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VETO

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Bill No: SB 524  
Author: Skinner (D)  
Amended: 8/30/21  
Vote: 27

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SENATE BUS., PROF. & ECON. DEV. COMMITTEE: 11-0, 4/5/21

AYES: Roth, Archuleta, Becker, Dodd, Eggman, Hurtado, Leyva, Min, Newman,  
Ochoa Bogh, Pan

NO VOTE RECORDED: Melendez, Bates, Jones

SENATE HEALTH COMMITTEE: 10-0, 4/28/21

AYES: Pan, Eggman, Gonzalez, Grove, Hurtado, Leyva, Limón, Roth, Rubio,  
Wiener

NO VOTE RECORDED: Melendez

SENATE APPROPRIATIONS COMMITTEE: 6-0, 5/20/21

AYES: Portantino, Bradford, Jones, Kamlager, Laird, Wieckowski

NO VOTE RECORDED: Bates

SENATE FLOOR: 39-0, 5/24/21

AYES: Allen, Archuleta, Atkins, Bates, Becker, Borgeas, Bradford, Caballero,  
Cortese, Dahle, Dodd, Durazo, Eggman, Gonzalez, Grove, Hertzberg, Hueso,  
Hurtado, Jones, Kamlager, Laird, Leyva, Limón, McGuire, Melendez, Min,  
Newman, Nielsen, Ochoa Bogh, Pan, Portantino, Roth, Rubio, Skinner, Stern,  
Umberg, Wieckowski, Wiener, Wilk

NO VOTE RECORDED: Glazer

SENATE FLOOR: 35-0, 9/3/21

AYES: Allen, Archuleta, Atkins, Becker, Borgeas, Bradford, Caballero, Cortese,  
Dodd, Durazo, Eggman, Glazer, Gonzalez, Grove, Hertzberg, Hueso, Hurtado,  
Jones, Kamlager, Laird, Leyva, McGuire, Min, Newman, Nielsen, Ochoa Bogh,  
Pan, Portantino, Roth, Rubio, Skinner, Umberg, Wieckowski, Wiener, Wilk

NO VOTE RECORDED: Bates, Dahle, Limón, Melendez, Stern

ASSEMBLY FLOOR: 57-7, 9/2/21 - See last page for vote

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**SUBJECT:** Health care coverage: patient steering

**SOURCE:** California Pharmacists Association

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**DIGEST:** This bill prohibits a health plan or a health insurer from engaging in specified activities that limit enrollees' or insureds' access to pharmacies that are part of the plan's or insurer's network, except when special handling or clinical requirements are necessary, and, permits the use of financial incentives at network pharmacies.

**ANALYSIS:**

Existing law:

- 1) Establishes the Department of Managed Health Care (DMHC) to regulate health plans under the Knox-Keene Health Care Service Plan Act of 1975 (Knox-Keene Act) and the California Department of Insurance (CDI) to regulate health insurance. [HSC §1340, et seq., and INS §106, et seq.]
- 2) Establishes requirements for nongrandfathered health plans and health insurance policies that cover outpatient prescription drugs. [HSC §1342.7 and INS §10123.193]
- 3) Requires a plan or insurer that provides essential health benefits to allow an enrollee or insured to access prescription drug benefits at an in-network retail pharmacy unless the prescription drug is subject to restricted distribution by the United States Food and Drug Administration (FDA) or requires special handling, provider coordination, or patient education that cannot be provided by a retail pharmacy. Permits a nongrandfathered individual or small group health plan contract or insurance policy to charge an enrollee or insured a different cost sharing for obtaining a covered drug at a retail pharmacy, but requires all cost sharing to count toward the annual limitation on cost sharing. [HSC §1367.42 and INS §10123.201]
- 4) Establishes a pilot project to assess the impact of health plan and pharmacy benefit manager (PBM) prohibitions on the dispensing of certain amounts of prescription drugs by network retail pharmacies. Applies the provisions to pharmacy providers located in the counties of Riverside and Sonoma. Prohibits a health plan from, or permitting any delegated PBMs to prohibit, a pharmacy provider from dispensing a particular amount of a prescribed medication if the

plan or PBM allows that amount to be dispensed through a pharmacy owned or controlled by the plan or PBM, unless the prescription drug is subject to restricted distribution by the FDA or requires special handling, provider coordination, or patient education that cannot be provided by a retail pharmacy. Requires on or before July 1, 2020, health plans subject to this pilot to report annually to DMHC information and data relating to changes, if any, to costs and utilization of prescription drugs attributable to the prohibition of contract terms. Requires DMHC to summarize data received and provide the summary to the Governor and health policy committees of the Legislature on or before December 31, 2022. [HSC §1368.6]

This bill:

