

Legislative Analysis



DISCLOSURE OF PRESCRIPTION DRUG PRICING

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House Bill 5941 as introduced
Sponsor: Rep. Jason Wentworth

Analysis available at
<http://www.legislature.mi.gov>

House Bill 5942 (proposed substitute H-1)
Sponsor: Rep. Bronna Kahle

Committee: Health Policy
Complete to 9-24-20

SUMMARY:

House Bills 5941 and 5942 would amend the Third Party Administrator Act and the Public Health Code, respectively, to prohibit certain prescription price nondisclosure contracts and to make other pharmacy-related changes, notably concerning drug pricing for covered entities under section 340B of the federal Public Health Service Act.

House Bill 5941 would amend the Third Party Administrator Act. In addition to adding provisions concerning pharmacies, the bill would define *pharmacy benefit managers* and *carriers* as *third party administrators* for purposes of the act and add or change definitions for other terms used throughout.

Definition of carrier

Currently under the act, a *carrier* is defined as any of the following:

- An insurer (including a health maintenance organization) regulated under the Insurance Code.
- A health care corporation regulated under the Nonprofit Health Care Corporation Reform Act.
- A dental care corporation regulated under 1963 PA 125.

A carrier is now specifically excluded from being considered a third party administrator for purposes of the act.

The bill would remove health care corporations regulated under the Nonprofit Health Care Corporation Reform Act from the definition of carrier. Under the bill, *carrier* would mean either of the following:

- An insurer (including a health maintenance organization) regulated under the Insurance Code.
- A dental care corporation regulated under 1963 PA 125.

A carrier would be specifically defined as a third party administrator for purposes of the act.

Definition of third party administrator

Currently, a third party administrator is defined as a person who processes claims under a *service contract*, and who may also provide one or more other administrative services under a service contract, other than a worker's compensation self-insurance program under the

Worker's Disability Compensation Act. The term does not include a carrier or employer sponsoring a *plan*.

Service contract means the written agreement for the provision of administrative services between the third party administrator and a *plan*, a sponsor of a plan, or a carrier.

Plan means a medical, surgical, dental, vision, or health care benefit plan and may include coverage under a policy or certificate issued by a carrier.

The bill would add carriers and *pharmacy benefit managers* to the definition of third party administrator and make them subject to the provisions of the act that now apply to third party administrators.

Pharmacy benefit manager would mean a person that contracts with a pharmacy (as defined in the Public Health Code) on behalf of an employer, multiple employer welfare arrangement, public employee benefit plan, state agency, insurer, managed care organization, or other third party payer to provide pharmacy health benefits services or administration, including reimbursement.

Under the bill, a *third party administrator* would mean a person that processes claims under a service contract, and that may also provide one or more other administrative services under a service contract, other than a worker's compensation self-insurance program under the Worker's Disability Compensation Act. The term would not include an employer sponsoring a plan. The term would include a carrier and a pharmacy benefit manager. (The bill would not change the definition of "service contract" or "plan.")

Disclosure of drug prices

The bill would require a contract between a pharmacy benefit manager and a pharmacy to allow the pharmacy to disclose the current selling price of a drug as provided in section 17757 of the Public Health Code, as it would be amended by HB 5942. This provision would apply to a contract executed, extended, or renewed after the date the bill took effect.

340B entities and carrier prohibitions

Additionally, the bill would prohibit a pharmacy benefit manager that reimburses a *340B entity* for drugs under federal law¹ from reimbursing the 340B entity for pharmacy-dispensed drugs at a rate lower than what it pays for the same drug to pharmacies that are not 340B entities but have similar prescription volumes.

340B entity would mean a *covered entity* and any pharmacy contracted by the entity to deliver pharmacy-related services.

Covered entity would mean that term as defined in 42 USC 256b.²

¹ See <https://www.hrsa.gov/opa/index.html>

² According to the American Hospital Association, covered entities under the federal act "include community health centers, children's hospitals, hemophilia treatment centers, critical access hospitals (CAHs), sole community hospitals (SCHs), rural referral centers (RRCs), and public and nonprofit disproportionate share hospitals (DSH) that serve low-

The bill would also do both of the following:

- Prohibit a carrier from requiring a patient to pay a co-pay that is higher than the cost of the drug dispensed to him or her.
- Prohibit a carrier from excluding or discriminating against a pharmacy solely because the carrier does not have a vested financial interest in the pharmacy, such as an ownership or co-ownership interest, shareholder interest, or another connection out of which it could make or lose money.

