1 Sub. SB 184, PRESCRIPTION COST AMENDMENTS, (Bramble, C)

Anticipated Fiscal Impact:

$2,750,173 per year $3.76 PMPM

Summary

Health Plans evaluate drugs for safety and efficacy in determining which drugs to cover and which to exclude. Health Plans then take relative costs into account in putting drugs into different payment tiers with the purpose of discouraging high-cost drugs by requiring more out-of-pocket when lower cost alternatives are available. To counter payment tiers, drug manufacturers routinely pay large portions of out-of-pocket costs through "copay assistance." As a result of copay assistance, health plans pay for more higher-priced drugs.

Health plans don't consider copay assistance as out-of-pocket costs of the member because it is part of drug manufacturer's marketing strategy to sell a product. Consequently, only the amount that patient actually spends out-of-pocket is credited toward their deductible and out-of-pocket maximum which is often as little as $5, not the amount paid on the patient's behalf. Further, plans see copay assistance as defeating payment tiers and unfair to other members who are required to pay out-of-pocket for their medical care. They also see an opportunity to maximize the value of copay assistance to reduce plan costs that would be lost if assistance was applied to deductibles and out-of-pocket maximums.

1 Sub. SB 184 would require health plans to credit copay assistance toward a member's deductible and out-of-pocket maximum. This will impact the State Health Insurance Plan in the following ways:

- The bill would limit PEHP's ability to offset available copay assistance to reduce specialty drug costs for the state at an estimated cost of $1,745,794.
- The bill would limit PEHP's ability to offset available copay assistance to reduce non-specialty drug costs for the state at an estimated cost of $580,000.

- It would reduce the amount that members would have to pay out-of-pocket for non-pharmacy costs and would, instead, shift those costs to the plan at estimated cost of $377,793.
- It would increase utilization as members more quickly hit their out-of-pocket maximum $46,586 Tier C members.

In total, we estimate SB 184 would cost the state $2,750,173 with $424,239 benefitting members and the rest benefitting drug manufacturers.

Offsetting Copay Assistance. The bill would limit PEHP's ability to offset available copay assistance to reduce drug costs for the state.

Specialty drugs are expensive. On average they cost $70,000 a year. They are typically used for chronic conditions and so a person who is on a specialty drug can expect to be on that drug throughout their life.

Since 2015, PEHP has adopted a creative approach for maximizing copay assistance offered by drug manufacturers to offset the cost of specialty drugs to the state. Copay assistance can exceed $20,000 per year and represents savings that are not available through discounts or rebates.

PEHP actively monitors the availability of copay assistance and then matches that assistance with a copay tier that will best maximize that assistance. This significantly reduces costs to the state while ensuring members don't pay more out-of-pocket.

For example, if a drug cost $10,000 and $3,000 of copay assistance was available, PEHP would set member cost sharing at 30%. Accordingly, copay assistance from the manufacturer would pay $3,000 and the state would pay the remaining $7,000.

However, had the member only been responsible to pay $250, the state would pay $9,750 and copay assistance would have paid $250—because that is all the member would be required to pay.

By selectively increasing member cost sharing to maximize copay assistance, PEHP saves the state significant amounts. In either scenario, the member pays the same amount—usually less than $20. This only works because of the drug manufacturer's decision to offer copay assistance.

1 Sub. SB 184 would limit PEHP's ability to offset copay assistance for the benefit of the state because counting copay assistance for specialty drugs toward a member's deductible and out-of-pocket maximum quickly eliminates a member's cost sharing

responsibilities. In fact, when a member's out-of-pocket maximum is met, the member pays zero. That means there would be no copay assistance to offset.

The difference between this bill and the original SB 184 was the removal of the provisions that would have required an "open formulary" which would have required the state health plan to cover all FDA-approved drugs. We appreciate being able to work with the sponsor to have this provision removed in the substitute.

Assumptions and Analysis

1. **Specialty Drugs.** Last year, $2,013,094 was paid by coupons or copay assistance but not contributed to deductible and out of pocket limits for qualifying specialty drugs. After accounting for deductible, the amount the state would lose in offset for specialty drugs would be $1,745,794.
2. **Brand Drugs at Retail Pharmacies.** We estimate that $717,000 is applied to copay assistance at retail pharmacies. This value is the total paid by coupons or copay assistance for brand name drugs at retail pharmacies but not contributed to deductible and out of pocket limits for qualifying specialty drugs. After accounting for deductible, the amount the state would lose in offset for brand drugs is $580,000.
3. **Medical Benefits.** The application of amounts paid by others to the pharmacy benefit also affects medical spending. Specifically, members utilizing Tier C drugs will meet their out-of-pocket maximum much sooner than the current practice. The cost to cover the same services after meeting the out-of-pocket maximum due to copay assistance is $377,793.
4. **Utilization Changes.** In addition to increased costs to cover the original services, utilization of health care services increases after reaching the out-of-pocket maximum. An additional 96 state members using a specialty drug will reach the out-of-pocket maximum as a result of applying amounts paid by others. Assuming a 15% change in existing utilization and excluding pharmacy services, the cost of this increased utilization is $46,586.