- 1) Prohibits a health plan or a health insurer from engaging in patient steering.
- 2) Defines “patient steering” as either of the following:
  - a) Communicating to an enrollee or insured, verbally, electronically, or in writing, that they are required to have a prescription dispensed at, or pharmacy services provided by, a particular pharmacy or pharmacies if there are other pharmacies in the network that have the ability to dispense the medication or provide the services.
  - b) Offering or including in contract or policy designs for purchasers of health plan/insurance coverage provisions that limit enrollees’ or insureds’ access to only those pharmacy providers that are owned or operated by the health plan, health insurer, or are owned or operated by a corporate affiliate of the health plan, health insurer, or plan’s or insurer’s agent.
- 3) Permits directing an enrollee or insured to a specific pharmacy for a specific prescription due to the need for special handling or clinical requirements that cannot be performed by other pharmacies in the provider network of the health plan, health insurer, or plan’s or insurer’s agent.
- 4) Permits a health plan, health insurer, or the agent of a health plan or health insurer to offer and communicate to enrollees or insureds financial incentives to use a particular pharmacy, including, but not limited to, reductions in copays or other financial incentives given to the enrollee or insured when the prescription is dispensed.
- 5) Exempts from this bill:

- a) A health plan or insurer that is part of a fully integrated delivery system where enrollees or insureds, primarily use pharmacies that are entirely owned and operated by the health plan or insurer, and the plan's enrollees or insureds, may use any pharmacy in the network that has the ability to dispense the medication or provide the services; and,
  - b) A self-insured multiemployer Taft-Hartley plan or the agent of a self-insured multiemployer Taft-Hartley plan.
- 6) Finds and declares when a health plan, insurer, or PBM requires a patient to use a specific pharmacy provider for services that otherwise could be provided by any pharmacy in the provider network, it unjustifiably limits patient choice and may put the patient's health at risk. Evidence shows that limiting access to pharmacy providers is designed to eliminate competition and can result in higher costs, patient losing connection with trusted providers, and getting advice and consultation they need. It is necessary to limit patient steering.

## Comments

According to the author, patients are safer and better served when they can fill their prescriptions with pharmacists they know, who are familiar with their unique medical history, and who speak their language and have cultural competency. However, through a practice known as patient steering, pharmacy PBMs inform patients that they must have their prescriptions filled at a select pharmacy or pharmacies—usually a retail or mail order pharmacy owned by the PBM or health plan—even though there are other pharmacies in the network that the patient wishes to use and which can safely fill the prescription. Patients risk not having their prescription filled or having to pay out-of-pocket if they do not use the PBM's selected pharmacy. Requiring patients to use a select retail or mail order pharmacy can harm patients, including those who do not live near the retail pharmacy and those who cannot get their prescriptions delivered due to logistical reasons or privacy concerns if their package is intercepted. This bill prohibits patients from being required to use a particular pharmacy when there is no clinical reason they must do so and ensures that patients can access whichever pharmacy in their network they prefer.

*DMHC Task Force.* AB 315 (Wood, Chapter 905, Statutes of 2018) required DMHC to convene a Task Force on PBM Reporting. PBMs are health care companies that contract with health plans to manage pharmacy benefits and negotiate manufacturer rebates. Throughout the Task Force meetings, various presenters discussed the role of PBMs in the complex pharmaceutical supply chain. It was noted that PBMs play no role in the physical distribution of prescription

drugs. Rather, drugs move from the manufacturer, to the distributor, to the pharmacy, to the consumer. PBMs help health plans manage their drug benefits through negotiating or contracting with manufacturers and/or pharmacies on behalf of their contracted health plans. It was established there is a lack of transparency regarding the value PBMs bring to the health care industry and how they help to reduce prescription drug costs. There is also a lack of transparency regarding how PBMs make money and how much money they make. One Task Force recommendation is to require PBM reporting on the pharmacy source for each drug reported. Pharmacy source refers to the type of pharmacy used by enrollees to obtain a prescription drug. Pharmacy source includes integrated, chain, independent, specialty, and mail order pharmacies. PBM reporting on pharmacy source would demonstrate the volume of prescription drugs filled at different types of pharmacies, whether certain types of pharmacies are dominating the market and how these market dynamics ultimately impact costs. This data could also shed light on how enrollees access pharmacies and their relationships with pharmacists.