Sanctions

Under section 50 of the act, the director of the Department of Insurance and Financial Services (DIFS) can, after notice and hearing, impose various sanctions for a third party administrator's or manager's violation of the act, including monetary fines, suspension or revocation of a certificate authority, and restitution to aggrieved parties, and depending largely on the degree to which the violations were knowing or persistent.³

MCL 550.902 and proposed MCL 550.926 and 550.927

House Bill 5942 would amend the Public Health Code. Currently under the code, if a pharmacist who sells drugs at retail is asked, he or she must provide the current selling price of a drug the pharmacy dispenses or comparative current selling prices of generic and brand name drugs it dispenses. This information must be given before a drug is dispensed. Asking for this information does not oblige a person to buy a drug asked about.

The bill would retain these provisions, but would amend them to allow a pharmacist to provide this information without first being asked. Further, the bill would prohibit a pharmacy or pharmacist from entering into a contract prohibiting the disclosure of this information.

The bill would also amend the comparative selling prices the pharmacist must now disclose upon request (and under the bill could volunteer) to include biosimilar drug products.⁴

Prohibited pharmacy contracts

Finally, the bill would prohibit a pharmacy or pharmacist from entering a contract with a pharmacy benefit manager that does either of the following:

- Violates the provisions of HB 5941 that are described above under the heading "340B entities and carrier prohibitions."
- Prevents or interferes with a patient's choice to receive an eligible prescription drug from a 340B entity or a pharmacy when dispensing a **340B drug**.

340B drug would mean a covered drug as that term is defined in 42 USC 256b.

income and indigent populations." See <https://www.aha.org/system/files/media/file/2019/04/fact-sheet-340b-0419.pdf>

³ See <http://legislature.mi.gov/doc.aspx?mcl-550-950>

⁴ Provisions regulating these products were added to the Public Health Code by 2018 PA 41. See the HFA analysis here: <https://www.legislature.mi.gov/documents/2017-2018/billanalysis/House/pdf/2017-HLA-4472-C1F5C414.pdf>

Penalties

Section 16299 of the Public Health Code provides that a person who violates or helps another to violate Article 15 of the code is, with some exceptions, guilty of a misdemeanor punishable by imprisonment for up to 90 days, or a fine of up to \$100, or both, for a first offense. For a second or subsequent offense, the person is guilty of a misdemeanor punishable by imprisonment for at least 90 days and up to 6 months, or a fine of at least \$200 and up to \$500, or both.

MCL 333.17757 and proposed MCL 333.17757b

The bills are tie-barred to one another, which means that neither could take effect unless both were enacted.

FISCAL IMPACT:

House Bill 5941 would have an indeterminate fiscal impact on the state. Third party administrators or managers violating provisions under the bill would be afforded an opportunity for a hearing before the director of DIFS. If the director determines that a violation has occurred, the director could order payment of a monetary penalty as well as suspension or revocation of the third party administrator's certificate of authority or manager's license. Revenue from monetary penalties would be turned over to the state treasurer and credited to the general fund. There is no practical way to determine the number of violations that will occur under provisions of the bill, so we cannot estimate the amount of revenue to the state.

House Bill 5942 would have an indeterminate fiscal impact on the state and on local units of government. Individuals convicted under the bill could be subject to penalties under MCL 333.16299. Currently, under section 16299 of the Public Health Code, unless otherwise stated, a person who violates any provision within Article 15 of the act is guilty of a misdemeanor. New misdemeanor convictions would increase costs related to county jails and/or local misdemeanor probation supervision. Costs of local incarceration in county jails and local misdemeanor probation supervision, and how those costs are financed, vary by jurisdiction. The fiscal impact on local court systems would depend on how provisions of the bill affected court caseloads and related administrative costs. Any increase in penal fine revenue would increase funding for public and county law libraries, which are the constitutionally designated recipients of those revenues. We do not have a practical way to determine the number of violations that will occur under provisions of the bill, so cannot estimate the amount of costs to the state or to local units.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.