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California Assembly Appropriations Committee
State Capitol, Room 2114
Sacramento, California 95814

Dear Assembly Member,

Legislation that would regulate how a health care service plan, health insurer, or pharmacy benefit manager (PBM), [SB 524](#), is currently under review in the Assembly Appropriations Committee. The bill would prohibit these entities to engage in “patient steering.” The legislation, should it become law, would allow the government to directly insert itself into pharmacy benefit management and interfere with privately negotiated contracts. Instead of lowering drug costs, the bill would raise pharmaceutical costs on your California constituents. On behalf of the 261,009 CCAGW members and supporters in California, I ask that you oppose this legislation.

The [bill](#) analysis of SB 524 by the Senate Business, Professions, and Economic Development Committee explains the role of insurers’ health benefit plans and PBMs, and its description of these arrangements show why you should oppose this bill. Health benefit plans and PBMs are “a plan or program that provides, arranges, pays for, or reimburses the cost of health benefits” or are “a person, business, or other entity that, pursuant to a contract or under an employment relationship with a carrier, health benefit plan sponsor, or other third-party payer, either directly or through an intermediary, manages the prescription drug coverage provided by the carrier, plan sponsor, or other third-party payer, including the processing and payment of claims for prescription drugs, the performance of drug utilization review, the processing of drug prior authorization requests, the adjudication of appeals or grievances related to prescription drug coverage, contracting with network pharmacies, and controlling the cost of covered prescription drugs.”

In other words, employers, unions, state and local governments, and associations willingly hire insurers and PBMs to manage their prescription drug benefits as part of their overall healthcare benefit to their employees. Insurers and PBMs use a variety of tools, which may include patient steering, and other policies that help their clients manage their pharmacy benefits and lower drug costs. PBMs create networks to encourage price competition, increase volume, and lower drug costs for their clients and patients. Their networks include mail-order pharmacies and specialty pharmacies that dispense drugs for rare conditions that require special handling, which most pharmacies are not qualified to undertake. If the patient does not use the preferred pharmacy for certain drugs, this will raise costs for employers and other plan sponsors. For example, restricting mail-order prescriptions could increase costs by an average of 12.9 percent and allowing any pharmacy to dispense specialty drugs could increase costs by an average of 4.4 percent for both plan sponsors and patients.

PBMs utilize their networks to help with patient adherence, reduce dispensing errors, and conduct audits to make sure the pharmacy is working within the standards required by the network, including investigating potential fraud. These activities help to protect patients and reduce costs. But SB 524 would interfere with these privately negotiated contracts.

The SB 524 [legislative analysis](#) states its fiscal effect is “unknown” but if implemented, it will eliminate an important tool that insurers and PBMs use to negotiate lower drug costs for their sponsors and their employees. According to a Visante 2020 [study](#), “Pharmacy Benefit Managers (PBMs): Generating Savings for Plan Sponsors and Consumers,” the use of PBM tools will save plan sponsors and consumers more than \$1 trillion between 2020-2029. If the government is allowed to interfere with the private contracts that have been negotiated between PBMs and their sponsors and determine how employers design their pharmacy benefit plans, these savings are likely to disappear entirely or be substantially reduced.

SB 524 would do nothing to lower drug costs in the state of California and instead will raise them, along with saving little or no money for taxpayers. PBMs play vital roles in the complex process of providing pharmaceutical benefits to employees. This legislation supports special interests, including the California Pharmacists Association (CPhA), which is the sponsor of the bill, specialty pharmacies, and state dental and medical associations while ignoring of the needs of businesses, unions, and others that depend on PBMs to drive down drug costs and help their employees and members get access to vital pharmaceuticals that keep them healthy. These interests are represented by opponents of SB 524, including state and local Black and Hispanic Chambers of Commerce, the NAACP, national and state health insurance plan associations, and taxpayer organizations like CCAGW. As noted by some of the opponents of the legislation, the provisions of SB 524 that regulate self-insured plans violate federal law.

I ask that you oppose and urge your fellow members of the Appropriations Committee to vote against this ill-advised and potentially illegal legislation.

Sincerely,

A handwritten signature in black ink that reads "Thomas Schatz". The signature is written in a cursive style and is enclosed within a thin black rectangular border.