Resource:
Estimates of Pharmacy Benefit Coverage in California for 2022

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Prepared by

California Health Benefits Review Program

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OVERVIEW

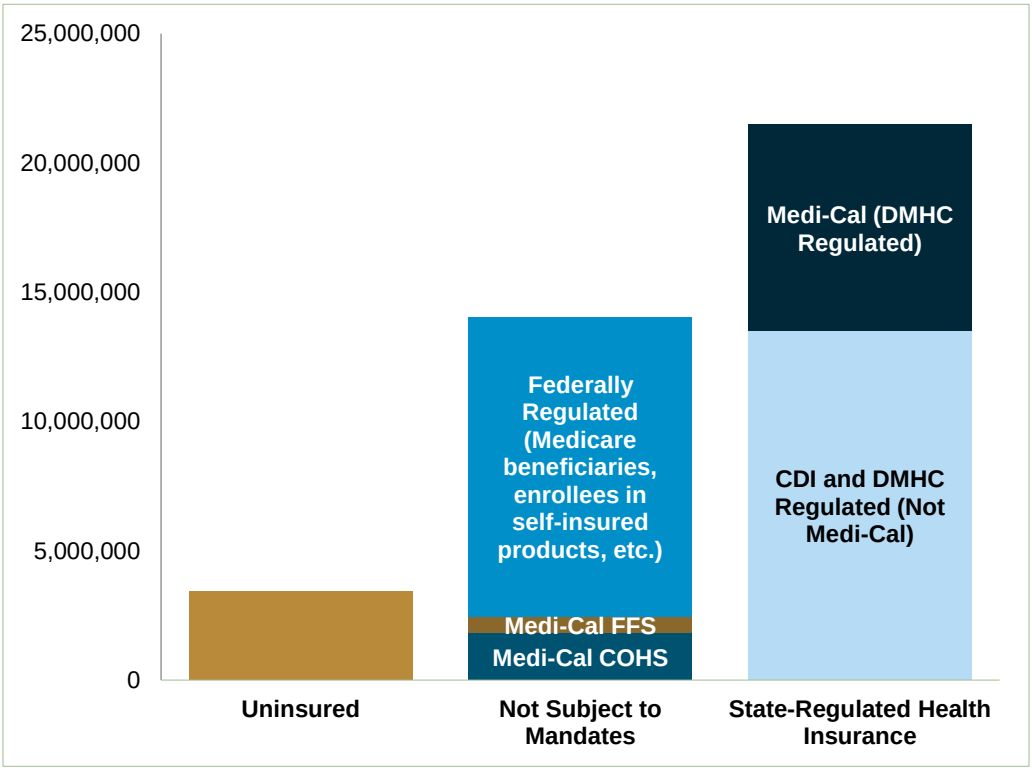
At the request of the legislature, the California Health Benefits Review Program (CHBRP) provides prompt, independent, and rigorous evidence-based analyses of proposed benefit laws that would impact state-regulated health insurance. CHBRP is regularly asked to analyze bills related to coverage for outpatient medications, which are most commonly covered through a pharmacy benefit.

This document notes the presence or absence of a pharmacy benefit among Californians enrolled in health plans regulated by the California Department of Managed Care (DMHC) and health policies regulated by the California Department of Insurance (CDI). These are enrollees whose benefits are subject to state regulation and can be influenced by the proposed state-level legislation CHBRP is asked to analyze. CHBRP monitors the presence or absence of a pharmacy benefit because the bills CHBRP analyze sometimes specify applicability only when a pharmacy benefit is present.[1]

Californians Enrolled in Health Insurance

As displayed in Figure 1, about 36 million Californians have health insurance.[2] The figure also shows that approximately 21.9 million (55.7% of all) Californians are enrolled in plans or policies regulated by DMHC or CDI and so have health insurance that can be subject to the benefit bills CHBRP is asked to analyze.

Figure 1. Health Insurance by Regulator in California, 2022



Source: California Health Benefit Review Program, 2021

Key: FFS = Fee for Service; COHS = County-Organized Health System; CDI = California Department of Insurance; DMHC = California Department of Managed Health Care

[1] Recent examples of CHBRP bill analyses that involved a pharmacy benefit include SB 11 (2019) and SB 1021 (2018). CHBRP's completed analyses of these bills are available at http://chbrp.com/completed_analyses/index.php.
[2] See CHBRP's *Estimates of Sources of Health Insurance*, available as a resource at http://chbrp.org/other_publications/index.php.

