

PRESCRIPTION DRUG COSTS: A MAJOR DRIVER OF CALIFORNIA HEALTH PLAN PREMIUMS

SB 17, California's groundbreaking drug price transparency law enacted in 2017 is helping to shine a light on pharmaceutical companies' efforts to spike prescription drug prices.

The California Department of Managed Health Care (DMHC) and the California Department of Insurance (CDI) recently published their annual public reports for 2018, which show the overall impact of prescription drug costs on health care premiums. **Here is a look at some of the key findings from the reports:**

KEY CONCLUSIONS

Health plans are providing a critical service to consumers by picking up the majority of the tab for the costliest medications.

- DMHC-regulated managed care plans paid **91.9%** of the cost of the 25 most costly drugs across all 3 categories: **generic, brand name, and specialty.**
- DMHC-regulated health plans paid nearly **\$9.1 billion** for prescription drugs in 2018, an increase of more than \$400 million from 2017. CDI-regulated health insurers spent just over **\$1 billion.**

SPOTLIGHT ON SPECIALTY DRUGS:

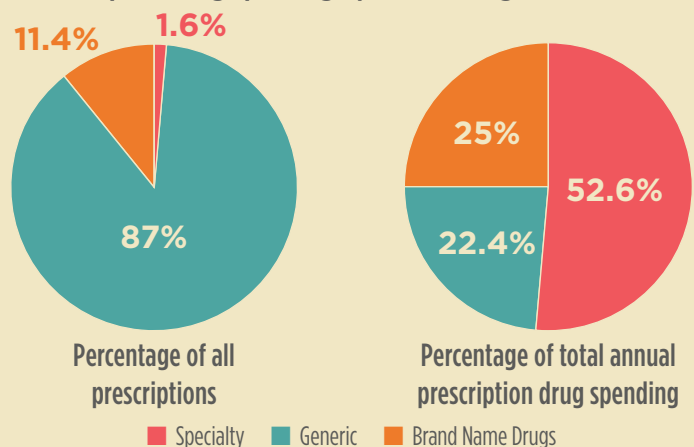
Specialty drugs are far and away the largest driver of prescription drug costs for health plans.

Specialty Drugs:

While specialty drugs only account for **1.6%** of all prescriptions, they comprise nearly **53%** of total annual drug spending by health plans and enrollee cost share. Patients paid **3.1%** and health plans covered nearly **97%** of specialty drug costs for members.

Generic drugs account for approximately **87%** of prescriptions, but only **22.4%** of the total annual prescription drug spending by health plans and enrollee cost share.

Prescription Drug Spending by DMHC Managed Care Plans:



Brand name drugs account for approximately **11.4%** of prescriptions, and **25%** of the total annual prescription drug spending by health plans and enrollee cost share.

Source: DMHC

REALITY CHECK:

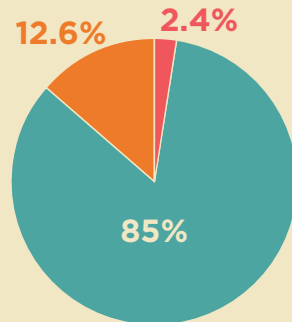
According to the DMHC report, prescription drug rebates accounted for a 11.7% reduction in total health plan drug spending.

Health plans pass on these rebate savings to members by lowering premiums. Although rebates do provide some relief to consumers, these findings clearly show that rebates are far lower than pharma's claim that one-third of drug list prices are rebated back to health plans.

The problem is the price. Pharma needs to stop using rebates as a scapegoat for their out-of-control prices.

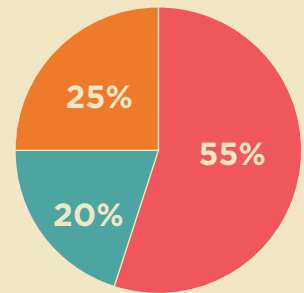
Prescription Drug Spending by CDI Health Insurers:

Percentage of all prescriptions



CDI Health Insurers

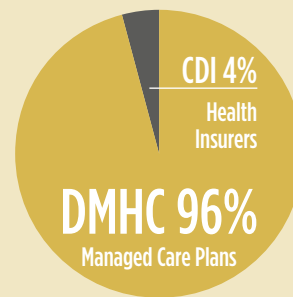
Percentage of total annual prescription drug spending



CDI Health Insurers

■ Specialty ■ Generic ■ Brand Name Drugs

Health Coverage in California By Regulator



DMHC regulates managed care health plans while CDI regulates health insurers.

Source: CHCF

Higher prescription drug costs = Higher Premiums

Retail and mail order prescription drugs accounted for **12.7%** of health plan premiums in 2018. However, this percentage does not include costs paid by health plans for drugs that were provided in a hospital, administered in a doctor's office, or paid to delegated providers. Health plans' prescription drug costs increased by **4.6%** since 2017, whereas medical expenses increased by nearly half that amount at **2.7%**.

Prescription drugs remain one of the top cost drivers of health plan premiums. Because health plans are required to spend at least 80-85 cents of every dollar on medical care, premiums directly reflect the cost of medical care. **As the price of prescription drugs rise, so do premiums.**

The findings from these reports indicate that high prescription drug costs continue to have a significant impact on health plan premiums and the affordability of health care.