

State Prescription Drug Purchases. Pricing Standards. Initiative Statute.

JOINT INFORMATIONAL HEARING

SENATE HEALTH AND ASSEMBLY HEALTH COMMITTEES

SENATOR HERNANDEZ AND ASSEMBLY MEMBER WOOD, Chairs

1:30 p.m. - Room 4202

May 10, 2016

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Drug costs are of concern...

Independent group finds multiple myeloma drugs too costly in U.S

BY DEENA BEASLEY

<http://www.reuters.com/article/us-health-cancer-costs-idUSKCN0XX21H>

U.S. prices for newer multiple myeloma cancer treatments should be cut by 50 percent to justify their value in terms of prolonging life, while the industry should be required to assess the benefit of some, according to an independent non-profit group that evaluates the effectiveness of medicines.

Spike in Cost of Certain Oral Cancer Drugs Puts Squeeze on Patients, Study Finds

By GILLIAN MOHNEY · Apr 28, 2016, 4:36 PM ET

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<http://tinyurl.com/jtuawmf>

Capecitabine is the first and only home-based oral chemotherapy tablet for the treatment of people with advanced bowel cancer.

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As rising drug costs have become a topic of intense debate, a new review finds a significant increase for some cancer drugs.

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The New York Times



EDITORIAL
A Better, Not Fatter,
Defense Budget



CHARLES M. BLOW
G.O.P. Has Only Itself to
Blame



ROGER COHEN
Sadiq Khan vs.
Trump

Sunday Review | EDITORIAL

No Justification for High Drug Prices

By THE EDITORIAL BOARD DEC. 19, 2015



http://www.nytimes.com/2015/12/20/opinion/sunday/no-justification-for-high-drug-prices.html?_r=0

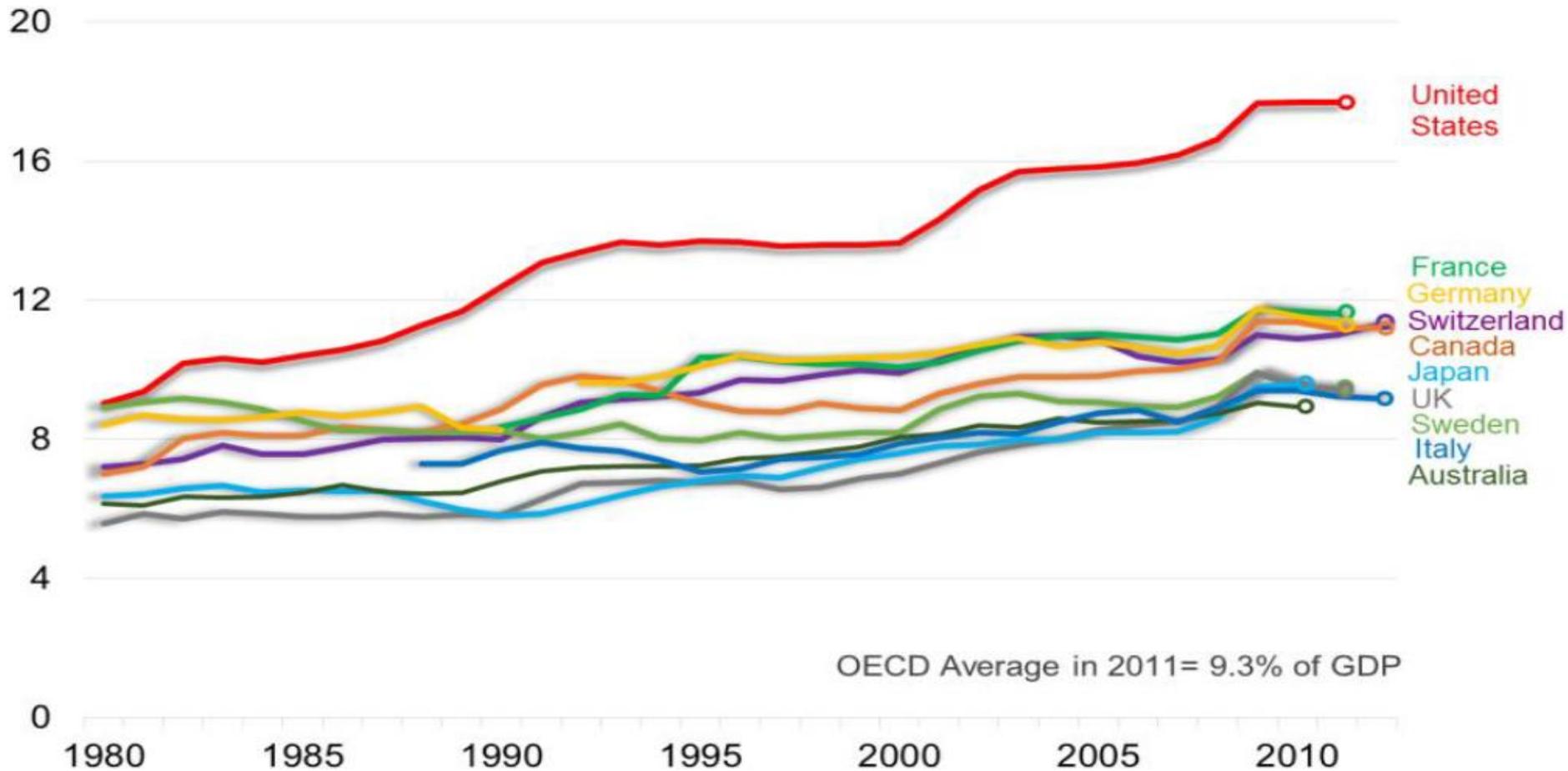
There is ample evidence that drug prices have been pushed to astronomical heights for no reason other than the desire of drug makers to maximize profits. Prices in many cases far exceed what's needed to cover the costs of research and clinical trials, and some companies have found ways to rake in profits even without shouldering the cost of drug development.

