



November 30, 2015

Thank you Leader Pelosi, Chairwomen Rosa DeLauro and Donna Edwards and Members of the Steering and Policy Committee for this opportunity to speak on “Ensuring Access and Affordability of Prescription Drugs, While Spurring Innovation.” My name is Brian Lehman, and I am the Manager of Pharmacy Benefits and Policy for the Ohio Public Employees Retirement System (OPERS). OPERS is the eleventh largest public retirement system in the United States, responsible for management of a \$12 billion trust fund for approximately 1 million future and current retirees. We provide comprehensive medical and prescription drug coverage to 227,000 non-Medicare and Medicare Retiree Health Care Program participants. Today I am pleased not only to represent OPERS but also as a member of the Public Sector Health Care Roundtable. The Public Sector Healthcare Roundtable is a national coalition of public sector purchasers from across the country that collectively provides health care coverage on behalf of millions of active and retired public employees and their families.

Public sector entities from the Roundtable are supportive of Secretary Burwell’s efforts to balance pharmaceutical innovation with affordability while having the patient at the center of care delivery. We support policies designed to remove barriers to the development of innovative medicines that improve patient outcomes. But, we as health care purchasers and our health care plan participants are challenged with the affordability of drugs, specifically specialty and biologic drugs. Specialty drugs are used in the treatment of conditions such as cancer, autoimmune diseases and rare diseases, are structurally complex, often require special handling or delivery mechanisms (such as infusion or injection) and are typically priced much higher than traditional drugs. Biologic drugs are a subset of specialty drugs that are complex molecules derived from living or biological sources.<sup>1</sup>

Historically, the national health expenditures average annual growth rate of prescription drug spend per capita was 7.2% in the 1970s, 11.7% in the 1980s and 10.5% in the 1990s. In early 2000, the average annual growth rate peaked then declined over the years to 1.9% or lower in 2010-2013.<sup>2</sup> Then in 2014 total US spending on medicines increased 13% to \$374 billion; this was the biggest percentage increase since 2001 according to IMS Health.<sup>3</sup> For sixteen public sector entities (including CalPERS, Employees Retirement System of Texas, State of Florida and OPERS) with 4.3 million lives, the expenditures on all drugs increased 10.6% to \$6 billion in 2014. Specialty/biologic drug expenditures



grew 23.7% to \$1.6 billion. Specialty/biologic drugs, which accounted for only 2% of total claims, accounted for an astounding 26.7% of total drug expenditures.<sup>4</sup>

Over the next five years specialty/biologic drugs will continue to drive the spending growth.<sup>5</sup> For public sector entities who provide healthcare coverage, specialty drugs will account for 50% of overall drugs spend by 2020 and for OPERS specifically this will occur by 2019.<sup>6</sup> Simply put, these increases for specialty/biologic drugs are unsustainable for health care purchasers like OPERS or CalPERS, but more importantly for our participants and the millions of Americans who rely on these drugs. Drugs like Sovaldi, that provide a cure for Hepatitis C, are too costly at \$84,000 for a course of treatment for Americans to purchase. For these drugs to fulfill the promise of improving patient outcomes they need to be priced to ensure affordability and access.

Specialty/biologic drugs are driving overall spending on medicines due to: 1) new drug treatments, 2) higher list prices and 3) price increases. The pipeline of new specialty/biologic drugs is robust with 225 new products to be approved by 2020.<sup>7</sup> Manufacturers are developing products that can command high prices such as breakthrough therapies as well as orphan drugs that have an average cost of \$137,782 per patient per year.<sup>8</sup> Specialty/biologic drugs list prices, excluding discounts and rebates, are continuing to grow dramatically. In a recent study by AARP, specialty drugs average annual price was \$53,384 in 2013 a 193% increase from the average annual price of \$18,240 in 2005. This average annual drug price is greater than the median US household income (\$52,250), more than twice the median income for Medicare beneficiaries (\$23,500) and almost three and a half times higher than the average Social Security retirement benefit (\$15,526).<sup>9</sup> Specialty/biologic drugs experience substantial price growth every year they are on the market. Historically, the average price increase for specialty drugs was 16% in 2012, 29% in 2013, 22% in 2014 and 19% so far in 2015.<sup>10</sup>

