep costs down, they have a fiduciary duty. But it's not to us the employers or the patients who are their customers, it's to their shareholders, which means they will always find ways to make more revenue and more profit. And as I mentioned to you, I lived in Europe for two years doing marketing for J&J and I would talk to some of the regulators over there, their mind is blown that we have publicly traded for-profit companies running our healthcare system, which I think is a big reason why costs are so high.

**Q: Right. And how much do you think high costs are related to how expensive prescription drugs are?**

**Melendi:** Oh, absolutely. You know, prescription drugs, it's very interesting because the drug manufacturers absolutely set the price and there's a lot of

things that go on behind that, whether it's R&D et cetera. But as far as what the patient pays out of pocket or what the employer pays or what is baked into premiums, nobody really knows. I mean, the manufacturers, we have to negotiate with the PBMs and the insurance companies to be on their formulary so that physicians, when they write a prescription for a patient, they can choose your drug. Well, we basically have to bid for that, but nobody knows because they consider proprietary information. Nobody knows how much we're giving them. They don't have to tell anybody how much they're giving. Same with the hospitals. So basically drug pricing, what the manufacturer sets is the starting point. Then there's a ton of negotiations with different intermediaries in the system. And then what comes out of it, that's what the price is. The manufacturer has very little to do with what the end price is for the patient, how it impacts their premiums, copays, and co-insurance. So we have a lot of trust in the Pharmacy Benefit Managers, the insurers as far as what everybody pays for drugs.

***Q: So besides higher premiums, what's changing right now in the employer sponsored health benefits?***

**Melendi:** Yeah, it's really interesting because I've been in this industry for so long, I'm just seeing it evolve. And I think that employers are finally catching on that the growth, as you just said about the \$18,000 and 6.7% increase, it's just unsustainable. Today, health benefits are the second largest spend for companies only behind salaries and wages. That is crazy. So think about that. Most companies spend more on healthcare benefits than the supplies and materials that they need for the business that they're actually in. And as a result, employers are starting to challenge their brokers. They're starting to challenge the insurers and the PBMs 'cause they're starting to say, 'we've got to save money.' This is killing our bottom line. And I'll tell you the first thing that I'm seeing a few years ago is that the smart companies are starting to pull in their CFOs, they're chief financial officers because usually the benefits with the brokers health insurance, they work through the benefit department, which is run by human resource or HR, but they weren't trained to handle these huge financial negotiations.

So CFOs are starting to get involved. You know, the scary thing is that this, like I said, it's unsustainable. US businesses and we'll get into it cannot compete

internationally when the healthcare costs for their employees is adding up to more than the cost of the goods that they're making, it's also taking away from employees salary and compensation. And I think that the one last thing that employers are just starting to find out is that recently some laws have been passed federally that is putting them on the hook to negotiate better. The government is starting to say, 'hey, employer, you have a fiduciary duty to negotiate better with insurance companies and PBMs and hospitals because if you don't, then you're not really taking care of your employees' benefits, their salaries, maybe their 401k or pension plan. And it's to the point now that employers can be sued by their own employees if they don't think they're doing a good job. Actually, one of my old teammates, she's not there anymore. She actually sued J&J because she thought her drugs were too expensive and they weren't doing a good job with negotiations. But now employers can actually be fined. The insurers and PBMs aren't gonna be fined, but the employers are. So I think it's a wake up call for them.

***That is a huge burden and responsibility for employers.***

**Melendi:** Absolutely. Yeah.

***Q: So do you think that's fair?***

**Melendi:** <Laugh>? I don't, and I was studying up on it a couple weeks ago and, and basically there is some language that says that, you know, the insurers or PBMs might have some responsibility, but the problem is the contracts that they write for employers, everyone is pretty sure that they're gonna indemnify themselves and make sure that the responsibility in that contract will rest with the employers. So that's another reason why employers should make their own contract and not red line what the PBM and insurers give them.

***Q: Got it. Yep. Is this something that benefit consultants are doing more of these days -- writing their own contracts or is this fairly new?***

**Melendi:** I think it's a new field. There is an organization up in New York called **32 BJ Health**. I was listening to a podcast about six months ago, and I forget the name of the lady, but she was on as a guest and she was saying how for her

union, they created their own contract. She put it in the public domain. Me and another consultant, we saw that he worked for a PBM, he pulled in his expertise. What I knew from manufacturer responsibilities and negotiations with insurers and PBMs, I pulled in my expertise of all the tricks and trades and gimmicks that we knew that they did. And we create our own contract. I would say probably less than 3% of employers have their own contract. Right now. There is opportunity.

***Q: So in our shaky economy, why should employers still see health benefits as a priority?***

**Melendi:** It's a great question. And you know, at the end of the day we have AI, we have all this stuff going on. But look, employers, as you know, will always need top-notch employees to be successful and keeping their top employees is a priority. And to do that, they've gotta provide the health benefits that attract that talent. And as you know, I mean the cost of health care, not only is it a burden on employers, but it's a burden on individuals and their families. It's becoming a huge factor for people when they're looking for jobs. Heck, I know a ton of people, and I'm sure you do too, they've delayed retirement because they're like, 'okay, I'm 63 years old, but I can't go two years till I get to Medicare without health insurance, so I gotta stay with my job.'

I even know people that are interviewing, like some of my daughter's friends, they're like, 'yeah, I'm getting a salary, but you know, it's only like a thousand or \$2,000 more than this other job and this other job has great benefits.' So benefits are becoming a huge deal for employees and future employees and employers see that. It's definitely becoming a priority.

***Thank you, Chuck Melendi. Stay tuned for next time, when we talk more about the influence insurers and PBMs have over employee health insurance.***

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