Background Context

In 2021, DMHC-regulated health plans in California paid approximately $10.8 billion for prescription drugs, accounting for 13.3% of their total premiums.

Specialty drugs accounted for only 1.6% of all prescription drugs dispensed yet accounted for 62.9% of total annual spending on prescription drugs.

Bill Summary

The version of California Assembly Bill (AB) 874 analyzed by CHBRP would require DMHC-regulated health plans, CDI-regulated health policies, other health coverage carriers, and PBMs that administer pharmacy benefits to take any amounts paid for an enrollee/insured’s OOP expenses using a discount, repayment, product voucher, or other reduction and count them towards their health plan or policy’s cost-sharing requirement.

In essence, AB 874 would impact pharmacy benefit designs regarding use of copayment adjustment programs and how payments made for prescription drugs using drug manufacturer coupons are accounted for.

Definitions

Copayment adjustment programs include:

- **Copayment accumulator programs**: prohibit any amounts collected at the point-of-sale when using drug manufacturer coupons from counting towards enrollee/insured’s deductible or annual OOP maximum.
- **Copayment maximizer programs**: amounts collected at the point-of-sale when using drug manufacturer coupons for prescription drugs do not count towards enrollee/insured’s deductible or annual OOP maximum. The cost share is adjusted to maximum value of the coupon and applied throughout the benefit year.

Drug manufacturer coupons: prescription discounts offered to patients by a drug manufacturer to reduce enrollee cost at point-of-sale. Drug manufacturer coupons may result in higher unit cost of drugs, and higher premiums as a way to offset the cost of the coupon.

California Health Benefits Review Program (CHBRP), California Department of Insurance (CDI), California Department of Managed Health Care (DMHC), Out-of-pocket (OOP), Pharmacy Benefit Manager (PBM)

www.chbrp.org
**Policy Context and Additional Background**

Federal law restricts drug manufacturer coupon use in federal health programs, including Medicare and Medicaid.

California law prohibits drug manufacturer coupon use if a lower-cost, therapeutically equivalent generic is available.

Drug discounts from patient assistance programs (e.g. from independent charities) and cash card programs (e.g. GoodRx, ScriptSave WellRx) operate outside of insurance coverage and are not applicable to AB 874.

**Insurance Impacted by Mandate**

AB 874 would impact pharmacy benefit coverage for the following types of insurance:

- CDI and DMHC Regulated (Commercial & CalPERS)
- Medi-Cal

**Medication Impacted by Mandate**

AB 874 would impact copayment adjustment programs, which are typically only used for the following:

- Specialty drugs
- Generic drugs
- Brand name drugs

**Utilization and Cost**

- **284,000** estimated number of prescriptions filled that would be impacted by AB 874
- Average unit cost of impacted prescriptions filled (at baseline and postmandate): **$6,339**
- Average amount of drug manufacturer coupons applied to prescriptions would decrease from **$1,772** at baseline to **$863** postmandate due to increased likelihood enrollees hit OOP maximum earlier and would not use coupons

**Benefit Coverage and Expenditures**

At baseline, approximately **6 million** enrollees have health insurance where drug manufacturer coupons do not apply to their deductible or OOP maximum. Postmandate, enrollee expenses for prescription drugs paid for with drug manufacturer coupons would count toward their deductible and OOP maximum.

AB 874 would increase total net annual expenditures by **$177,593,000** or **0.12%** for enrollees with DMHC-regulated plans and CDI-regulated policies. This is due to an increase in health insurance premiums ($213,312,000) for newly covered benefits, adjusted by a decrease in enrollee expenses for covered and/or noncovered benefits ($35,719,000).

Additional details are in the full analysis at www.chbrp.org. Questions? Email CHBRP at info@chbrp.org.