



STATEMENT

On Connecticut House bill 5384

March 6, 2018

Position: The Pharmaceutical Research and Manufacturers of America (PhRMA) respectfully offers the following comments on this legislation which addresses the pharmaceutical supply chain.

PhRMA commends the Committee by following the recommendations of the Governor's Healthcare Cabinet which recognized the need to examine the entire pharmaceutical supply chain. This is essential in understanding the costs of medicines in context as medicines move from the manufacturer to the patient, including the various rebates and discounts provided along the way that significantly offset the cost of a medicine. The biopharmaceutical industry is committed to working with Connecticut's lawmakers, patients, doctors, and other health care stakeholders to pursue policies that promote innovation and help ensure consumers know what doctors, hospitals, and medications are covered by their health plan and the out-of-pocket costs required to access these benefits. No patient should have to worry about whether they can afford the health care they need.

We appreciate the Committee's efforts to have a thoughtful and robust discussion with a range of stakeholders about these complex issues and look forward to continued discussions.

This legislation correctly recognizes the role of other supply chain entities in prescription drug costs.

There are a variety of stakeholders involved in determining what consumers ultimately pay for a medicine, including insurers, pharmacy benefit managers (PBMs), wholesalers, and government agencies like Medicaid. For example, pharmacy benefit managers and payers—which dictate the terms of coverage for medicines—use their control over which medicines patients can access as leverage to negotiate substantial rebates and discounts. The role these entities play, and the impact they have on patient cost and access is acknowledged by this legislation, which is an important step toward addressing concerns in a realistic and comprehensive manner.

The narrative that prescription drug prices continue to grow at a high rate is false. In fact, just last month Express Scripts announced drug spending increases were held to 1.5% last year, which was down from its report of 3.8% in 2016. CVS Health has also reported limiting prescription drug costs claiming that it held growth to 3.2% in 2016, which was down from 5% in 2015 and 11.8% in 2014.¹ Further, CMS has reported that retail prescription drug spending growth slowed to 1.3% in 2016, compared to an overall increase of health spending of 4.3%². This, of course, does not necessarily reconcile with what patients are feeling at the pharmacy counter, which is why looking at the whole system is so important.

In addition, according to a 2017 Berkley Research Group (BRG) report, in 2015 branded manufacturers paid health plans and pharmacy benefit managers \$57.7 billion in rebates and fees, paid \$28 billion in Medicaid rebates, nearly \$6 billion to close the Medicare Part D "donut hole", nearly \$5 billion to Tricare and the Federal

¹ www.phrma.com/cost

² <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2017-Press-releases-items/2017-12-06.html>

Supply Schedule in discounts, \$3 billion for the ACA fee, and nearly \$7 billion to support patient cost sharing assistance. In fact, brand manufacturers provided more than \$676 million in Medicaid rebates to Connecticut in 2016—retail spending on brand prescription medicines is less than 5% of Connecticut’s total Medicaid spending. Further, the BRG report notes that brand biopharmaceutical companies realized just 39% of total gross drug spending, which is based off the list prices of medicines before rebates, discounts and fees are calculated. This is down from 41% in 2013 due to increases in the rebates and discounts paid to PBMs and payers. Increased rebates and discounts have largely offset increases in list prices and reflect the competitive market for brand medicines.

Innovative therapies provide unique value in the health care system.

It is important to remember that advances in medicine help control health care spending. Greater patient access to prescription medicines means fewer doctor visits and hospital stays and a decrease in costly medical procedures, all of which translate into lower health care costs overall. For example, in 2014, a new drug came to the market that provided a cure for more than 90% of patients with hepatitis-C, eliminating a lifetime of hospitalizations, debilitating symptoms, and treatments with harsh side effects and replacing it with a complete cure in just 12 weeks. Often, patients with hepatitis-C needed liver transplants, which could cost almost \$500,000. Since 2014, several new treatments have come to the market, further driving down the price of the medicine. Clearly, innovation and progress in the pharmaceutical industry means better outcomes and quality of life for patients and their families as well as reduced health care costs to patients and the system.

Drug costs are the only costs in the health care system that diminish over time.

It is important to note that medicines are the *only* part of the healthcare system where costs decrease over time. When brand name medicines face brand competition, or when they lose their patent protection and generic drugs become available, prices drop, often significantly. Today, nearly 90% of all medicines prescribed are generic and cost pennies on the dollar saving money for both patients and the healthcare system overall. One component of health insurance, however, is seeing significant increases. Health insurance and plan *administration costs are rising at more than twice the rate of drug spending.* Over the past five years, spending growth on prescription drugs averaged 2.2% while growth in health plan administrative costs averaged 4.6%. In 2013, Americans spent more than \$200 billion to support administrative costs of insurance including sales commissions, dividends, and other health plan costs.³

The Pharmaceutical Research and Manufacturers of America (PhRMA) represents the country’s leading innovative biopharmaceutical research and biotechnology companies, which are devoted to discovering and developing medicines that enable patients to live longer, healthier, and more productive lives. In Connecticut, the biopharmaceutical industry employs over 11,000 individuals and the industry generates a total economic output of approximately \$17.5 billion per year.

³ PhRMA analysis of CMS data, available at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/Tables.zip>