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March XX, 2021

The Honorable Jim Wood
Chair, Assembly Committee on Health
State Capitol, Room 4202
Sacramento, CA 95814

RE: Support AB 933 (Daly): Prescription Drug Affordability

Dear Assemblymember Wood:

I am writing on behalf of [ORGANIZATION NAME AND SHORT DESCRIPTION OF ORGANIZATION] to share our SUPPORT OF **AB 933, Prescription Drug Affordability**, a long-needed bill that will lower California patients' out-of-pocket costs for prescription drugs.

Passage of AB 933 will benefit all Californians who struggle to afford the medications they need, particularly the 1 in 6 Californians who have high deductible health plans with high out-of-pocket costs. This includes thousands of small and minority-owned businesses and their employees, many of whom have high deductible plans.

AB 933 will also help minority-owned businesses who have been severely, and disproportionately, impacted by COVID-19 shutdowns. Indeed, 40 percent of Black owned businesses have already been shuttered around the state (compared to White-owned businesses at half that rate), and Latinx and Asian businesses are not far behind. AB 933 will provide these business owners and employees with the help they need to afford their health care as they work to rebound in the coming months and years.

The Current Rebate System

Health care insurers and pharmacy middlemen, known as Pharmacy Benefit Managers (PBMs), utilize the rebate system to lower the price they pay drug manufacturers for medications. PBMs are hired by insurance companies to negotiate these pharmacy rebates and to create the health plan's list of approved medications for their patients, known as a drug formulary. PBMs are able to negotiate drug manufacturer rebates by agreeing to place the manufacturers' medications on health plan drug formularies.

The savings to PBMs and insurers under the current rebate system are significant, with the average amount of a rebate being 40 percent off the list price of the medication. For example, if the list price of a drug is \$100, a PBM may negotiate a rebate of \$40 on the medication so the PBM and their insurer client only pay \$60 for the medication.

The Rebate System Benefits Insurers and PBMs, Not Patients

Under the current rebate system, and unlike most consumer rebate programs, patients do not receive a dime of the rebate at the pharmacy counter. Instead of passing the rebates back to patients, the PBMs keep part of the rebate and give the rest to their insurance company client for a profit. In 2019 alone, PBMs in the U.S. negotiated \$89.5 billion¹ in rebates overall, and a recent

¹ Pew Charitable Trust, The Prescription Drug Landscape, Explored, 2019

report from the Department of Managed Healthcare found that in 2019, health plans in California received more than \$1.2 billion in rebates from manufacturers, up 27 percent from 2017.²

While PBMs and insurers make billions, patients often end up paying more for the prescription than the PBM and insurer paid for it. Patients who have not met their health plan deductible and have to pay out-of-pocket at the pharmacy counter are often forced to pay the full list price of the medication – not the rebated price. So, the PBMs and insurers only pay \$60 for a prescription, but the patient pays \$100.

Patients Need AB 933

A 2020 study by the California Health Care Foundation found that 84 percent of Californians view improving health care affordability as “extremely” or “very” important. The same study found that 51 percent of Californians skipped or postponed health care due to cost — up from 44 percent the previous year. Forty two percent of those who put off care said doing so worsened their condition. This forgoing of health care due to high costs is untenable.

AB 933 will require that insurance companies pass on at least 90 percent of drug rebates to patients. While insurance companies may claim that sharing rebates with patients would require them to increase the price of health care premiums, a 2019 Milliman study titled “Can Voluntary POS Rebates Work for Medicare Part D?” found that, even if health insurance companies were required to share all the negotiated rebates with patients, premiums would increase at most one percent, while patients could save up to \$800 each year on their medicine costs.

This bill is much-needed to immediately lower prescription medications costs for all Californians, including the thousands of minority-owned small businesses and their employees who have high deductible health plans and face high out-of-pocket costs that make it difficult, and often impossible, for them to afford the medications they need to get and stay well.

Sincerely,

NAME
TITLE
ORG

CC: Rosielyn Pulmano, Chief Consultant, Assembly Health Committee
Kristene Mapile, Principal Consultant, Assembly Health Committee
Office of Assemblymember Tom Daly
Members, Assembly Health Committee

² California Department of Managed Health Care, Prescription Drug Cost Transparency Report, 2019.