Prescription drug costs

$$(\text{Price} \times \text{Quantity}) - (\text{Rebate} + \text{Discounts}) = \text{Total Cost}$$

In 2011, the US spent 17.7 percent of its GDP on health care; no other OECD country reported > 11.9%.

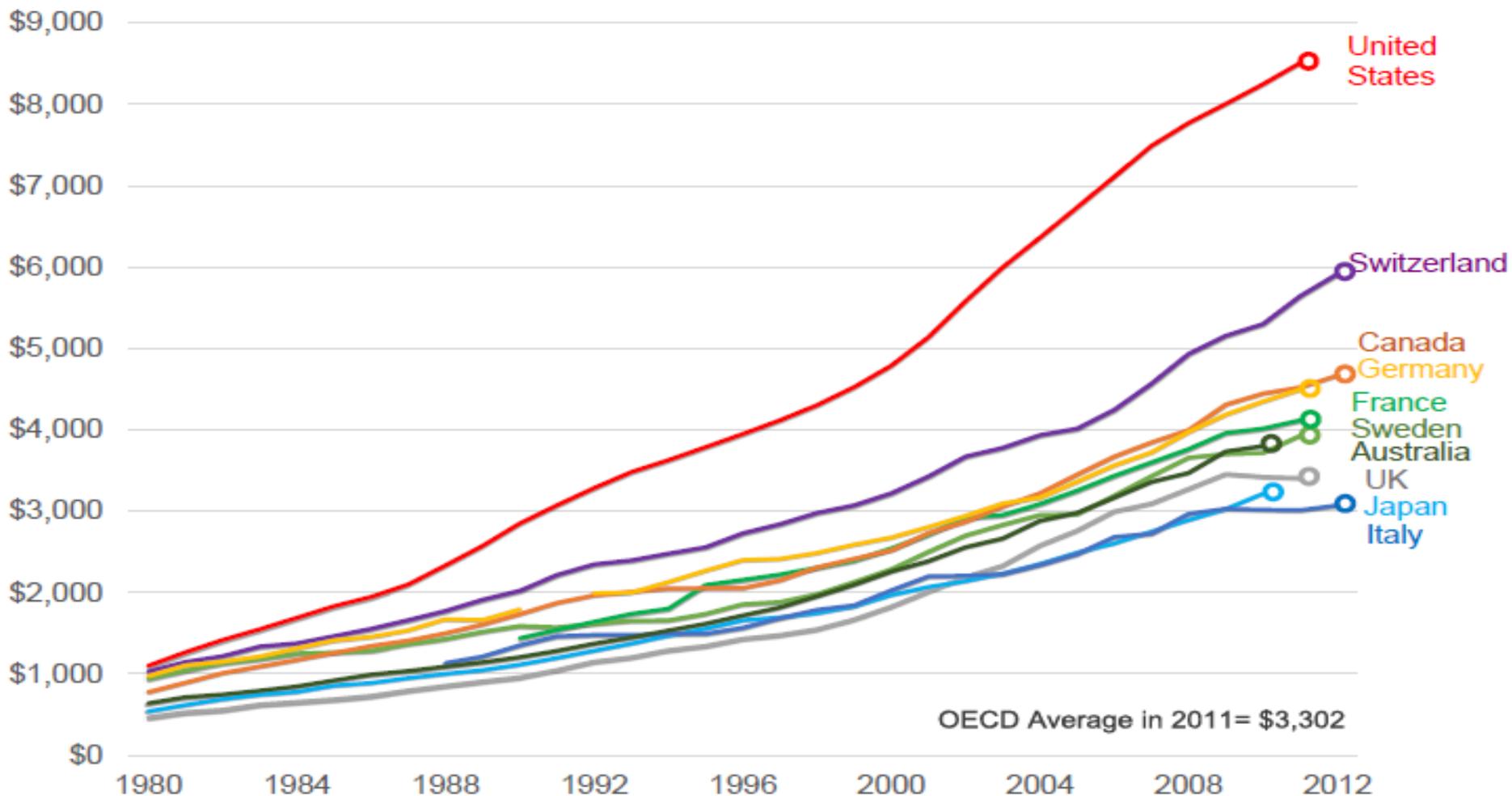
Health Care Spending as Percentage of GDP



