

House Health Policy: Prescription Drug Transparency
House Bill 5223
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Blue Cross Blue Shield Testimony provided by:
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Mr. Chairman and members of the House Health Policy Committee –

Thank you for the opportunity to come before you today in support of House Bill 5223. I am Kristen Kraft from the Blue Cross Blue Shield of Michigan Department of Government and Regulatory Affairs. With me is Tim Antonelli, a manager within our Pharmacy Services Department. On behalf of BCBSM, we appreciate the opportunity to comment on challenges we are facing in the pharmaceutical market and your efforts to address pharmaceutical drug transparency.

Blue Cross Blue Shield of Michigan has an 80-year history of promoting access to quality, affordable health care for **our 4.65 million Michigan subscribers**. Our position as the state's largest health insurer and a nonprofit mutual organization enables us to invest the highest percentage possible towards providing quality and affordable health care for our members. We work hard to hold down the cost of health care, which has become more challenging, in part, because of ongoing increases in pharmacy costs. In 2018, prescription drug costs accounted for nearly 28 percent of our overall spending- outpacing hospital, retail and clinical costs collectively. Concerns exist not only with the cost today, but the growth trend as well.

A May 2018 analysis by America's Health Insurance Plans (AHIP) concluded that 23.2 cents out of every premium dollar goes to pay for prescription drugs—making this the largest component of health care spending. Their analysis found that prescription drug spending outpaces the amount spent on physician services, office and clinic visits, and hospital stays. These costs impose a heavy burden on consumers, employers, government programs, taxpayers and the entire health care system. When prescription drug prices go up, the cost of health insurance goes up. The result is that everyone pays more - including patients, businesses, taxpayers, hospitals, doctors and pharmacists.

Reports by the Kaiser Foundation also indicate that spending on prescription drugs is growing faster than spending in any other health care sector, with prices only expected to rise. The cost of brand drugs with patent protection and generic alternatives – commonly referred to as single-source drugs – is rising at an average annual rate of 25 percent (and 285 percent since 2010), which is more than double the 10 percent average annual rate of spending for all drugs. Moreover, high cost specialty drugs account for less than 1 percent of prescriptions filled, but 40 percent of pharmacy payments. They are forecast to reach 66 percent of pharmacy spend by 2022.

Increasing drug prices not only squeezes the budgets of families, employers, small businesses and federal and state governments, they also restrict patient access to life-saving drugs. Statistics show that increasing prices are causing people to skip doses, cut drugs in half or choose to not fill prescriptions.

According to Kaiser, Vox and Altarum studies, secret SEC filings show the increasing costs of pharmaceutical drugs is not attributed as much to research and development costs as it is marketing, advertising and sales. Drug marketing and advertising alone currently account for an estimated 30 percent of overall drug manufacturing costs. Conversely, research and development make up approximately 17 percent of the list price.

Additionally, recent news stories and investigations by the United States Senate suggest drug pricing is ultimately determined by what pharmaceutical manufacturers think health plans and employers are willing to pay, and what the market is willing to bear. This is problematic because drug companies are granted exclusivity with no restrictions on what they can charge and no competition to help control prices for consumers.

In the case of Evzio, a naloxone drug overdose regimen, the price jumped from \$690 to \$4500 in 2017. The Hepatitis C drugs Sovaldi and Harvoni had prices set at \$84,000 and \$94,500, respectively, prior to competition in this drug class, when the pharmaceutical industry was forced to address the cost. New treatments with costs ranging from \$465,000 to \$850,000 are hitting the market. It is important to know why this is occurring.

Bold steps are needed at both the legislative and regulatory level to ensure people have access to affordable medications. With solutions that deliver real competition, create more consumer choice, and ensure open and honest drug prices, it can contribute to more affordable pharmaceutical products—while at the same time, protecting and supporting innovations to deliver new treatments and cures for patients. Accessible, affordable medicines are the cornerstone to keeping patients with chronic disease healthier and out of emergency rooms. Reducing the price of medicines is a necessary step toward achieving this goal.

We believe House Bill 5223 is a common-sense bill that levels the playing field by placing many of the reporting requirements health insurers and other industries must meet on drug pharmaceutical pricing. Health insurers are already statutorily required to report financials to state and federal regulators. All health insurer costs, from health care administration, to rent, to marketing and advertising, are submitted annually to state and federal regulators on a standardized form. That information is then available for public review by competitors, customers, consumer groups and the media.

As the committee addresses concerns about rising drug prices, we urge you to recognize that the pricing process is driven entirely by the original list price of a branded drug - which is determined solely by the drug company, not by the market or any other participant in the pharmaceutical supply chain. **The problem is the price** - which needs to be addressed as part of any strategy for reducing pharmaceutical costs for consumers. Whether a drug is rebated or not, it is the original list price of a drug that drives costs for the entire system. This price is solely determined and controlled by the drug company, and if the original list price is high, the final cost that a consumer pays will be high. It is that simple: the problem is the price.

In closing, we can't put a price on the potential to cure disease or alleviate an individual's condition, but we do believe fair and transparent checks and balances must be established.

Again, thank you for the opportunity to address this important issue. With that, we are happy to answer questions.