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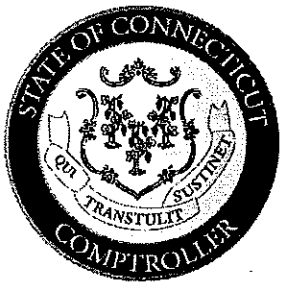

STATE OF CONNECTICUT
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Written Testimony
Comptroller Kevin Lembo
March 3, 2016

Concerning
R.B. No. 309 AA Establishing a Task Force to Study Value-Based Pricing of Prescription Drugs

Good afternoon Senator Leone, Representative Baram, Senator Witkos, Representative Carter, and Members of the General Law Committee:

Thank you for the opportunity to submit this written testimony in support of Raised Bill 309: An Act Establishing a Task Force to Study Value-Based Pricing of Prescription Drugs.

Pharmaceutical costs have been rising rapidly, jeopardizing patient care and placing tremendous stress on health care budgets, both public and private. The health plans that my office administers on behalf of over 200,000 state and municipal employees, retirees and their dependents has seen the cost of prescription coverage skyrocket, particularly in the form of specialty drugs.

Unfortunately, the pricing of these prescription drugs is largely unrelated to the drug's actual value. Given these current circumstances, we need every tool at our disposal — and all of the information that we can gather — to make smarter informed decisions to corral runaway pharmaceutical costs.

New healthcare reimbursement models are focused on improving costs and quality. The new reimbursement models being negotiated between providers and payers align the interests of the payer, the patient and the provider, which over time should result in better care at lower cost. To date, pharmaceutical pricing has not widely adopted a value-based pricing model. Instead, many new pharmaceuticals are being priced using a market approach. Under this approach pharmaceutical companies are pricing new drugs at the highest price the market will bear. A market-based approach is standard practice in other industries, but is not necessarily appropriate for essential and sometimes life-saving drugs. Rising prices for both old and new drugs are putting some medications out of reach for patients who need them.

Last year my office discovered an extreme example of a pricing and marketing strategy for compound prescription drugs which resulted in exorbitant drug costs with little demonstrated

effectiveness in improving patient outcomes. From 2012 through 2015 out-of-state compound pharmacies marketed compound pain and scar creams to Connecticut patients and physicians. The creams were not FDA (U.S. Food and Drug Administration) approved and lacked clinical evidence of their effectiveness. Despite the lack of independent studies showing safety and effectiveness, an aggressive marketing campaign to both physicians and patients resulted in an exponential increase in the number of compound prescriptions for pain and scar creams being filled by out-of-state pharmacies. The creams ranged in price from several thousand dollars to more than $15,000 a script. Total annual costs to the state plan for compound medications rose from $800,000 a year to more than $24 million as a result of the proliferation of the creams. As a result, last yearmy office instituted a prior authorization strategy for compound medications which has ended the practice and brought compound drug spending back down to previous levels. Our experience with the pricing and marketing of compound drugs is extreme but not unique. It is a clear display of how effective marketing and price gouging can greatly increase pharmaceutical costs without improving health outcomes for patients under the current market-based pricing model for prescription drugs and a clear indicator that a new pricing strategy is necessary.

Value-based pricing has real potential to change the paradigm of continuously rising drug costs by matching drug prices to the value the new drug provides in terms of improved health outcomes for patients. Value-based pricing aligns the interests of patients, drug manufacturers and pharmacy benefit managers. Such a pricing strategy could both contain costs and improve outcomes. There are many options and methodologies for matching pharmaceutical prices to value. The task force should seek to identify best practices with a focus on improving health outcomes and containing costs.

If the intent of this task force is to consider methods of value-based pricing for both Medicaid and commercial plans, I would request that my office be represented on the task force given our role and experience in overseeing the state's health care plan.

I applaud the proponents of this legislation for their efforts, and I thank the committee for taking up this important issue.