

# SENATE BILL REPORT

## SB 5586

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As of January 17, 2018

**Title:** An act relating to prescription drug cost transparency.

**Brief Description:** Addressing prescription drug cost transparency.

**Sponsors:** Senators Ranker, Rivers, Kuderer, Cleveland, Miloscia, Mullet, Saldaña, Keiser, Conway and Hasegawa.

**Brief History:**

**Committee Activity:** Health Care: 2/07/17.

Health & Long Term Care: 1/16/18.

**Brief Summary of Bill**

- Requires issuers and drug manufacturers to report certain prescription drug pricing data on a yearly basis to a data organization contracted by the Office of Financial Management (OFM).
- Requires drug manufacturers to report price increases and written justification for the increase to purchasers.
- Requires the data organization to summarize the prescription drug pricing data and provide reports to the Legislature.

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**SENATE COMMITTEE ON HEALTH CARE**

**Staff:** Mich'l Needham (786-7442)

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**SENATE COMMITTEE ON HEALTH & LONG TERM CARE**

**Staff:** Greg Attanasio (786-7410)

**Background:** Prescription Drug Purchasing Consortium. Pursuant to statute, the Health Care Authority (HCA) established a prescription drug purchasing consortium. State-purchased health care programs must purchase prescription drugs through the consortium, and local governments, private entities, and labor organizations; uninsured; and underinsured residents may voluntarily participate in the consortium. In 2006, Washington and Oregon

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formed the Northwest Prescription Drug Consortium (Northwest Consortium) to expand their purchasing power. The Northwest Consortium offers access to retail pharmacy discounts, pharmacy benefit management services, rebate management services, and a prescription discount card for uninsured residents.

All-Payer Health Care Claims Database. The OFM is directed by statute to establish an all-payer health care claims database to support transparent public reporting of health care information. In July 2016, the OFM selected a lead organization and data vendor to coordinate and manage the database. The database will collect claims data from the Medicaid program, Public Employees' Benefits Board programs, all health carriers, third-party administrators, and Department of Labor and Industries programs. Claim files submitted to the database will include pharmacy claims.

State Agency Work on Prescription Drug Costs. In 2016, two agencies reviewed issues related to prescription drug costs. The Department of Health (DOH) convened a taskforce to evaluate factors contributing to out-of-pocket costs for patients, including prescription drug cost trends. The HCA and the OFM prepared a report on prescription drug costs and potential purchasing strategies at the request of legislators. The report describes increases in state agency spending on prescription drugs in recent years, current cost drivers, strategies to slow the rate of prescription drug spending, and policy options.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Proposed Substitute):** The OFM must conduct a competitive procurement process to select a data organization that will collect, summarize, and prepare reports on prescription drug pricing data provided by drug manufacturers, insurance carriers, and issuers.

Issuer and Insurance Carrier Obligations. By March 1 of each year, insurance carriers and issuers must provide the data organization with:

- the 25 most frequently prescribed prescription drugs by health care providers in their network;
- the 25 costliest prescription drugs, and the issuer's total spending on each drug;
- the 25 prescription drugs with the largest year-over-year increase in spending, including the percentage increase; and
- a summary of the impact of prescription drug costs on health plan premiums.

Employer-sponsored self-funded health plans and Taft-Hartley trust health plans may voluntarily provide this data.

Manufacturer Obligations. Beginning October 1, 2018, drug manufacturers that sell prescription drugs in Washington must provide the data organization with a description of the factors considered when increasing the wholesale acquisition cost of a prescription drug and an explanation of how the factors justify the increase. For each drug it manufactures, it must also provide:

- a history of cost increases for the past five years if the drug was manufactured by the company during that time;

- the wholesale acquisition cost of the drug at the time of the acquisition, the company from which the drug was purchased, and the purchase price, if it was purchased within the past five years;
- the year the drug was introduced to the market and at what wholesale price;
- the patent expiration date;
- if the drug is a multiple source drug, an innovator multiple source drug, a non-innovator multiple source drug, or a single source drug;
- an itemized cost for the production and sale of each drug; and
- the total financial assistance given through programs, rebates, and coupons.

Also beginning October 1, 2018, drug manufacturers must inform purchasers at least 90 days before the introduction of a covered drug or a qualifying price increase for a covered drug. In the case of price increase, a manufacturer must inform purchasers of:

- the date of the increase;
- the current wholesale acquisition cost;
- the dollar amount increase in the wholesale acquisition cost; and
- a statement regarding whether the price increase is caused by a change or improvement to the drug.

