

2021 Drug Cost Transparency Report

shows largest drug cost increases in
the report's 5-year history



The California Department of Managed Health Care's 2021 Prescription Drug Cost Transparency Report illuminates how rising drug prices, particularly specialty drugs, are driving up health care costs for Californians - and have been for years.

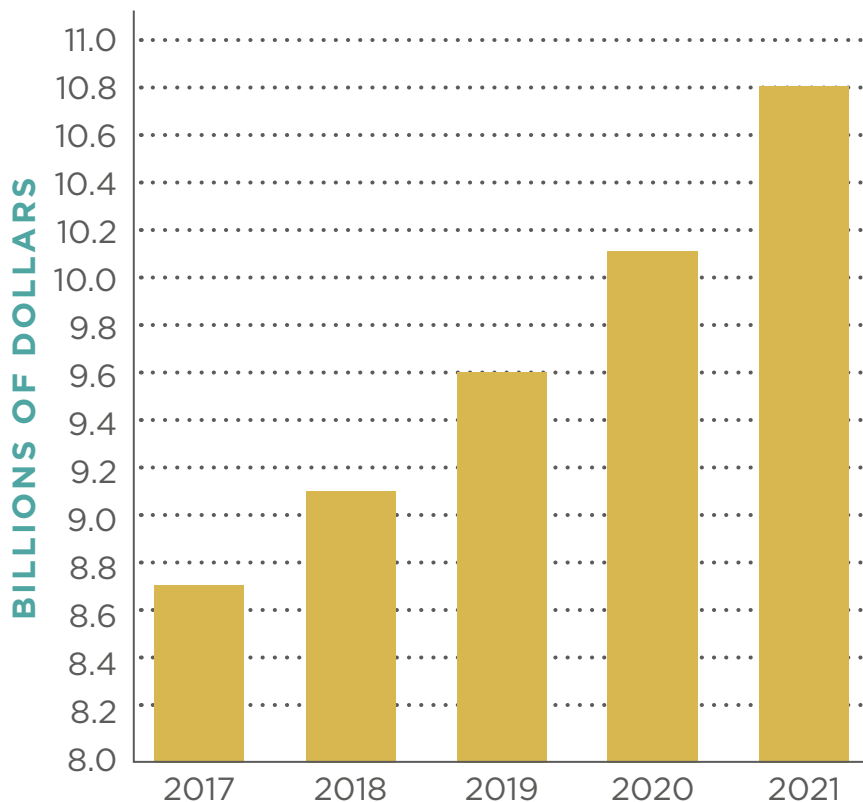


INTRODUCTION

Each year since 2017, the California Department of Managed Health Care (DMHC) has published its Prescription Drug Cost Transparency Report which helps capture the true impact prescription drug costs have on health care premiums in California. The annual report was prompted by the 2017 passage of SB 17, a groundbreaking law that requires quarterly reporting from health plans and drug manufacturers of prescription drug spending and pricing to help inform policymakers with accurate and transparent data. The DMHC's latest report was released at the end of 2022 for the measured year 2021, the first full year of the COVID-19 pandemic.

2021 saw the largest drug cost increases in the 5-year history of the Report with a \$700 million increase in prescription drug spending in 2021 (See chart below). As a percentage of Californians healthcare premiums, prescription drug expenses increased to 13.3%* as health plans continued to cover over 92.6% of the most expensive prescription drugs for members. Overall, rapidly climbing prescription drug costs continue to place upward pressure on health plan premium prices, negatively impacting health care affordability for Californians.

ANNUAL PRESCRIPTION DRUG SPENDING BY HEALTH PLANS



*Per the DMHC Prescription Drug Cost Transparency Report: "The figures in this report include only those prescription drugs dispensed through retail or mail order pharmacies, and do not include drugs that are provided in a hospital, administered in a doctor office, or otherwise paid for through capitated payments to delegated providers. Therefore, the 13.3% of premium in 2021 does not capture all costs of prescription drugs paid by health plans."

KEY TAKEAWAYS

1

PRESCRIPTION DRUGS DRIVE UP HEALTH PLAN PREMIUMS:

Health plans paid **\$10.8 billion** for prescription drugs in 2021, an increase of nearly **\$700 million** from 2020 and **\$2.1 billion** from 2017.

2

RAPID INCREASE IN PRESCRIPTION DRUG COSTS:

Prescription drug spending is increasing rapidly and accelerated in 2021 by **6.6%**, resulting in a **15%** increase in just 3 years.

3

SPECIALTY DRUGS, SPECIALTY PRICING:

Specialty drugs were by far the highest portion of prescription drug spending, with **more than 60%** of prescription drug spending going to just **1.6% of prescriptions**.