OECD Average in 2011= 9.3% of GDP

US Health Care Spending More Than 2x the Average for Developed Countries

Health Care Spending Per Capita (\$US PPP)

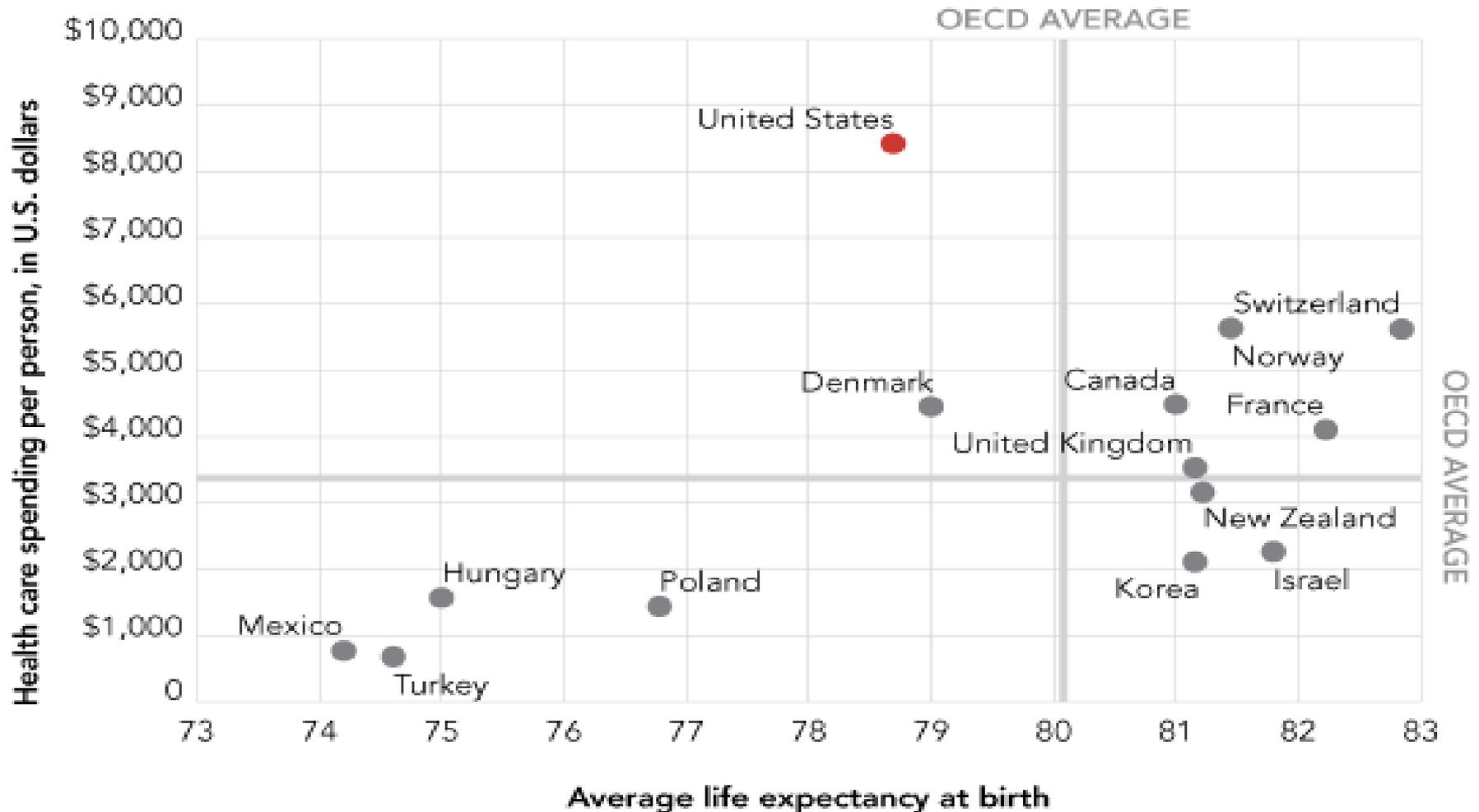


Source: OECD Health Data 2013.

Data note: PPP = purchasing power parity.

Produced by Veronique de Rugy, Mercatus Center at George Mason University.

