May 16, 2014

To: Members, Assembly Appropriations Committee

SUBJECT: AB 1917 (GORDON) OUTPATIENT PRESCRIPTION DRUGS: COST SHARING
HEARING SCHEDULED – MAY 21, 2014
OPPOSE – AMENDED ON MAY 7, 2014

The below-listed organizations continue to **OPPOSE AB 1917 (Gordon)**, which will increase health care premiums for individuals and employers by capping what health care enrollees can be charged for prescription drugs each month through co-pays, deductibles and other forms of cost sharing. While we are sympathetic with the author's goal to allow low-income enrollees with costly medications to spread their health care expenses out over a longer period of time, **AB 1917** accomplishes this in a way that interferes with how plans calculate actuarial values as required by the ACA, and will simply result in plans increasing cost-sharing in other areas to maintain the plan's actuarial value. The measure will also increase usage of the most costly specialty medications, which already account for 25 percent of all spending for prescription drugs, driving up premium costs.

Last year, AB 639 by Senator Hernandez established a cap on what any individual or family can be asked to pay towards co-payments, deductibles, and other forms of cost sharing in a single year. For individuals, the out-of-pocket maximum was set at $6,350 and for families it was set at $12,700, with both subject to annual adjustment as health care costs rise. **AB 1917** would build on SB 639 and further prohibit health care service plans and insurers from charging more than 1/24 of that annual out-of-pocket maximum ($265) as a co-payment for most covered prescription medications in a given month. Recent amendments attempt to accommodate the extreme case posed by several new hepatitis C drugs including Sovaldi, which requires at least a 3 month course of treatment costing $84,000. The bill allows co-pays for drugs with a time-limited course of treatment of 3 months or less to be set at ½ the annual out of pocket cap, but the amendments do not take into account that some patients actually require up to 6 months of treatment with Sovaldi and similar medications.

While proponents state that **AB 1917** is designed to help those enrollees who need expensive specialty medications like Solvadi, the language of the bill applies to all prescriptions and would limit the ability of health plans to recoup their costs even when the prescription is not a specialty medication and the standard co-pay would come nowhere near the cost of the annual out-of-pocket cap.

Limiting the ability of plans to charge reasonable co-pays that reflect the high cost of specialty medications is also a concern because it encourages utilization of these drugs, which would have a profound impact on overall health spending in the state. The analysis of **AB 1917** by the California Health Benefits Review Program (CHBRP) states that the bill will increase utilization of high-cost and specialty prescription drugs like Sovaldi and increase net expenditures in California by $106,114,000 in 2015. It would also increase employer premiums by $28 million. Similarly, a recent Kaiser Health News story stated that, "specialty drugs account for less than 1 percent of all prescriptions but more than a quarter of the spending," and if every individual with hepatitis C were to be treated at an average cost of $100,000, U.S. spending on prescription drugs would double from $300 million to $600 million in one year. Given that other high-cost specialty drugs are currently being developed to treat cholesterol and diabetes, which could be utilized by millions of Californians, **AB 1917** poses a real threat to the future affordability of health care in California.

AB 1917 will also have other unintended consequences for enrollees because of the actuarial value requirement imposed on health plans by the ACA. If cost-sharing for prescription drugs is reduced as proposed by **AB 1917**, health plans will have to increase cost-sharing for other services and products to maintain the actuarial value of their plans. According to the CHBRP analysis, this would decrease usage of these other products and services, which could bring about negative health impacts that outweigh the benefits provided to the small handful of enrollees who actually use high-cost or specialty prescription drugs.

Besides being difficult for plans to administer and likely to drive up the cost of premiums, **AB 1917** is also unnecessary. The Affordable Care Act mandates that individuals have access to plans that provide meaningful levels of cover for a range essential health benefits, and makes those plans affordable by subsidizing premiums for individuals who make less than 400 percent of the poverty level. The ACA prohibits any co-payment or other form of cost-sharing for preventative care and further helps low-income individuals by providing them with cost-sharing reductions that substantially lower their deductibles, co-payments, and other monthly health-related expenses when they *are* required.

SB 639 went further still, ensuring that no individual or family, regardless of their income level or health care needs will be forced into medical bankruptcy by excessive out-of-pocket costs in a single year. All of these provisions help shield individuals and families from the ever rising cost of health care, but setting additional limits that encourage use of costly prescription drugs at the expense of other health care products and services will dramatically increase health care spending without benefitting the vast majority of enrollees, and will force individuals and employers to pay higher premiums.

For these reasons and more, we must respectfully **OPPOSE AB 1917 (Gordon)**.

Sincerely,

California Chamber of Commerce
California Association of Health Underwriters
California Association of Joint Powers Authorities
California Manufacturers and Technology Association
National Federation of Independent Business

Cc: The Honorable Richard Gordon
Lark Park, Office of the Governor
Lisa Murawski, Assembly Appropriations Committee
Peter Anderson, Assembly Republican Caucus
Kelly Green, Department of Health Care Services
District Office, Members, Assembly Appropriations Committee