Pharmacy Benefit Coverage among Californians with State-Regulated Health Insurance

As displayed in Figure 1, approximately 21.9 million Californians are enrolled in plans or policies regulated by DMHC or CDI, including 8.0 million who are Medi-Cal beneficiaries enrolled in DMHC-regulated Medi-Cal managed care plans. Table 1 notes the variation in pharmacy benefit coverage within this group.

Table 1. Pharmacy Benefit Coverage Among Enrollees in State-Regulated Plans and Policies, 2022

	Medi-Cal Beneficiaries (a)	Commercial & CalPERS Enrollees	All
Enrollee Counts			
Total enrollees in plans/policies subject to DMHC or CDI	8,005,000	13,940,000	21,945,000
Pharmacy Benefit Coverage			
DMHC -or CDI-regulated pharmacy benefit			
Brand name and generic medications	0.0%	93.2%	59.2%
Generic only	0.0%	0.2%	0.1%
No pharmacy benefit	0.0%	3.1%	2.0%
Other pharmacy benefit coverage (b)	100.0%	3.6%	38.7%

Source: California Health Benefits Review Program, 2021.

Notes: (a) DHCS purchases enrollment in DMHC-regulated managed care plans for a majority, but not all, Medi-Cal beneficiaries. As of April 1, 2021, DHCS will directly manage the pharmacy benefit for all beneficiaries, including those enrolled in DMHC-regulated plans.

(b) Not subject to DMHC or CDI regulation – such as when an employer (e.g. CalPERS) contracts separately with a PBM.

Key: DHCS = Department of Health Care Services; DMHC = Department of Managed Health Care; CDI = California Department of Insurance

Medi-Cal Beneficiaries Enrolled in DMHC-Regulated Managed Care Plans

As of a to be determined date[3], all outpatient medications are "carved out" of Medi-Cal managed care plans and are instead paid for by Medi-Cal fee-for-service.[4] This means that although these Medi-Cal beneficiaries will have health insurance regulated by DMHC, the pharmacy benefits are managed, administered, and paid for by the Department of Health Care Services (DHCS). Pharmacy benefits billed on medical and institutional claims (i.e. those administered by a medical professional) continue to be paid for by the managed care plans, but outpatient medications billed on pharmacy claims are paid for by the fee-for-service program.[5]

[3] The implementation originally scheduled for April 1, 2021 was delayed due to contracting issues, not due to a change in approach. CHBRP assumes implementation will occur by January 1, 2022.
[4] Previously, some medications, such as medications to treat HIV/AIDS, were carved out of managed care plans and provided through the fee-for-service benefit. More information about DHCS Medi-Cal Pharmacy Benefits is available at https://medi-calrx.dhcs.ca.gov/home/
[5] A non-exhaustive inventory of Medi-Cal pharmacy benefits that are subject and not subject to the carve out is available at https://www.dhcs.ca.gov/provgovpart/pharmacy/Documents/Medi-Cal-Rx-Scope-09-04-2020.pdf