Americans don't live longer than people in countries that spend much less on health care.



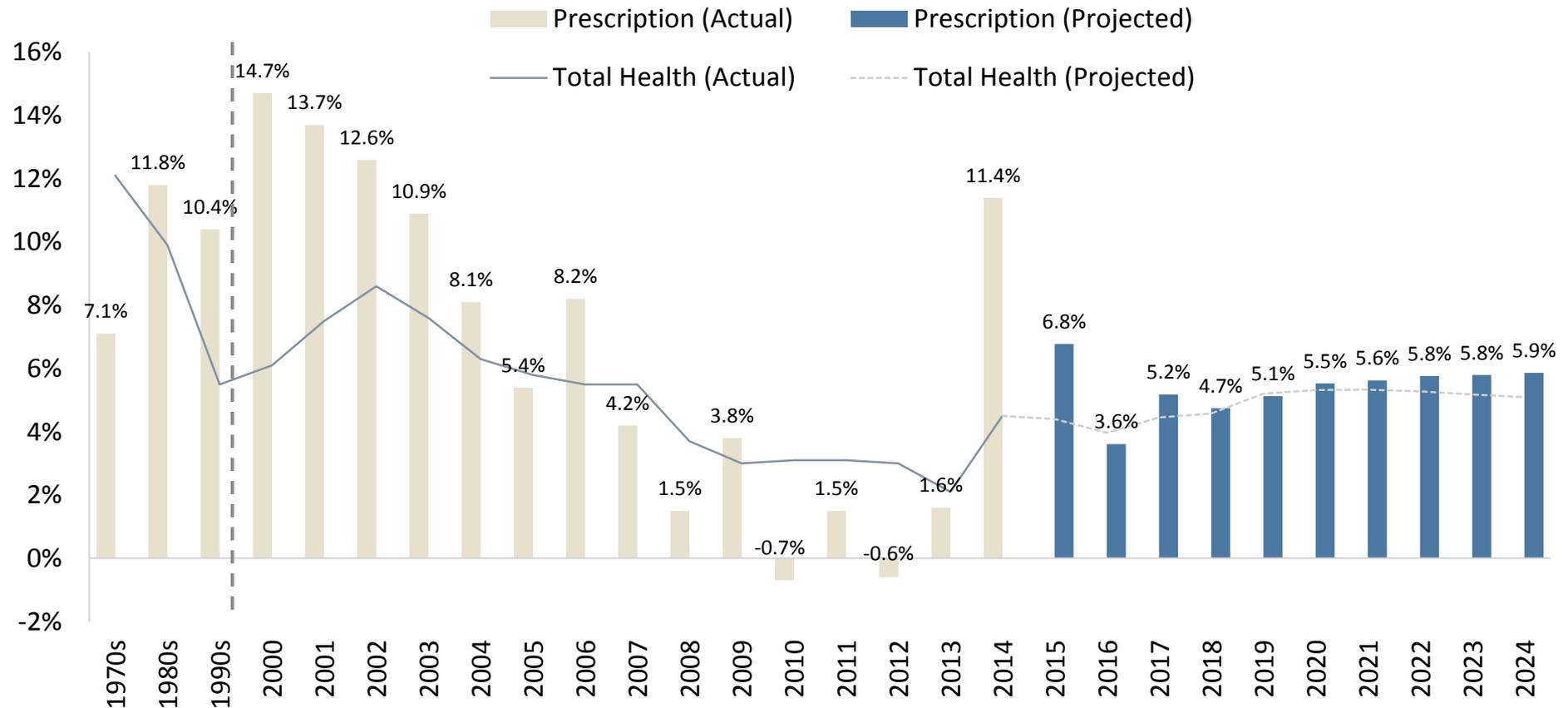
Notes: Data is from 2011 or nearest year. New Zealand numbers exclude investments. Not all OECD countries are included.
Source: OECD Health Data 2013

