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Testimony before the Democratic Steering and Policy Committee

Leader Nancy Pelosi, Co-Chairs Congresswoman Rosa DeLauro and Congresswoman Donna Edwards and all the members of the Democratic Steering and Policy Committee, thank you for the opportunity to testify before you today regarding the concerning rises in pharmaceutical drug pricing in America.

Sharply rising prices threaten to obstruct patient care and overcome health care budgets across the public and private sectors. Recently, I wrote the Connecticut congressional delegation urging them to take federal action to slow and reverse rising pharmaceutical costs. Congresswoman Rosa DeLauro responded immediately, promising to continue to push for action in Washington to lower the cost of prescription drugs. I thank her for her tireless advocacy on behalf of the people of Connecticut and for inviting me here today. I'd also like to thank the Democratic Steering and Policy Committee for directly engaging on this issue and seeking potential policy solutions.

Recent reports highlighted an extreme example of a price spike for the drug Daraprim after the rights to the drug were acquired by Turing Pharmaceuticals. The headline rightfully grabbed significant attention – but the issues raised by this story are not isolated or unique. They signal a more pervasive and intensifying trend in the pharmaceutical marketplace.

As state comptroller, I administer health benefits on behalf of more than 200,000 state and municipal employees, retirees and their dependents. The sharp rise in pharmacy costs comes at a time when we are seeing great success in limiting medical spending by promoting preventive care and chronic disease management through the state's Health Enhancement Program (HEP). The drastic increases in pharmacy costs are undermining our medical cost savings.

The factors behind rising pharmacy costs include market consolidation, new pricing models and outright profiteering. Projections indicate no future relief as pharmacy costs are expected to continue to rise at an exorbitant rate in the coming years.¹ Meanwhile, pharmaceutical companies are recording historic profits.² We applaud the profit motive in our free market society as a mechanism to efficiently distribute resources and drive innovation, but excessive profits can cause significant harm when applied

¹ Amy Erickson, MA, "Drug Costs Projected to Rise in Hospitals, Other Settings", *Pharmacy Today*, July 1, 2015. <https://www.pharmacist.com/drug-costs-projected-rise-hospitals-other-settings>

² Richard Anderson, "Pharmaceutical Industry gets High on Fat Profits", *BBC News*, November 6, 2014. <http://www.bbc.com/news/business-28212223>

unbridled to essential and lifesaving medicines in an uncompetitive marketplace. High costs are pushing certain treatments out of reach for some and, on a macro level, our society has fewer resources to expend on other important priorities.

These drugs – lifesaving, life-changing medications – are not yachts, private jets and other material icons of wealth reserved only for the privileged few.

The issue is twofold – and each challenge will likely require distinct remedies. The first challenge involves significant price increases in certain traditional brand and generic medications. The second relates to significant additional costs associated with the introduction and expanded utilization of new specialty drugs. I will address each problem separately.

Generic and Brand Price Hikes

Over the last two years we have seen significant cost increases as a result of substantial price hikes in traditional brand and generic medications. Our current cost growth for non-specialty drugs is an unsustainable 16.9 percent. The increased costs come at a time when we are seeing very little change in overall utilization for brand and generics – and the changes we are seeing should result in lower, not higher, costs. For example, last fiscal year we saw a slight reduction in the utilization of brand drugs and a slight increase in our generic dispensing rate. Despite these encouraging utilization patterns, we still incurred significant additional costs driven by price hikes of long available traditional brand and generic medications. As I mentioned earlier, a recent story in *The New York Times* highlighted an extreme example of a price spike for the drug Daraprim after the rights to the drug were acquired by Turing Pharmaceuticals.³ For several years now companies have been buying up the rights to generic and brand drugs and then increasing prices.⁴ Industry consolidation has eroded competition in the market, which in turn allows pharmaceutical companies to demand higher prices. Even worse, a significant backlog of applications to manufacture generic medications at the U.S. Food and Drug Administration (FDA) is contributing to the lack of competition and high prices.

In order to maintain the affordability of generic drugs, it is my hope that Congress will act quickly to:

- Strengthen anti-trust laws to limit consolidation in the pharmaceutical industry and ensure that adequate competition remains to drive competitive pricing in all drug classes; and
- Reduce the FDA backlog of generic drug approvals, and sharply reduce the review time of such applications, in order to swiftly introduce competition to consolidated markets while maintaining adequate oversight of quality and safety.

