

FACT SHEET

SB 17 (Hernandez)

Prescription Drug Price Transparency

As amended September 5, 2017

SB 17 (Hernandez), co-sponsored by Health Access California, California Labor Federation, NextGen, and UNITE HERE will increase transparency in prescription drug pricing through advance notice and public information about the costs of prescription drugs. The bill will require 60 days' advance notice of price hikes for most prescription drugs and information to be made public about the reasons for price increases and the impact on health insurance premiums.

Drug Companies Can Charge Whatever They Want for Prescription Drugs

The cost of prescription drugs continues to skyrocket. A recent study found that for the 20 top-selling drugs globally, "R&D [research and development] costs do not explain elevated U.S. drug prices."¹ Consumers are facing price increases on everything from longtime generics used to treat common conditions such as diabetes, high blood pressure, and high cholesterol, to new treatments for diseases such as hepatitis C. Some generics such as albuterol (asthma inhaler) and doxycycline hyclate (antibiotic) have increased in price by 4,000%-8,000%.² Drug companies can increase prices whenever they want and however much they want, while consumers and purchasers have no way of knowing what is driving these costs and how to manage them.

Escalating Drug Prices Hit Consumers' Health—and Their Pocketbooks

Consumers pay more when drug prices go up, in the form of higher copays, deductibles and other out-of-pocket costs, as well as higher insurance premiums. When people are hit with higher drug costs, they are also more likely to skip doctor appointments, tests, or procedures, or not fill their prescriptions,³ putting their own health at risk.

Transparency: Advance Notice and Public Information

Advance Notice of 60 Days for Cumulative Price Increases Over 16%

SB 17 provides 60 days' advance notice of prescription drug price changes if the cumulative price increase over the prior two years is more than 16%. The advance notice goes to both public and private purchasers, including CalPERS, Medi-Cal, Corrections, health plans, insurers, and pharmacy benefit managers. Looking at cumulative price increases over the prior two years creates an incentive for price increases to fall below 16%.

Advance notice is routine in health care, and drug companies should be held to similar standards:

- Health plans and insurers provide purchasers 60 days' advance notice for rate changes.
- Covered California and other health plans offering coverage in the individual market provide a *six-month* advance notice of rate increases through the rate review process.
- Hospitals are required to provide 75 days' advance notice of a contract termination.

Advance notice of 60 days allows purchasers, both public and private, time to adjust formularies, to negotiate price concessions, and to seek other alternatives, including obtaining alternative formulations of drugs for which there are therapeutic equivalents. Many purchasers have drug committees that meet quarterly to review the drug formulary. Though a longer notice period may be preferable to some, knowledge of price changes 60 days' ahead of time gives those affected the opportunity to adjust to price hikes.

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Impact on Health Insurance Premiums and Cost Sharing

SB 17 requires health plans and insurers to publicly disclose information about the costliest drugs, the most frequently prescribed drugs, and the drugs with the highest cost increases. SB 17 also requires public disclosure, through rate review, of the percentage of the premium attributable to prescription drug costs as well as the year-over-year increase in spending on drugs.

Transparency of Drug Pricing Information

SB 17 requires drug companies to disclose information about drug pricing to the Office of Statewide Health Planning and Development (OSHPD). Since 1982, OSHPD has been the central repository for health care cost and quality data for the State of California, providing detailed cost and quality information on hospitals, nursing homes, and other elements of the health care system. No public agency currently has comparable data on prescription drug costs.

SB 17 would require pharmaceutical manufacturers to provide OSHPD information on:

- Factors used to make the decision to increase a drug's price
- Information on price increases in the prior five years
- Information on improved clinical efficacy of drug, if any
- Volume of sales
- Other information

California has made information public on costs and quality of health facilities because of the tremendous impact on public and private purchasers. SB 17 will help to fill the gap on prescription drug prices by making information public about pricing decisions and the drivers of drug costs.

SB 17 Shines a Light on Drug Pricing and Controls Costs

Prescription drug prices, for both new and existing drugs, keep climbing year after year, driving up overall health care costs. The unit price of drugs and other health care costs are higher in this country than in other industrialized countries.

SB 17 takes a very modest step toward transparency by providing advance notice of price increases and additional information about drug pricing and its impact on health insurance rates.

Endnotes

¹ Yu, Helms and Bach, <http://healthaffairs.org/blog/2017/03/07/rd-costs-for-pharmaceutical-companies-do-not-explain-elevated-us-drug-prices/>

² PBS Newshour, <http://www.pbs.org/newshour/making-sense/price-increases-generic-drugs/>

³ Consumer Reports Best Buy Drugs National Poll, March 2016. <http://www.consumerreports.org/drugs/as-drug-prices-increase-quality-of-life-goes-down/>, April 23, 2015