THE HUFFINGTON POST

<http://tinyurl.com/kl38vt4>

Growth in prescription spending had slowed, but increased rapidly in 2014 and 2015

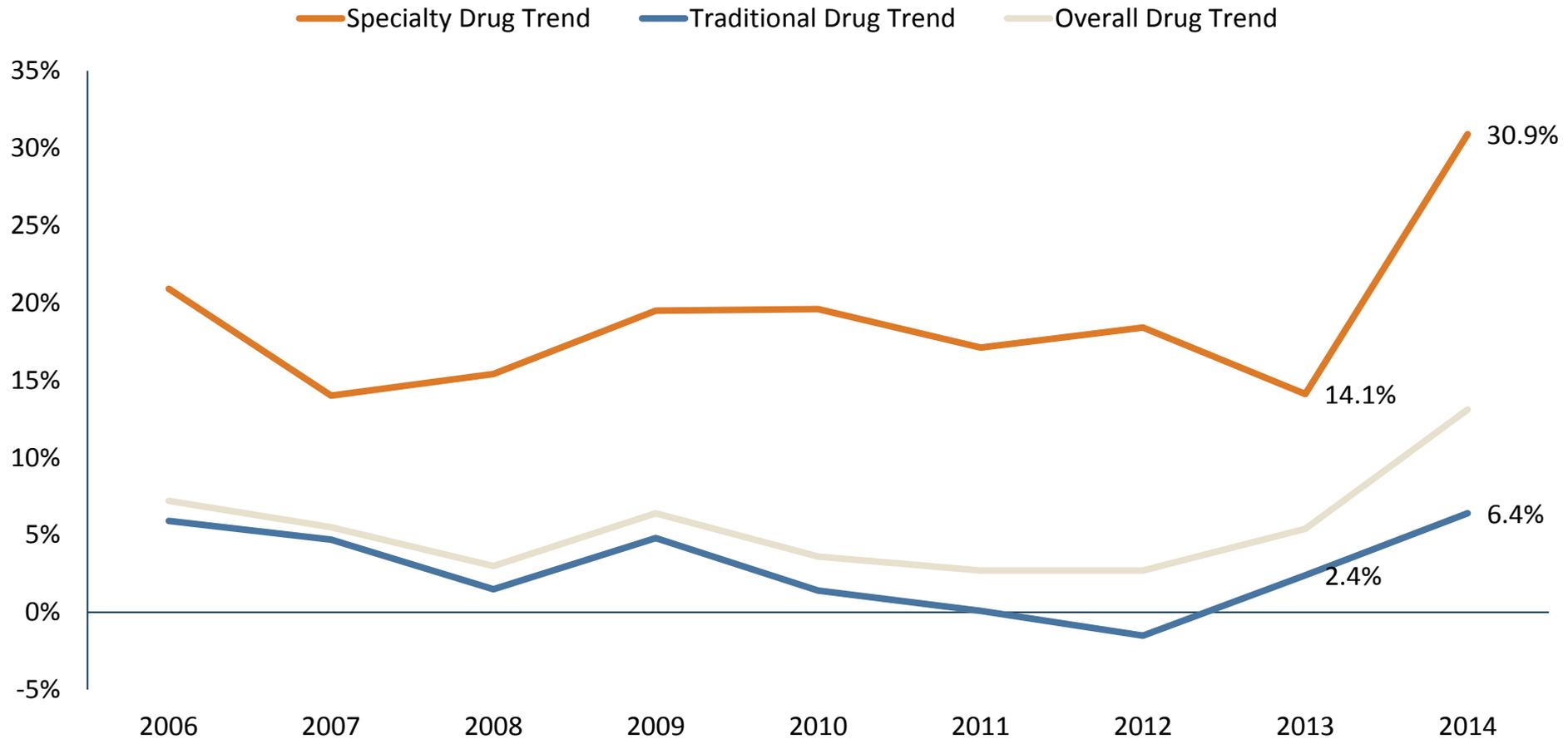
Average annual growth rate of prescription drug spending per capita for 1970's – 1990's;
Annual change in actual prescription drug spending per capita 2000 – 2014 and projected prescription drug spending per capita 2015 - 2024



Source: Kaiser Family Foundation analysis of National Health Expenditure (NHE) Historical (1960-2014) and Projected (2014-2024) data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group (Accessed on December 7, 2015) **Note:** 2014 to 2015 percent changes are calculated using 2014 and 2015 projected amounts.