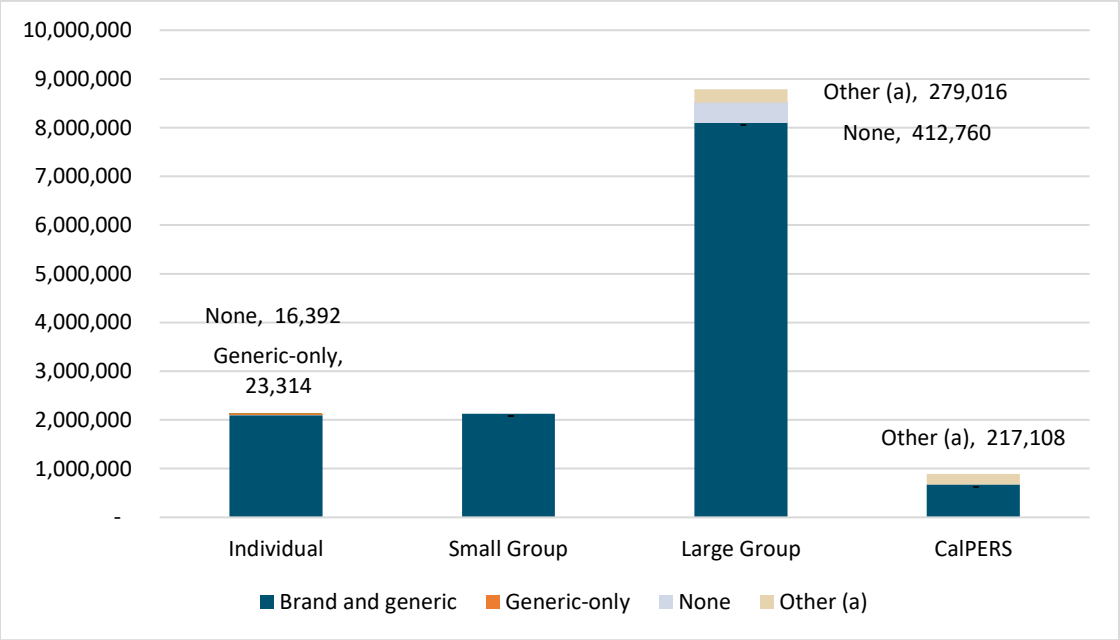
Commercial and CalPERS Enrollees

Among commercial and CalPERS enrollees, 93.4% have coverage for outpatient medications through a pharmacy benefit included in the enrollee's plan or policy.[6] However, 3.1% have no pharmacy benefit at all, and 3.6% have pharmacy benefit unconnected to their plan or policy (and so not regulated by DMHC or CDI). Commercial and CalPERS enrollees in DMHC-regulated plans and CDI-regulated policies can have a pharmacy benefit not subject to regulation by DMHC or CDI when the purchaser (most commonly an employer) arranges for the pharmacy benefit to be directly provided to enrollees by a Pharmacy Benefit Manager (PBM).

Variation in Pharmacy Benefit Coverage among Commercial and CalPERS Enrollees

As displayed in Figure 2, there is variation of the type and source of the pharmacy benefit among commercial and CalPERS enrollees in DMHC-regulated plans and CDI-regulated policies. As discussed above, while most enrollees have a pharmacy benefit that covers brand name and generic prescriptions and is regulated by DMHC or CDI, a small share of enrollees in the individual market have a pharmacy benefit that covers only generic medications. Approximately 17,000 enrollees in the individual market and 413,000 enrollees in the large group market do not have a pharmacy benefit at all. About 279,000 enrollees in the large group market and 217,000 enrollees with coverage through CalPERS have a pharmacy benefit not subject to DMHC or CDI regulation.

Figure 2. Pharmacy Benefit Coverage Variation among Commercial and CalPERS enrollees in State-Regulated Plans and Policies, by Market Segment, 2022



Source: California Health Benefit Review Program, 2021.

Notes: (a) For those enrollees with a pharmacy benefit labeled "other," that benefit is not subject to state regulation.

Key: CalPERS = California Public Employees' Retirement System; DMHC = Department of Managed Health Care; CDI = California Department of Insurance

[6] Outpatient medications accessed in a provider's office (most commonly medications that require clinician administration) are generally covered though a medical benefit, rather than through a pharmacy benefit.

CHBRP regularly estimates the presence or absence of a pharmacy benefit regulated by DMHC or CDI because a number of the state-level benefit bills CHBRP analyzes apply only if an enrollee's plan or policy includes a pharmacy benefit. In previous analyses where this has been the case, CHBRP has indicated that the bill would have no impact on the benefit coverage of enrollees in plans and policies with no pharmacy benefit, and no impact on the benefit coverage of enrollees who have a pharmacy benefit that is separate from their state-regulated health insurance.

Relevant State and Federal Law

A number of overlapping state and federal health insurance laws require broad coverage of outpatient medications or require coverage for particular drugs.[7] However, this mix of laws does not require that all enrollees in all plans and policies regulated by DMHC or CDI include a pharmacy benefit – the common way in which outpatient medications are covered.