Finally, the promise of lower cost generics only occurs when generics come to market after patent protection for a brand name drug expires. Recently, pharmaceutical company stall tactics have delayed the introduction of generic competition for some blockbuster brand drugs. In FY 15, the state employee plan incurred additional costs for the brand drug Nexium as a result of a significant delay in the release

³ Andrew Pollack, “Drug Goes From \$13.50 a tablet to \$750, Overnight”, *New York Times*, September 20, 2015. http://www.nytimes.com/2015/09/21/business/a-huge-overnight-increase-in-a-drugs-price-raises-protests.html?_r=0

⁴ Jonathan D. Rockoff and Ed Silverman, “Pharmaceutical Companies Buy Rivals’ Drugs, Then Jack Up the Prices”, *Wall Street Journal*, April 26, 2015. <http://www.wsj.com/articles/pharmaceutical-companies-buy-rivals-drugs-then-jack-up-the-prices-1430096431>

of a generic version of the drug. The delay resulted in more than \$8 million in expenses in FY 15 for the brand name version of Nexium to the state plan when an available generic would have significantly reduced the costs.

The combination of delayed approvals at the FDA and significant market consolidation has increased prices for generic and brand drugs as a result of reduced competition. The price increases are straining health plans and consumers without adding new value to our health care system as these drugs have been available for many years. Immediate federal action is necessary to inject meaningful competition into the pharmaceutical market in order to maintain access and affordability to needed medications.

Specialty Drugs

The specialty drug market poses its own significant challenges that are separate and distinct from those related to traditional brand and generic drugs. The added costs resulting from specialty drugs, in large part, are for new innovative treatments that are often more effective than those previously available. As such, specialty drug manufacturers are adding real value to the medical system. Still, specialty medications are launching at much higher price points than similar specialty drugs released just three or four years ago – creating a significant cost burden for health plans and consumers.

To give you a sense of the magnitude of the problem, specialty drug costs for the state employee plan are increasing at an astronomical 54.7 percent. Specialty drugs accounted for just 1.2 percent of total prescriptions in FY15 but 25.6 percent of total costs – and the percentage is rising fast. At the current cost trend, specialty drug costs will increase to more than half of our total drug spend in just a few short years. All indications are that the trend will continue as the majority of new FDA approvals anticipated in the next four years are specialty drugs. Many of these medications will bring much needed relief to individuals, but the runaway prices are unsustainable and must be addressed.

Addressing specialty drug prices is no easy task. Significant investments have been made in the development of these new treatments, and better treatments like the new class of Hepatitis C drugs are saving lives and reducing long-term medical costs. However, not all specialty drugs have such clear medical cost savings, and yet the high prices are not limited to the Hepatitis C drugs. They can be found across the spectrum of specialty drugs.

Recently, a group of 100 oncologists signed an open letter to the pharmaceutical industry urging them to lower the costs of new lifesaving oncology drugs. They stated that, while the free market allows the manufacturer to charge what the market will bear, using such an unsustainable pricing strategy for lifesaving medications will push the medications out of reach for a portion of the population.⁵ As the signatories of the open letter recommend, there is significant need for a national conversation on how we as a nation can best balance the financial return for the development of new effective treatments and the affordability and access of such medications.

⁵ Hagop Kantarjian, MD. "The Price of Drugs for Chronic Myeloid Leukemia (CML): A Reflection of the Unsustainable Prices of Cancer Drugs: From the Perspective of a Large Group of CML Experts", *Blood Journal*, April 25, 2013. <http://www.bloodjournal.org/content/bloodjournal/early/2013/04/23/blood-2013-03-490003.full.pdf?sso-checked=true>

Current proposals range from reducing the data exclusivity period from 12 years to 7 years for biologics (the exclusivity period refers to the time during which data used to obtain FDA approval is protected from use by generic manufacturers), or allowing Medicare to use its market power to negotiate lower drug prices. Both should be thoroughly examined. However, provisions should also ensure that negotiated Medicare prices serve as a reference price for the privately insured market, otherwise the benefits of lower prices for Medicare may result in higher costs for the privately insured, an outcome that, while successfully reducing federal expenditures, would not solve the sustainability issues associated with the rising costs of pharmaceuticals.

Closing

The State of Connecticut and health plans across the country are seeing unsustainable growth in pharmacy drug spending. The root causes of the increased costs include industry consolidation and delays in generic drug approvals that are allowing pharmaceutical companies to demand higher prices for existing generic and brand drugs. At the same time, newly released specialty drugs are being priced significantly higher than those released only a few years ago as pharmaceutical manufacturers move to a “what the market will bear” pricing strategy. The rapid price increases are straining the state budget and, more importantly, placing significant burdens on consumers who need access to these medications. Swift action is necessary to infuse competition into the marketplace and institute strategies to control costs where competition is inadequate or impossible.

Thank you again for inviting me to speak with you on this important matter and I urge you to push Congress toward a federal solution to rein in rising pharmaceutical drug costs.