Costly new specialty drugs are a major driver of increased health spending

Express Scripts drug spending growth trend by therapy class, 2006 -2014



Source: Express Scripts 2014 Drug Trend Report and Year in Review. Available at <http://lab.express-scripts.com/drug-trend-report/> and <http://lab.express-scripts.com/drug-trend-report/introduction/year-in-review>

Recent spending on specialty medicines increased 21.5% to \$150.8Bn on an invoice price basis (2015)

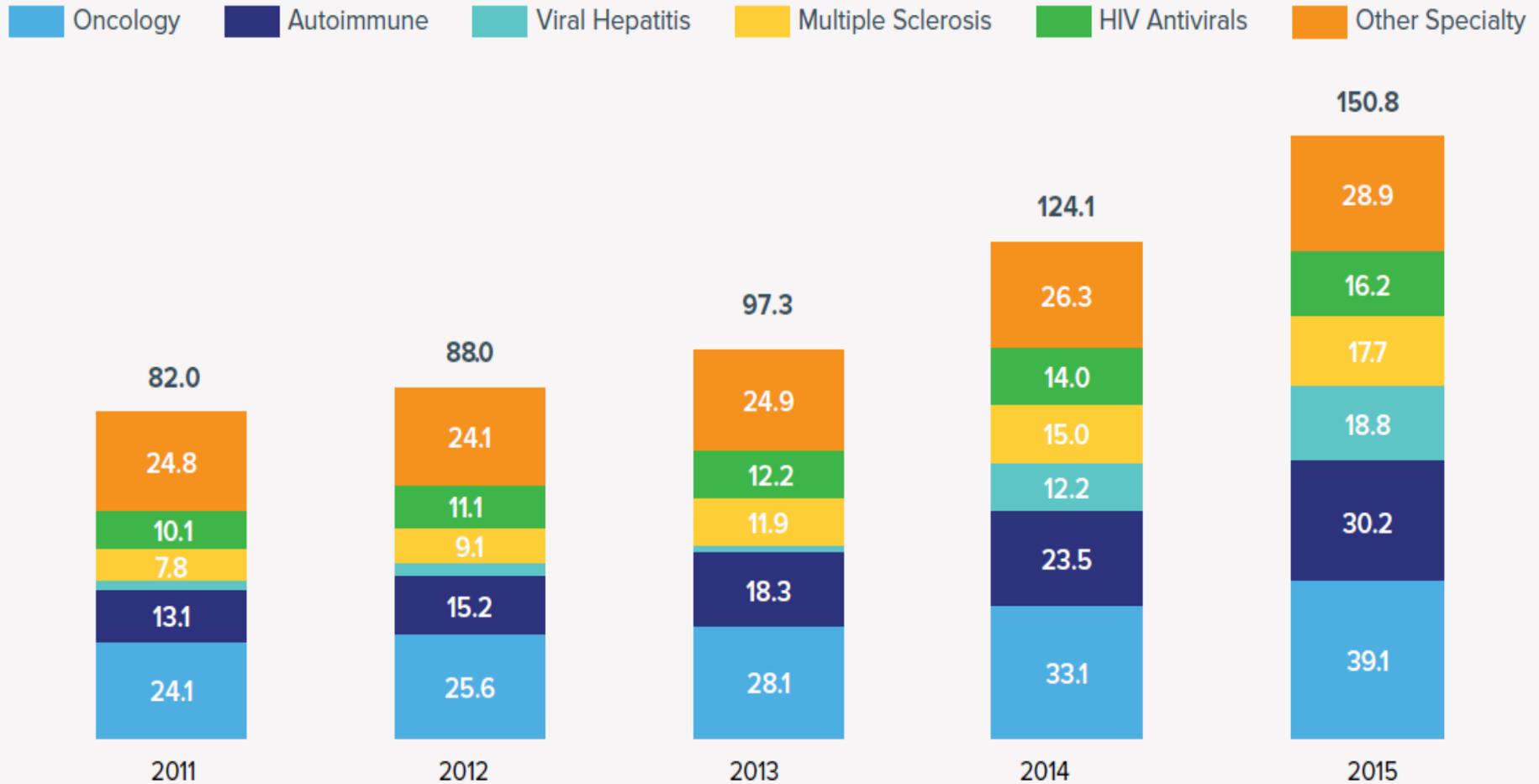
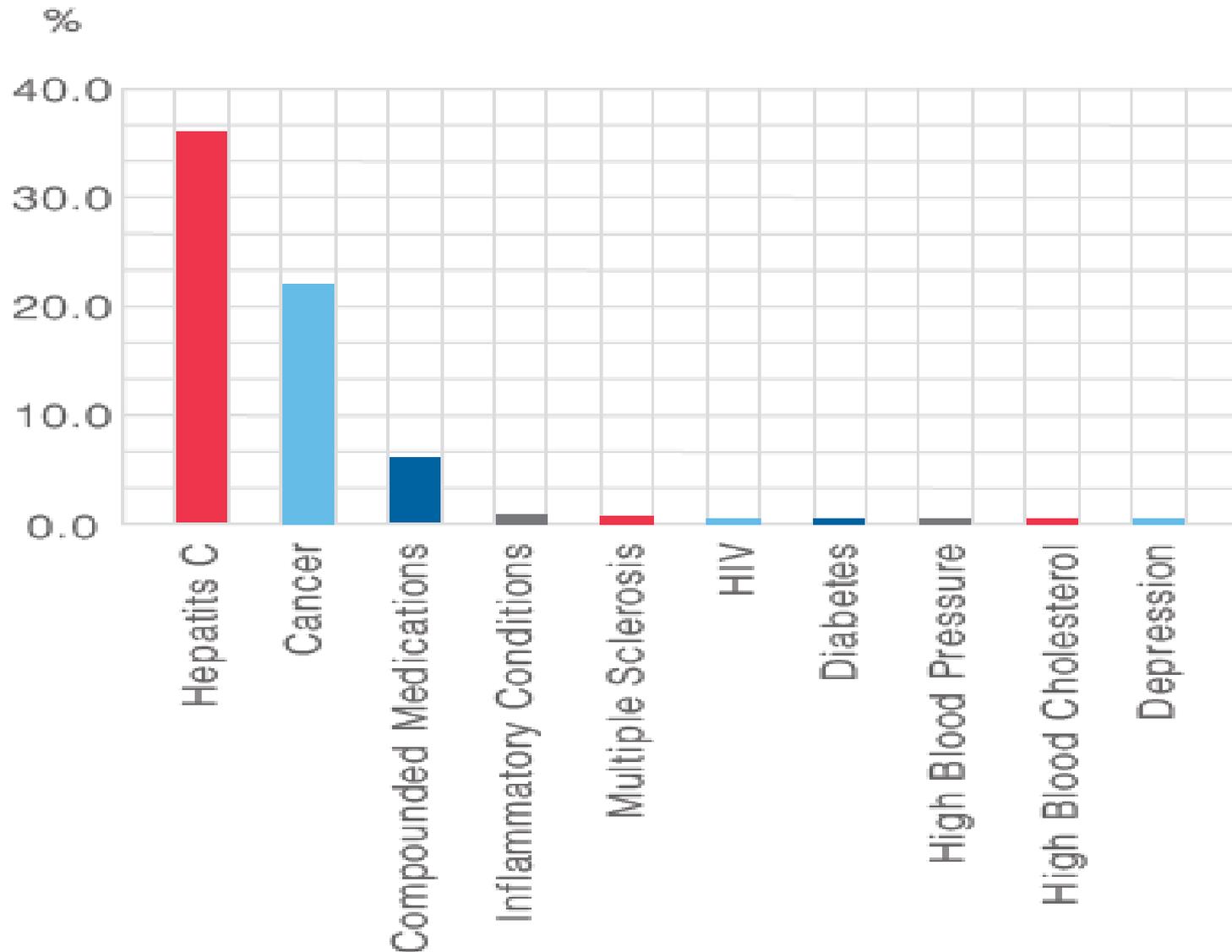


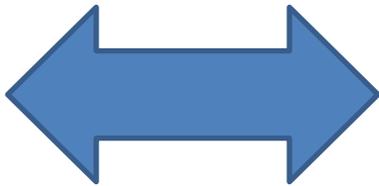
FIGURE 1: TOP 10 CONDITIONS AMONG PATIENTS WITH MORE THAN \$100,000 RX SPEND IN 2014