Market concentration. Among other issues of concern that came up at the DMHC Task Force was the issue of market concentration. Not only across the marketplace, but also vertically within the supply chain. Some PBMs own their own pharmacies, referred to as an “integrated pharmacy.” This may result in misaligned incentives, as a PBM may favor an integrated pharmacy even if competing pharmacies have lower costs. Additionally, the Task Force heard from pharmacy representatives who stated PBMs may improperly utilize prescription information to steer patients who are prescribed high-cost drugs to the PBM’s integrated pharmacies. Some PBMs and health plans have common ownership which could lead to PBMs increasing drug costs to rival health plans.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: Yes

According to the Assembly Appropriations Committee, amendments taken in the Assembly Appropriations Committee reduce the number of plans subject to this bill's provisions, thereby reducing costs. Assuming a reduction of roughly 50%, costs for DMHC are estimated to be \$60,000 in fiscal year (FY) 2021-22, \$160,000 in FY 2022-23, \$150,000 in FY 2023-24 and \$40,000 annually thereafter (Managed Care Fund). For the Department of Insurance, costs are estimated at \$15,000 in FY 2021-22, \$32,000 in FY 2022-23, and \$26,000 ongoing (Insurance Fund).

**SUPPORT:** (Verified 10/12/21)

California Pharmacists Association (source)

Advocating for Access Specialty Pharmacy Coalition  
AFA Specialty Pharmacy Association  
AIDS Healthcare Foundation  
APLA Health  
California Chronic Care Coalition  
California Dental Association  
California Life Sciences Association  
California Medical Association  
California Nurses Association  
Consumer Attorneys of California  
Fremont Chamber of Commerce  
Indian Pharmacists Association of California  
National Community Pharmacists Association  
National Multiple Sclerosis Society  
United Nurses Associations of California  
American Pharmacists Association  
UFCW, Western States Council  
California Council for the Advancement of Pharmacy  
California Hospital Association  
National Center for farmworker Health  
California Small Business Association  
Chino Valley Chamber of Commerce

**OPPOSITION:** (Verified 10/12/21)

African American Farmers of California  
American GI Forum Education Foundation of Santa Maria  
America's Health Insurance Plans  
Association of California Life & Health Insurance Companies  
Black Chamber of Orange County  
Breckpoint, Inc.  
California African American Chamber of Commerce  
California Association of Health Plans  
California Association of Joint Powers Authorities  
California Business Roundtable  
California Chamber of Commerce  
California Hispanic Chamber of Commerce  
Central Valley Latino Mayors and Elected Officials Coalition  
Christ Liberation Ministries  
Ecuadorian American Chamber of Commerce of Southern California  
Edwards Medical

League of United Latin American Citizens  
NAACP of Santa Maria  
National Latina Business Women Association of Los Angeles  
New Genesis Housing Development Corporation  
Orange County Hispanic Chamber of Commerce  
Pharmaceutical Care Management Association  
PRISM  
San Diego County Hispanic Chamber of Commerce  
Southern Christian Leadership Conference  
Southwest California Legislative Council

**GOVERNOR'S VETO MESSAGE:**

This bill would prohibit patient steering to certain pharmacies by health plans, health insurers, and their agents, as specified.

While offering consumers a choice in pharmacies within their health plan or insurer networks is a worthwhile goal, the bill lacks clarity in key areas which may render it subject to misinterpretation or a lack of enforceability. It is unclear what business relationships between health plans, insurers, and their agents are intended to be affected because the bill does not define "agent" or "corporate affiliate." Furthermore, it is unclear what it means to "limit an enrollees' (or insureds') access" to certain pharmacy providers.

It is necessary to define these terms and concepts so appropriate oversight and enforcement may occur, particularly in light of the complexity of the contracting arrangements and benefit designs at issue. Finally, it is important to ensure that efforts to address these concerns do not have the unintended consequence of interfering with the ability of health plans and insurers to coordinate care and contain pharmaceutical costs for California's consumers.

ASSEMBLY FLOOR: 57-7, 9/2/21

AYES: Aguiar-Curry, Arambula, Bauer-Kahan, Bennett, Berman, Bloom, Boerner Horvath, Bryan, Burke, Calderon, Carrillo, Cervantes, Chau, Chiu, Cooley, Cooper, Daly, Fong, Friedman, Gabriel, Cristina Garcia, Eduardo Garcia, Gipson, Lorena Gonzalez, Gray, Grayson, Holden, Irwin, Jones-Sawyer, Kalra, Lackey, Lee, Levine, Low, Maienschein, McCarty, Medina, Mullin, Muratsuchi, Nazarian, O'Donnell, Petrie-Norris, Quirk-Silva, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Salas, Santiago, Stone, Ting, Villapudua, Ward, Akilah Weber, Wicks, Wood

NOES: Bigelow, Megan Dahle, Davies, Quirk, Seyarto, Smith, Voepel

NO VOTE RECORDED: Chen, Choi, Cunningham, Flora, Frazier, Gallagher,  
Kiley, Mathis, Mayes, Nguyen, Patterson, Ramos, Valladares, Waldron, Rendon

Prepared by: Teri Boughton / HEALTH / (916) 651-4111  
12/29/21 10:11:31

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