

DMHC Releases First Annual Prescription Drug Cost Transparency Report

At the end of 2018, California's Department of Managed Health Care (DMHC) released the first [Prescription Drug Cost Transparency Report](#) covering the cost of prescriptions in 2017. The legislature directed DMHC to write this report as part of the provisions of SB 17, which was passed by the legislature in 2017. For more information on SB-17, see The Source's previous coverage when [SB 17 passed](#), of [regulations promulgated by DMHC](#), and of [the lawsuit filed by PhRMA over the law](#). In this post, we review the report compiled by DMHC and discuss what the information means for policymakers seeking solutions to rising drug costs.

Among the key findings, DMHC reported that prescription drugs accounted for 13.1% of total health plan premiums and that the increase in prescription drug costs from 2016 to 2017 was less than the increase in medical expenses for the same period.[\[1\]](#) Perhaps most surprisingly, the report also found that while specialty drugs[\[2\]](#) accounted for only 1.6% of the number of prescriptions, they accounted for over half (51.5%) of the total annual spending on prescription drugs. Generic drugs accounted for approximately 90% of prescriptions, but only 23.6% of the costs; brand-name drugs accounted for 10.6% of prescriptions and 24.8% of the costs.

What do these numbers mean?

The spending in California for generic drugs matches previous

reports from the Association of Accessible Medicines, a trade group representing the interests of generic drug manufacturers.[\[3\]](#) In addition, the percentage of drug expenditures that insurers in California spent on specialty medicines is similar to nationwide figures, in which 46.5% of drug costs were for specialty medications.[\[4\]](#) The fraction of spending for specialty drugs has risen rapidly – in 2008, nationwide spending on specialty drugs accounted for only 25% of the total drug expenditures.

As The Source detailed in the [Spotlight on 2018 State Drug Legislation series](#), state legislatures were very active in both considering and passing new legislation to address rising drug costs. Most of the legislation passed last year, however, focused on limiting patient copayments (gag-clause prohibitions) and price increases for existing drugs (price gouging prohibitions, price transparency laws). The data in DMHC's report suggests that lawmakers need to consider policies that target specialty drug pricing. Only two kinds of considered legislation, drug importation and rate-setting, have the potential to address the cost of specialty drugs. Furthermore, Vermont was the only state to pass one of these laws ([S 175](#) establishes a plan to create a wholesale drug importation program).

The DMHC report suggests that unless lawmakers are willing and able to pass rate-setting legislation, only market forces can mitigate the [multimillion-dollar price tag](#) proposed for some new drugs. Furthermore, many of these newly announced specialty drugs with price tags exceeding \$500,000 have no therapeutic substitute, so insurers and patients who need treatment are forced to pay whatever price the drug manufacturers demand. The DMHC report shows the significance of this problem. Specialty drugs make up a large percentage of total drug expenditures, so not only are patients with these rare diseases affected by the

drug price, but all Californians pay increased premiums for their health insurance due to the cost of these specialty drugs. The report should be a call-to-arms for both state and federal lawmakers seeking to make healthcare more affordable.

[1] Department of Managed Health Care. **Prescription Drug Cost Transparency Report (SB 17) Measurement Year 2017**. Released December 27, 2018. Available from: <https://www.dmhc.ca.gov/Portals/0/Docs/D0/sb17.pdf>.

[2] Specialty drugs are defined by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (PL 108-173) as those with a monthly negotiated rate that exceed a threshold, currently set at \$670 per one-month supply.

[3] See Association for Accessible Medicines. **2018 Generic Drug Access & Savings in the U.S.: Access in Jeopardy**. Available from:

https://accessiblemeds.org/sites/default/files/2018_aam_generic_drug_access_and_savings_report.pdf in which they find that nationwide, prescriptions for generic medications account for 90% of prescriptions filled, but only 23% of drug expenditures.

[4] IQVIA Institute. **Medicine Use and Spending in the U.S.: A Review of 2017 and Outlook to 2022**. April 2018. Available from: <https://www.iqvia.com/institute/reports/medicine-use-and-spending-in-the-us-review-of-2017-outlook-to-2022>.