4

PRESCRIPTION DRUG COVERAGE BY HEALTH PLANS STAYS CONSISTENT:

Health plans continued to cover the vast majority of drugs, including **92.6%** of the most expensive brand name, generic, and specialty drugs.

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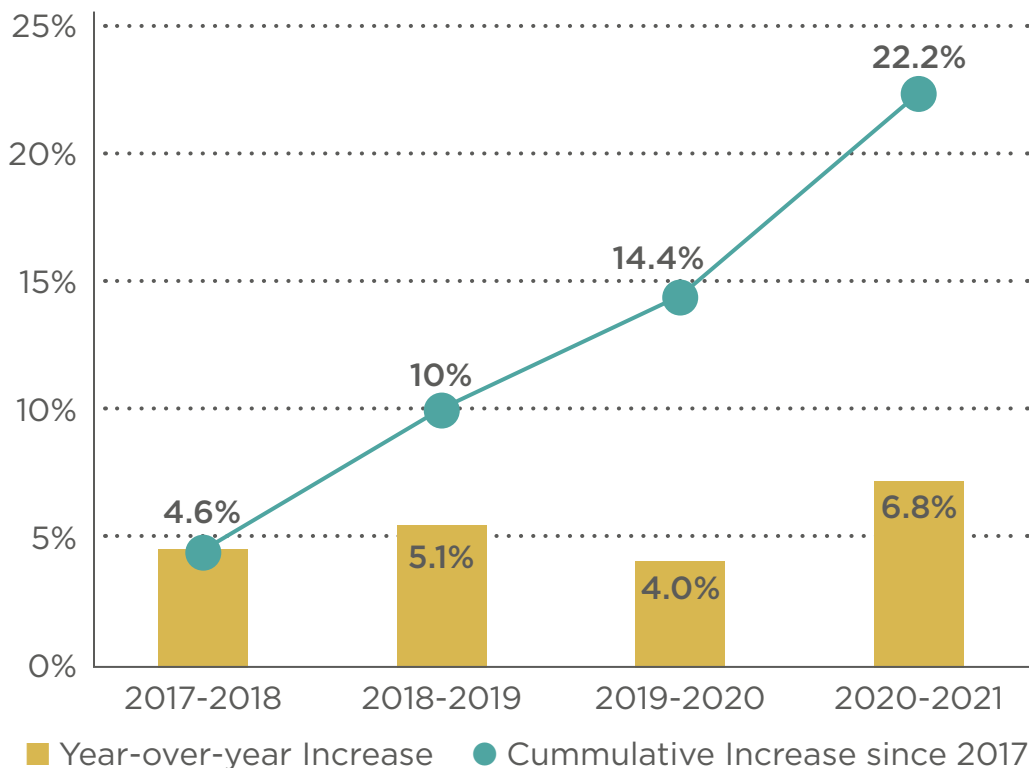
Since 2017, health plans have paid **over \$48 billion** for prescription drugs as prescription drug costs have increased by **22.2%** — a significant factor to health care premiums increasing by **18.6%** over the same timeframe.

BACKGROUND

For decades, prescription drug costs have been increasing significantly faster than inflation.¹ Launch prices for new drugs have spiked even faster as “launch prices increased exponentially by 20.4% per year” from 2008 to 2021.² While certain egregious cost increases get outsized media attention, the underlying growth in costs across prescription drugs has been a consistent and constant strain on health care costs.

There are numerous recent examples of prescription drug costs impacting premiums. When expensive but unproven Alzheimer’s drug Aduhelm was approved for Medicare, premium prices increased as a direct result.³ When the drug was underutilized due to concerns about its effectiveness, the Medicare premium subsequently dropped the drug.⁴ As health plans in California continue to cover over 92.6% of prescription drug costs for members, drug costs rise and premiums rise in tandem. Such is the policy environment that prompted the passage of SB 17, and subsequent drug cost transparency reports released since 2017, to shed light on prescription drug costs and their impacts on health care costs and health plan premiums.

