HB 1418 Commission to Study Greater Transparency in Pharmaceutical Costs

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About AHIP

America’s Health Insurance Plans (AHIP) is the national association whose members provide coverage and health-related services that improve and protect the health and financial security of consumers, families, businesses, communities and the nation.
AHIP’s Vision

We will shape and drive market-based solutions and public policy strategies to improve health, affordability and financial security by:

- Promoting consumer choice and market competition
- Simplifying the health care experience for individuals and families
- Supporting constructive partnerships with all levels of government
- Partnering with health care providers on the journey from volume to value
- Addressing the burden of chronic disease and social factors that impact health
- Pursuing the promise of clinical innovations while ensuring value
- Harnessing data and technology to drive quality, efficiency and consumer satisfaction
Market Manipulations: Navigating a Broken Market

Competition → Transparency → Value

PATIENTS
- Coupons, Co-pay Cards
- DTC, Product Detailing
- Orphan Drug Act Abuses
- Generics, Biosimilar Barriers
- Off-label Promotion
- Coverage Mandates
- Patent Games
- Pay for Delay
- Product Hopping
Market Manipulations: Maximizing Pharmaceutical Profits

1. Starts with High List Prices and High List Price Increases
2. Multiplied by Highest Possible Drug Utilization
3. Exponentially Increased by a Broken Market
Market Manipulations: Who Ends up Paying?

- Monopoly power to set & increase list price
- Blocking generics
- Patent gaming
- Copay coupons
- POS Concessions

• “A Senate subcommittee was told yesterday that so-called anti-substitution laws, which once were necessary to protect the public from inferior drugs, have degenerated into devices for keeping drug prices unnecessarily high.”
• “Food and Commissioner Donald Kennedy said that there is virtually no difference between generic prescription drugs, such as tetracycline, and the more expensive brand name varieties, such as terrmycin or symycin, even though drug companies often sell the latter for as much as 300 to 700 per cent more.”


• “Subcommittee chairman Gaylor Nelson (D-Wis.) noted that the last five Food and Drug Administration commissioners have said […] that drug companies spend four times more promoting drugs than researching and developing new ones.”

Unfairly High Drug Prices Cheat The Sick And Elderly, Panel Told. April 22, 1987, Miami Herald.

• “Prescription drug manufacturers have unfairly increased prices and profits at the expense of the sick and elderly”
• “Yet the subcommittee’s survey of 24 major drug manufacturers found that companies made $4.7 billion on price increases while research and development expenditures rose only $1.6 billion.”


• “The Armour Pharmaceutical Company introduced […] the first blood-clotting factor for hemophiliacs. […] There was one catch: This high-tech drug costs five to eight times as much as older versions, bringing the cost of a year’s supply to more than $25,000. That puts the drug out of the reach of many patients whom it is a matter of life and death.”
Looking Back
History Repeats – 90s, 2000s, 2010s

*The Costs Of Medicine; Drug Prices Are Hostage To Greedy Firms.* June 30, 1993, Dallas Morning News.

- “The theory of a free-market economy is that when demand is high, sales go up and prices go down so that more people can afford to buy, which pushes sales even further up and prices even further down. But it doesn’t work that way with medicines.
- On the contrary, a study by the U.S. General Accounting Office reveals that drug costs have increased at a much greater rate than inflation, far outstripping the overall rise in the consumer price index. Over a six-year period ending in 1991, the cost of some of the most commonly prescribed medications doubled and even quadrupled.”


- “Bristol Myers Squibb, Schering, Lilly and Pfizer all made about 20 percent profit in 1998 […] while the prices of their drugs raced ahead of the inflation rate.”


- “GlaxoSmithKline PLC raised the price of antidepressant Wellbutrin XL by 44.5 percent from 2005 to 2007. Sanofi-Aventis SA raised the price of sleeping drug Ambien 70.1 percent. Shire PLC increased the price of its attention-deficit-disorder medication, Adderall XR, by 33.5 percent, while the price of cholesterol-fighting Lipitor – the world’s top-selling drug, which brought in roughly $13 billion last year for Pfizer Inc. – rose 16 percent.”


- “A newly released AARP study has found that, in the first three months of 2004, drug companies jacked up the wholesale price of the prescriptions most used by older Americans by an average of triple the rate of inflation.”
Looking Forward
Threats in the Future (Now)

• “Even if a drug is approved, costs might be so high and patients so few that it makes no commercial sense to produce them.”

We Can’t Afford the Drugs That Could Cure Cancer. September 18, 2018. Wall Street Journal
• “Customized immunotherapies are ready to revolutionize care and save lives—if drug companies stop charging so much for them.”

Gene Therapy Optimism Combines With Fear of Cost. September 24. P&T Community
• “According to the WSJ, the Institute for Clinical and Economic Review, which conducts cost-effectiveness analyses on new therapies, concluded that Luxturna’s price exceeds standard thresholds for cost-effectiveness. This is partly due to its long-term benefits remaining unknown.”

“A year ago, Kymriah became the first in a new type of treatments known as CAR-T to win approval in the U.S., entering the market at a price of $475,000 for the deadly childhood leukemia. It was approved later for another type of cancer at a price of $373,000.”

