

Date of Hearing: May 5, 2021

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

AB 671 (Wood) – As Amended March 15, 2021

Policy Committee: Health

Vote: 15 - 0

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill requires the Department of Health Care Services (DHCS) to provide a disease management or similar payment to a pharmacy associated with a dispensing specialty drug to Medi-Cal beneficiaries in an amount necessary to ensure beneficiary access, as determined by DHCS based on the results of a survey, as specified.

FISCAL EFFECT:

Unknown increased Medi-Cal costs for Disease Management payments to compensate for the costs of dispensing specialty drugs, potentially in excess of \$100 million per year ongoing (General Fund and federal funds).

COMMENTS:

- 1) **Purpose.** According to the author, this bill will ensure the availability of high-cost specialty drugs and the viability of pharmacies that dispense those drugs. This bill is sponsored by the California Pharmacists Association.
- 2) **Background.** Coverage for outpatient prescription drugs is an optional benefit under federal law that all state Medicaid programs provide. Most Medi-Cal beneficiaries currently receive their prescription drugs through pharmacy providers contracted with their managed care plans, although DHCS is planning to transition all Medi-Cal pharmacy services from managed care plans to fee-for-service (FFS) Medi-Cal. Certain high-cost or specialty prescription drugs are already “carved out” of managed care plans and are currently covered through the statewide Medi-Cal FFS pharmacy benefit.
- 3) **Medi-Cal Rx.** On January 7, 2019, Governor Gavin Newsom issued Executive Order N-01-19 with the stated purpose of achieving cost savings for drug purchases made by the state. A key component of the executive order requires DHCS to transition all Medi-Cal pharmacy services from managed care plans to FFS, an initiative termed “Medi-Cal Rx.” This transition was originally scheduled for January 1, 2021, and was postponed to no sooner than April 1, 2021. The Governor’s administration has not announced a new date for the transition.
- 4) **Reimbursement for Specialty Drugs.** In FFS Medi-Cal, DHCS pays pharmacies for two components of prescription drugs: the ingredient cost of the drug and a dispensing fee meant to cover the pharmacy’s overhead. Providers have complained the normal dispensing fee is inadequate reimbursement for their costs of dispensing certain “specialty drugs.” Specialty drugs are defined differently for various health care programmatic purposes, but generally

the term describes high-cost and low-volume drugs that may require special handling, storage or shipment as well as additional patient education, packaging or monitoring to use properly.

To address reimbursement issues in an appropriately targeted way to ensure continued beneficiary access, the department contracted with a vendor to survey specialty drug price information to determine drug costs as compared to reimbursements, and to calculate the additional services and costs incurred in dispensing and administering specialty drugs to Medi-Cal beneficiaries. The “Medi-Cal Specialty Disease Pharmacy Reimbursement Study” was released January 27, 2021. DHCS indicates in an accompanying memo it plans to analyze the identified specialty services not otherwise reimbursable by Medi-Cal and, in the coming months, engage pharmacy stakeholders and Medi-Cal managed care plans to further discuss and assess possible policy approaches and payment mechanisms.

Pursuant to results of the survey described above, this bill would require DHCS to provide, in addition to current payment amounts, a disease management payment to a pharmacy for the additional costs and activities associated with dispensing specialty drugs.

- 5) **Prior Legislation.** AB 2100 (Wood), of the 2019-20 Legislative Session, contained provisions similar to this bill as well as a number of other provisions related to data reporting and reimbursement for pharmacy services. AB 2100 was vetoed by the governor, who stated, in relevant part,

It is premature to consider a disease management payment for Medi-Cal specialty drugs. DHCS is processing the results of a recent survey of specialty drug acquisition costs to determine what types of services are provided in association with the dispensing of specialty drugs. Until the results of the survey have been analyzed, DHCS will not know whether reimbursement for disease management services, or other supplemental services, are medically necessary for certain beneficiaries, and under what circumstances.

This bill appears to address the veto message at least in part, in that the survey is now complete. The department has not yet, however, definitively stated a disease management payment is the appropriate mechanism to address concerns of inadequate reimbursement.