

# SB 1010 (Hernández): Transparency for Prescription Drug Costs

## Why Does Big Pharma Oppose Notice and Disclosure of Escalating Drug Prices?

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Notice and disclosure are key tools to provide transparency regarding health costs. California law requires transparency for almost every player in the health system in order to reduce costs and improve quality. Prescription drugs, a growing percentage of health care spending, should not be an exception.

[SB 1010](#) (Hernandez) provides advance notice to public and private purchasers when hiking prices for existing prescription drugs as well as greater disclosure of drug cost trends through rate review.

- Requires health plans and insurers to report specified information about prescription drug pricing to Department of Managed Health Care (DMHC) and California Department of Insurance (CDI).
- Requires DMHC and CDI to compile reported information to demonstrate the overall impact of drug costs on health care premiums.
- Requires drug manufacturers to notify specified purchasers if it is increasing the wholesale acquisition cost (WAC) of a prescription drug by more than 10% or \$10,000 during a 12-month period, or if it intends to introduce to market a prescription drug that has a WAC of \$10,000 or more annually or per course of treatment, as specified.
- Requires drug manufacturers, within 30 days of that notification, to provide specified information to purchasers, including a justification for the pricing.

## Pharmaceutical Manufacturers Operate Behind a Veil of Secrecy

Pharmaceutical manufacturers can hike prices on existing drugs with no notice. The trends in prescription drug prices are not subject to the same scrutiny as other health care costs. This may work for pharmaceutical manufacturers but what good does it do consumers, employers, and working families?

## Notice and Disclosure: Health Plans Do It, Hospitals Do It, Medical Groups Do It, Why Not Pharmaceutical Manufacturers?

Under existing California law, most other actors in the health care system are required to give advance notice or disclose financial information on a regular basis.

### *Advance Notice:*

- Health plans must give 60 days' notice of premium increases to individuals and employers.
- CalPERS and Covered California health plans are required to give almost six months' notice of premium increases.
- Hospitals and medical groups are mandated to give 75 days' advance notice when terminated a contract with a health plan affecting more than 2,000 enrollees.

### *Disclosure:*

- Health plans and insurers are required to annually report:
  - *Rate Review:* Cost trends and utilization by benefit category (hospital, outpatient, emergency room, physician services, etc.).
  - *Benefit Design:* Covered benefits and copays/deductibles/other cost sharing.
  - *Medical Loss Ratio:* Administration and profits less than 20% of premiums.
  - *Financial Solvency:* How much reserves, timeliness of paid claims, and more.
- Hospitals are required to annually or quarterly report:
  - *OSHDP:* Costs and expenditures by unit, revenues by payer, average length of stay, diagnoses, and more.
  - *Chargemaster:* Sticker prices for hospital services.
- *Community Benefit:* How much charity care, other benefits to community.
- Medical Groups must report quarterly:
  - Financial Solvency
  - Quality ratings

## **Proposed Legislation: Shining a Light on Prescription Drug Costs**

SB 1010 will require pharmaceutical manufactures to provide the following:

### *Advance Notice:*

- 60 days' advance notice of price hikes for existing drugs and three days' notice for newly approved medications.
- Notice goes to both public and private purchasers:
  - CalPERS, Medi-Cal, General Services, other state agencies
  - Health plans, health insurers and pharmacy benefit managers

### *Disclosure of Prescription Drug Cost Trends: Rate Review*

- What drugs are driving up costs? The most frequently prescribed? Those with the highest price increases? The most expensive?
- What drugs are on the specialty tier? What is the year over year increase in prescription drug costs? What is the percentage of the premium dollar is spent on drugs administered in the doctor's office?

Providing this baseline information about prescription costs will align pharmaceutical companies with information that California has collected about hospital costs since 1982, medical group financial solvency since 2000, and health plan rates and cost sharing since 2010.

*For more information about this legislation, please contact Tam Ma, Health Access California, at [tma@health-access.org](mailto:tma@health-access.org) or 916-497-0923 x. 201.*