- **Federal Pharmacy Benefit Coverage Requirement:** Non-grandfathered small group and individual market health insurance is required to provide broad outpatient medication coverage as part of federally required coverage for Essential Health Benefits (EHBs).[8] Commonly, compliance with the law is through inclusion of a pharmacy benefit. All large group market health insurance, as well as grandfathered small group and individual market health insurance, may exclude a pharmacy benefit, which allows some enrollees to have no pharmacy benefit coverage from their DMHC-regulated plan or CDI-regulated policy (see Table 1).

- **Federal Medication Specific Coverage Requirement:** Non-grandfathered large group, small group, and individual market health insurance is federally required to provide coverage for specified sets of outpatient medications specified as preventive services and to do so without cost-sharing for the enrollee.[9] Commonly, compliance with the law is through inclusion of a pharmacy benefit.

- **State Medication Specific Coverage Requirement when a Pharmacy Benefit is Present:** Some state-level mandates, applicable to some or all plans and policies regulated by DMHC or CDI, require coverage for particular drugs or restrict cost-sharing for covered medications.[10] However, these laws are generally only applicable to plans and policies with existing coverage for outpatient medications – generally plans and policies that include a pharmacy benefit. For example, there is a mandate that requires coverage for insulin and prescription drugs for the treatment of diabetes.[11] The language of this statute specifies that it is applicable only to plans and policies "that [cover] prescription drug benefits," which has generally been understood as "including a pharmacy benefit" and so exempting the health insurance of enrollees who do not have a pharmacy benefit through their DMHC-regulated plan or CDI-regulated policy.

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[7] State and federal laws that address cost sharing for outpatient medications – if the medication is covered – are addressed CHBRP's *Outpatient Prescription Drug Cost Sharing* document, available here: https://chbrp.org/other_publications/index.php.

[8] California Health & Safety Code: 1367.005, 1367.006, 1367.0065; California Insurance Code: 10112.27, 10112.28, 10112.285; Federal Affordable Care Act of 2010: Section 1301, 1302, and Section 1201 modifying Section 2707 of the PHSA. See CHBRP's *Estimates of Sources of Health Insurance* and *California's State Benefit Mandates and the Affordable Care Act's "Essential Health Benefits"* for more information about Essential Health Benefits: https://chbrp.org/other_publications/index.php.

[9] California Health & Safety Code: 1367.002; California Insurance Code: 10112.2; Federal Affordable Care Act of 2010: Section 1001 modifying Section 2713 of the PHSA See CHBRP's Federal Preventive Services Mandate and California Mandates document: https://chbrp.org/other_publications/index.php.

[10] A list of federal and state mandates related to prescription medications is included in CHBRP's Resource: *Health Insurance Benefit Mandates in California State and Federal Law*, available at: https://chbrp.org/other_publications/index.php#revize_document_center_rz44

[11] California Health & Safety Code: 1367.51 and California Insurance Code: 10176.61

Estimating Presence or Absence of a Pharmacy Benefit

Pharmacy benefit coverage was estimated through surveys and queries. For enrollees in the commercial markets regulated by DMHC and CDI, inclusion of a pharmacy benefit was determined by responses to a survey of the largest (by enrollment) providers of health insurance in California. CalPERS was queried regarding inclusion of a pharmacy benefit among DMHC-regulated plan enrollees associated with CalPERS. The California Department for Health Care Services (DHCS) was queried about coverage among Medi-Cal beneficiaries enrolled in DMHC-regulated plans.

Conclusion

Approximately 93.4% of Californians enrolled in commercial and CalPERS plans and policies regulated by DMHC or CDI-have pharmacy benefits directly through their health insurance plan or policy. In such cases, the pharmacy benefit is subject to regulation by DMHC or CDI. However, some commercial enrollees in large group plans and some CalPERS enrollees have pharmacy benefit coverage directly from a PBM. Additionally, pharmacy benefits for Medi-Cal managed care beneficiaries are administered and paid for by the fee-for-service program. In such cases, the pharmacy benefit is not subject to the regulation by DMHC or CDI. For this reason, when considering a bill that proposes a state-level benefit law (which would be enforced by DMHC and/or CDI), CHBRP does not project medication-related impacts for enrollees who have a pharmacy benefit not included in their DMHC-regulated plan or CDI-regulated policy.