UK panel rejects CAR T-cell therapy due to cost. August 28, 2018. Healio

“The National Institute for Health and Care Excellence (NICE) issued draft guidance today that said axicabtagene ciloleucel (Yescarta; Kite Pharma, Gilead) — which received FDA approval last year for treatment of certain B-cell lymphomas — is too expensive to justify its use in England’s National Health Service (NHS).”


“Although these agents' prices reach close to $500,000, they still reflect just the reengineered white blood cells, not all the ancillary elements of care, speakers testified at a recent hearing on CMS pricing policy.”
Milliman Analysis: Prescription Drug Rebates and Part D Drug Costs

Analysis of historical Medicare Part D drug prices and manufacturer rebates
AHIP engaged Milliman, an actuarial consulting firm, to analyze actual rebate data and shed light on:

1. Prevalence of drugs with rebates;

2. Rebate levels as a percentage of gross cost by level and type of market competition; and

3. Average annual cost and price trends for drugs with and without rebates.

Throughout the report, rebate refers only to manufacturer rebates and excludes pharmacy rebates.

After reviewing the study, we believe that the report’s findings support the following AHIP conclusions:

- There was no link between the level of rebates offered and how fast drug prices increased between 2013 and 2016.
- The level of rebates negotiated with drug makers is driven by market competition—not price.
- Among Part D brand drugs with rebates, drugs with the most robust competition provided the highest rebate percentages.
- Reducing plan leverage by requiring a prescription drug to be on a formulary (i.e., protected classes) leads to lower rebate savings.
Most Prescribed Medications Are Not Rebated By Drug

- **89% of prescriptions** written in 2016 had no rebates

- **81% of all Part D drugs analyzed** did not have rebates from drug makers in 2016, and **64% of brand drugs analyzed** did not have rebates

Among brand drugs with manufacturer rebates, rebates as a percentage of total drug spending were on average:

- **Highest** for drugs with direct brand and generic competition
- **Lowest** for protected classes drugs

Chart I.A shows that among drugs receiving rebates, the drugs identified as having direct brand competition have the highest average rebates as a percentage of gross drug cost, while drugs in protected classes have the lowest average rebates as a percentage of gross drug cost.

Among brand drugs with manufacturer rebates, rebates as a percentage of total drug spending were on average lowest for protected classes drugs.

Only 13% of the 2016 protected class drugs analyzed had manufacturer rebates.

The rebates for protected class drugs with rebates averaged 14% of drug spend—significantly lower than rebate levels for drugs with direct brand competition (i.e., 39% of drug spend).

Chart I-A shows that among drugs receiving rebates, the drugs identified as having direct brand competition have the highest average rebates as a percentage of gross drug cost, while drugs in protected classes have the lowest average rebates as a percentage of gross drug cost.
For 2016, brand drugs with manufacturer rebates had lower average annual gross cost per beneficiary than brand drugs without rebates.

Chart I-A: Average Annual Gross Cost per Beneficiary for Brand Drugs with and without Rebates

Chart I-A shows that average annual gross cost per beneficiary has increased more quickly for brand drugs without rebates than for brand drugs with rebates, particularly in 2015 and 2016.

Among brand drugs with rebates from drug makers, drug price increases were similar across different rebate levels.
Among brand drugs with rebates from drug makers, drug price trends (per unit) were similar for specialty, non-specialty, and protected class drug.
POS Concession

- Likely to increase overall spending, akin to drug coupons
- Ignores the vast majority of prescriptions
- Favors the use of more expensive brand name products over more affordable generic products
- Patients on most high cost medications are likely to see no benefit – those that do will likely see nominal benefits – including physician administered drugs
- Increases premiums that everyone has to pay
- Increases drug makers’ ability to determine the rebates their competitors are giving – reducing good faith negotiations
Value of the Drug Supply Chain

Each stakeholder in the supply chain plays a critical role to ensure that patients can and do have access to the right medications at the right time.

- **Drug Companies**
  - Produces & Sells Pharmaceuticals
  - Ensures patients have access to critical meds and pharmacist expertise

- **Pharmacies, Distributors, & Wholesalers**
  - Provides prescription drug coverage for patients & negotiates lower drug costs on behalf of patients, employers, and governments

- **Payers**
• Utilize existing authority to introduce market competition to ensure good faith negotiation takes place
• Establish a third party independent assessor of value to ensure a strong foundation for defining and assessing value
• Improve plan ability to negotiate lower prices for physician administered drugs
• Reduce barriers keeping new market competitors from the market
• Enhance the flexibility plans have to negotiate lower costs
AHIP Recommendations

Other Solutions

- Include drug list prices prominently in pharmaceutical direct-to-consumer advertisements
- Require drug companies to validate high list prices by providing transparency for how the price was set (e.g., amount based on R&D costs, marketing, profits)
- Require drug companies to validate list price increases by providing transparency for why the increase is warranted (e.g., what changes spurred the price increase)
- Ensure that any changes made actually benefit the bottom line for patients while ensuring savings for the government