FIVE-YEAR TREND ANALYSIS: PRESCRIPTION DRUG COST INCREASE TREND

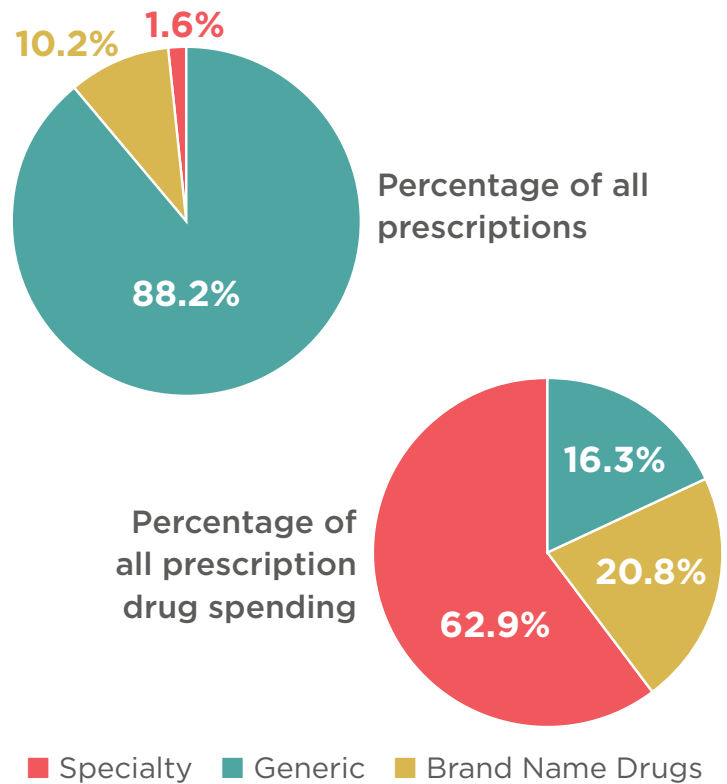


TRENDS

- In 2021, health plans paid \$10.8 billion for prescription drugs, an increase of nearly \$700 million from 2020 and \$2.1 billion from 2017. The increase in spending was an acceleration over the previous three years, which had averaged a 4.5% increase.
- For the third straight year, the prescription drug market became more consolidated as the proportion of health plan spending on the top-25 most frequently prescribed drugs increased. The increase of health plan spending on prescription drugs was most extreme among specialty drug spending, which increased 9% from 2020 to 2021 even as total specialty drug prescriptions stayed mostly flat.
- Specialty prescription drugs, while still only representing 1.6% of prescriptions, grew to 62.9% of health plan spending on prescription drugs compared to just barely over half of prescription drug spending in 2018 (52.6%) and 2017 (51.5%). In other words, more than 3 in 5 dollars spent on prescription drugs went to the less than 1 in 60 prescriptions that are classified as specialty drugs.



SPECIALTY DRUGS' OUTSIZED IMPACT ON PRESCRIPTION DRUG SPENDING



The impact drug prices have on health care premiums has become clearer in each subsequent report since 2017. 13.3% of health plan premiums went directly towards prescription drugs in 2021, the largest proportion the report has ever measured. For the first time in recent years, the DMHC Prescription Drug Cost Transparency Report showed that DMHC reporting health plans had a negative profit margin in 2021 - meaning that the cumulative expenses, largely from medical and consistently rising prescription drug expenses, were larger than health plans' reported revenues. If prescription drug costs continue to increase at a similar pace to 2017 - 2021, their cost will continue to place upward pressure on the price of health plan premiums going forward.

CONCLUSION

Without significant policy change addressing the growing price of prescription drugs, these trends are likely to continue in the future. However, the newly released 2021 data, and prior DMHC Prescription Drug Cost Transparency Reports, should provide legislators additional information needed to make informed decisions for addressing rising and accelerating prescription drug costs. Armed with transparent drug cost data from SB 17, California legislators should prioritize finding solutions to rising prescription drug prices to mitigate their negative impact on health care premium costs for Californians.



SOURCES

- ¹ Spending on prescription drugs has been growing exponentially over the past few decades. Accessed February 3, 2023. <https://www.pgpf.org/infographic/spending-on-prescription-drugs-has-been-growing-exponentially-over-the-past-few-decades>
- ² Rome BN, Egilman AC, Kesselheim AS. Trends in prescription drug launch prices, 2008-2021. *JAMA*. 2022;327(21):2145. doi:10.1001/jama.2022.5542
- ³ Luhby T. Aduhelm, priced at \$56,000 a year, is a key factor driving up Medicare premiums | CNN Politics. CNN. Published November 16, 2021. Accessed February 3, 2023. <https://www.cnn.com/2021/11/16/politics/aduhelm-alzheimer-medicare-increase/index.html>
- ⁴ King R. Medicare Part B premiums to decline slightly in 2023 due to low Aduhelm use. Fierce Healthcare. Published September 27, 2022. <https://www.fiercehealthcare.com/payers/medicare-part-b-premiums-decline-slight-2023-due-low-aduhelm-use>
- ⁵ Prescription Drug Cost Transparency Report - Measurement Year 2021. California Department of Managed Healthcare; 2022. <https://www.dmhc.ca.gov/Portals/0/Docs/DO/SB172021Report.pdf>