If a pharmacy benefit manager receives a price increase notice, it must inform its large contracting public and private purchasers. OFM must also post the price increase information collected from manufacturers on its website.

Data Organization Obligations. The data organization must compile the data collected from issuers and manufacturers and prepare an annual report summarizing the data to demonstrate the overall impact of drug costs on health care premiums. The report must include:

- the 25 most prescribed prescription drugs;
- the 25 most costly drugs by overall plan spending; and
- the 25 drugs with the highest year-over-year increase in total annual plan spending.

The data in the report must be aggregated so not to reveal information specific to individual health insurers. DOH must post the report on its website, beginning January 1, 2019, and by each January 1 thereafter.

Enforcement. The OFM may assess a fine against issuers and manufactures of up to \$1,000 per day for failure to comply with reporting requirements.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony (Health Care):** *Testimony from 2017 Regular Session.*

PRO: The recent epi-pen situation provided an example of the dramatic price increases we see with pharmaceuticals. Drug prices impact our state budget directly with millions of

dollars in prescription costs alone. The dramatic impact on the state budget and on household budgets warrants a look at the pricing data. We believe there should be transparency in the drug pricing. The increases in drug costs drive significant increases in health care costs. Our data shows the increased cost is driven by changes in drug pricing not utilization. The first step to controlling drug costs is transparency. Hold these companies accountable and demand information on these huge price increases we see. This bill brings much needed transparency to the complex health care system. There are no affordable options for many drugs and Americans want information on drug pricing. A recent Wall Street Journal article showed employers are spending 19 percent of health care spending on prescription drugs, which is nearing the expense for inpatient hospital costs. While specialty drugs represent about 1 percent of the services, they represent 35 percent of the trend in premiums. Increasing health care costs are largely attributed to rising prescription drug costs. The prescription costs are the main driver behind premium increases.

CON: Manufacturers are only one part of the pharmacy supply chain. The manufacturer data is proprietary information and should not be available to business competitors. Research and development costs cannot be isolated to a single drug, and the costs and development are not linear. This bill could have an undue influence on small companies working on research and development. A recent Congressional Budget Office study suggests that for every dollar spend on prescriptions, other health care expenses are reduced. This bill is focusing only on at the top of the pyramid, but the base of the pyramid is where it starts. It is impossible to separate some of these expenses. While our committee looks forward to controlling rising health care costs, this bill misses the mark. It follows the Vermont model and violates proprietary information. Action should be at the federal level.

**Persons Testifying (Health Care):** PRO: Senator Kevin Ranker, Prime Sponsor; Chris Cable, Group Health; Charles Johnson, Community Psychiatric Clinic, SEIU 1199NW; Katharine Weiss, Washington State Labor Council, AFL-CIO; Mel Sorensen, AHIP; Lonnie Johns-Brown, Office of the Insurance Commissioner.

CON: Jeff Gombosky, Pharmaceutical Research and Manufacturers of America; Melissa Johnson, Life Science Washington; Bill Clarke, Biotechnology Innovation Organization; Sheri Nelson, Association of Washington Business.

**Persons Signed In To Testify But Not Testifying (Health Care):** No one.

**Staff Summary of Public Testimony on Proposed Substitute (Health & Long Term Care):** PRO: Drug price transparency is an important step toward ensuing fair pricing. The affordability of a drug for consumers is more closely related to drug prices than utilization. Everyone should have access to the prescription drugs they need without facing financial barriers.

CON: Manufacturers are only one part of the prescription drug supply chain and should not be required to provide more information than other actors in the chain. There is little evidence that increased disclosures will result in lower prices and the requirements threaten investment in research and development. The bill places a heavy burden on small companies, while ignoring other cost drivers. Any transparency legislation should include information from the entire supply chain.

**Persons Testifying (Health & Long Term Care):** PRO: Senator Kevin Ranker, Prime Sponsor; Meg Jones, Association of Washington Healthcare Plans; Sybill Hippolite, SEIU 1199NW; Courtney Smith, Kaiser Permanente Washington.

CON: Jeff Gombosky, Pharmaceutical Research and Manufacturers of America; Michael Transue, Oregon Biosciences Association; Brian Warren, Biotechnology Innovation Organization.

**Persons Signed In To Testify But Not Testifying (Health & Long Term Care):** No one.