



FACT SHEET

Prescription Drug Mandates and the Cost to California

May 2010

One of the major cost drivers of health care is prescription drugs, which consumes 16 percent of the health premium dollar.¹ Last year the cost of brand-name drugs increased 9.1 percent, the biggest increase in the last decade.²

This year, federal health reform included several benefits for the pharmaceutical industry. They secured 12 years of exclusivity for brand-name drugs that will prevent the availability of low-cost generics (see chart for a comparison of some brand name drug costs to generic drug costs). The reform legislation also prevents the government from negotiating drug prices.

Instead of debating how to lower the cost of health care, California's policymakers are debating laws that will guarantee drug makers increased profits. Brand name drug manufacturers already have the highest net profits in the health care sector, earning nearly 23 percent.³

California's legislature is currently considering four bills that would increase health care costs for employers and individuals by mandating coverage that favors certain brand-name drugs and limiting the use of cheaper generics. This will drive the cost of health care even higher for consumers without consideration of the equivalent quality of generics and without guaranteeing access to the appropriate medications. One report estimates that \$51 billion could be saved nationally through better use of generics and low-cost brand-name medications.⁴

These pharmaceutical bills are being presented just before the patent expires for a number of brand name drugs (e.g., Lexapro, Lipitor, Revlimid) allowing cheaper generics to enter the market. Consistently, most of these bills exempt the state's own public employee health benefits system from the costly impact of the legislation, leaving private employers to shoulder the burden of the new mandates during an economic recession.

Selection of Brand Name Drugs v. Generic Drug Price Comparisons

Brand Name	Brand Name Average Cost	Generic Average Cost	Estimated Generic Savings
Ambien	\$86.67	\$4.19	\$82.48
Lyrica	\$155.12	\$25.48	\$129.64
Valium	\$219.48	\$6.11	\$213.37
Vicodin	\$74.08	\$10.63	\$63.45
Xanax	\$98.82	\$6.78	\$92.04

RegenceRx™ Price Guide, Accessed May 2010

Bill Summaries

SB 961 (Wright)

This bill limits co-pays for expensive oral chemotherapy drugs to discourage the use of generic alternatives or other effective treatments. Even though consumer out-of-pocket expenditures are limited, the increased costs of this mandate on health plans will ultimately drive up premiums for employers and individuals. While private employers would have to bear the increased costs associated with the bill, the state will not because CalPERS has been exempted.

SB 1104 (Cedillo)

This mandate bill could potentially favor expensive brand name drugs used to treat diabetes and diabetes-related conditions over equivalently effective generics. This bill includes requirements for covering drugs that would increase cost for California's employers, individuals and the state.

AB 1826 (Huffman)

This bill requires automatic coverage of any medication used to treat pain without regard to price, safety, or whether the drug is on the plan's formulary. In essence, this favors expensive, brand-name pain medications. Brand-name medications are only 12 percent of all pain prescriptions but make up 54.5 percent of the total cost for this class of drugs. These figures are expected to rise should AB 1826 pass and costs will increase by \$27.7 million.⁵ CalPERS has been exempted from this bill and will avoid the impact of increased costs.

AB 2170 (Lowenthal)

This bill prevents changes in co-pays for expensive brand-name drugs when a generic becomes available during the contract period. Typically, these co-pay changes mean consumers would have lower co-pays when using generic medications.

SOURCES

1 [The Factors Fueling Rising Health Care Costs](#). PricewaterhouseCoopers'. 2008.

2 [2009 Drug Trend Report](#). Express Scripts, Inc. April 2010.

3 [Healthcare Sector Industry List](#). Yahoo! Finance. Accessed May 2010.

4 [2009 Drug Trend Report](#). Express Scripts, Inc. April 2010.

5 [Analysis of Assembly Bill 1826: Pain Prescriptions](#). California Health Benefits Review Program. 16 April 2010.

Please contact Maral Farsi at mfarsi@calhealthplans.org or 916.558.1545 with any questions about this fact sheet.

California Association of Health Plans • 1415 L Street, Suite 850 • Sacramento, CA 95814 • 916.552.2910 • www.calhealthplans.org

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