

**America's Health
Insurance Plans**

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April 11, 2016

Senator Ed Hernandez
Bill Sponsor
Senate District 22
State Capitol, Room 2080
Sacramento, CA 95814

Re: S.B. 1010 – Prescription Drug Costs, as amended March 30 – SUPPORT

Dear Senator Hernandez:

I write today on behalf of America's Health Insurance Plans (AHIP) to express our support of S.B. 1010, as amended, which looks to gather data on prescription drug costs. While we have workability concerns with some provisions, we support the goals of the bills.

AHIP is the national trade association representing the health insurance community. AHIP's members provide health and supplemental benefits through employer-sponsored coverage, the individual insurance market, and public programs such as Medicare and Medicaid. AHIP advocates for public policies that expand access to affordable health care coverage to all Americans through a competitive marketplace that fosters choice, quality, and innovation.

Pharmaceutical advances have brought about life-saving medications that have revolutionized the treatment of certain diseases. Moreover, prescription drug coverage is an essential health benefit under government programs, such as Medicaid and Medicare, and private health insurance. Through innovative pharmacy programs, health insurers have provided affordable coverage of prescription drugs to ensure that patients have access to medically necessary care. Yet, the rising prices of prescription drugs threaten the long-term sustainability of pharmaceutical innovation and patient access to the medications they need.

As the use and cost of prescription drugs continues to rise, it is critically important to understand the investment behind the development and marketing of such drugs in order for policymakers to ensure continued access to affordable medications.

This legislation is limited to the drugs that have the biggest impact on health care costs.

This legislation requires certain drug makers to report to state and private purchasers if they are increasing the wholesale acquisition cost of the drug by more than 10% during any 12-month period or if it intends to introduce to market a prescription drug that has a wholesale acquisition cost of \$10,000 or more annually or per course of treatment. This streamlines the focus to the high cost drugs and avoids unnecessary administrative burden on many drug makers who

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produce lower cost drugs. More importantly, this bill asks for information that is neither proprietary nor confidential in nature, but asks for advance notice when high priced drugs (and price increase) will hit the market.

Over the last several decades, the use of prescription drugs has increased significantly and now accounts for approximately 14% of total claims paid by health insurers.¹

According to the Centers for Medicare and Medicaid Services in 2011, prescription drug expenditures were \$276 billion and were the third highest category of health expenditures behind physician and clinical services (\$538 billion) and hospital charges (\$831 billion). In California, it's required that hospitals report cost data so policymakers and the public have an understanding of hospital costs. Health plans must report all rate increases in advance for all products so that regulators may review premium increases. Nationally, physician costs are reported by Medicare about how physicians are charging beneficiaries. However, no such data is known about prescription drugs.

Drug spending is rising at a rapid rate exceeding increases in all other segments of the health care system. The Altarum Institute reports that, in just over a year, prescription drug spending has outpaced spending in every other health care sector.² Spending on prescription drugs grew most rapidly among the major health sectors – a 13% increase overall.

With spending on prescription drugs rising at nearly twice the rate as other types of health care services, it is imperative that policymakers have more data as to why this occurring. This rapid increase in drug spending affects budgets for Medi-Cal, Cal-PERS, municipalities and other government employers as well as families and businesses across the state.

We support the goals of S.B. 1010 and look forward to working together to develop solutions that will ensure affordability, accessibility, choice and value in health care. If you have any questions, please do not hesitate to contact Maureen Higgins at MPHiggins@shjlobby.com (916-446-3007) or John Wenger at jwenger@shjlobby.com (916-446-3007).

Sincerely,



Leanne D. Gassaway
Vice President, State Affairs

¹ PricewaterhouseCoopers, "The Factors Fueling Rising Healthcare costs".

² Exhibit 4, "Insights from Monthly National Health Spending Data through December 2014." Altarum Institute. February 12, 2015. Available at http://altarum.org/sites/default/files/uploaded-related-files/CSHS-Spending-Brief_February_2015.pdf

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cc: Members of the Senate Health Committee
Joe Parra, Republican Consultant
Jenny Mae Phillips, Department of Managed Health Care
Janice Rocco, California Department of Insurance
Kiyomi Burchill, Health and Human Services Agency
Kelly Green, California Health Benefit Exchange
Donna Campbell, Govenor's Office