Drug spending increases driven by high and growing drug prices will continue to affect health care purchasers and participants. Higher prescription drug spending will be passed along to individuals in the form of increased healthcare premiums as well as increased out-of-pocket costs through increased prescription drug deductibles, co-insurance payments and out-of-pocket maximums. More importantly, an increasing number of individuals may be unable to afford the prescription drugs that they need to stay healthy, leading to poorer health outcomes and higher overall health care costs. A 2015 Public Sector Health Care Roundtable Specialty Drug Survey found that public sector entities have three major future



concerns about: 1) the increased financial hardship on members due to higher cost sharing, 2) the uncertainty of their organization's ability to continue providing a high quality health plan and 3) medical complications due to decreased medication adherence.<sup>11</sup>

New purchasing and management solutions as well as regulatory and legislative support are needed to better balance pharmaceutical innovation with access and affordability. Currently, new solutions beyond standard purchasing strategies and utilization management are being discussed and implemented in the private and public sector. Changing how we pay for drugs, from "pay per pill" to pay for drug value, through value based/outcomes based purchasing is one such solution. Regulatory and legislative support is needed in areas such as biosimilars<sup>12</sup> and interchangeable biosimilars, where a successful marketplace will translate into improved access and affordability. The biosimilars market is expected to create anywhere from \$44<sup>13</sup> to \$250<sup>14</sup> in health systems savings according to various estimates. OPERS is projected to save more than \$129 million if just eleven biosimilars enter the market in the next 10 years (2015-2024).<sup>15</sup>

In conclusion, we ask for your support on 1) a biosimilar and interchangeable biosimilars marketplace that will provide needed savings by health care purchasers and patients, 2) changing how we pay for drugs to pay for value through value based purchasing/outcomes based purchasing as well as comparative/cost effectiveness and 3) protecting our ability to utilize plan design and utilization management tools to manage our health care coverage. We are pleased to work with you and other stakeholders to advance these ideas.

I appreciate the opportunity to testify today and would be happy to answer any questions you might have.

Thank you,

A handwritten signature in black ink that reads "Brian Lehman".

Brian Lehman  
Manager of Pharmacy Benefits and Policy



<sup>1</sup> AHIP Issue Brief Specialty Drugs: Issues and Challenges, <https://www.ahip.org/IssueBrief/Specialty-Drugs-Challenges-Issues/>

<sup>2</sup> What are the recent and forecasted trends in prescription drug spending. <http://kff.org/slideshow/what-are-the-recent-and-forecasted-trends-in-prescription-drug-spending/>

<sup>3</sup> IMS – Medicines Use and Spending Shifts: A Review of the Use of Medicines in the US in 2014.

<sup>4</sup> Public Sector Healthcare Roundtable, 2014 Specialty Drug Survey.

<sup>5</sup> IMS Institute, Global Outlook for Medicines Through 2020, November 2015.

<sup>6</sup> Express Scripts, Inc. financial modelling for OPERS, July 14, 2015.

<sup>7</sup> IMS Institute. Global Outlook for Medicines Through 2020. November, 2015.

<sup>8</sup> Evaluate Pharma, Orphan Drug Report 2014.

<sup>9</sup> Purvis, L and Schonheimyer, S.W. Trends in Retail Prices of Specialty Prescription Drugs Widely Used by Older Americans, 2006 to 2013.

<sup>10</sup> Massive, unexpected drug price increases are happening all the time, Reuters <http://qz.com/#514553/massive-unexpected-drug-price-increases-are-happening-all-the-time/>

<sup>11</sup> Public Sector Healthcare Roundtable, 2014 Specialty Drug Survey.

<sup>12</sup> FDA definition: “A biosimilar is a biological product that is highly similar to US licensed reference biologic product notwithstanding minor differences in clinically inactive components and for which there are no clinically meaningful differences between the biological product and reference product in terms of safety, purity and potency

<sup>13</sup> Mulcahy, A. Predmore, Z and Mattke, S. “The Cost Savings Potential of Biosimilar Drugs in the United States.”

<sup>14</sup> The \$250 Billion Potential of Biosimilars. Express Scripts 2013.

<sup>15</sup> Express Scripts, Inc. financial modelling for OPERS, December 15, 2014.