BY % CONTRIBUTION TO COST



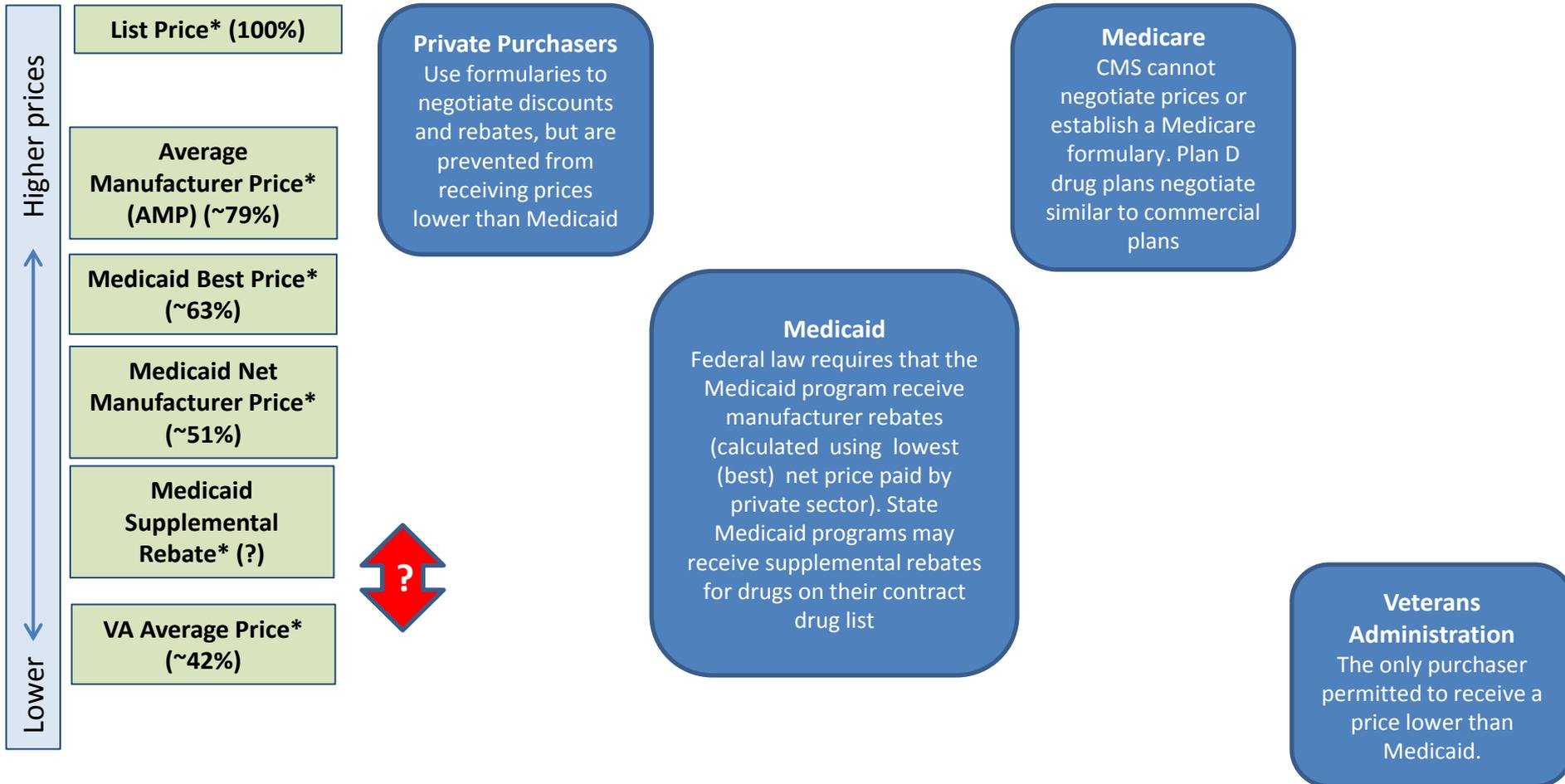
How are prices determined?

Power sources and distribution of power among purchasers/payers

- Pharmaceutical manufacturers set “List Price”
 - Patents and exclusivity rights affect price setting
 - Laws and regulations alter all the marketplace
 - Medicaid and VA wield the most power to negotiate lowest prices (federal laws and regulations)
 - Medicare and private sector are limited in negotiations via formularies
- 

A Representation of Differences in Purchasing Power Among Public and Private Entities

Pharmaceutical manufacturer sets price



*Price definitions may be found in [Prices for Brand-name Drugs Under Selected Federal Programs](#). Congressional Budget Office, June 2005.

Concluding thoughts...

- U.S. pharmaceutical prices are among the highest worldwide.
- Of particular concern are specialty drugs, which are expensive and increasing in use.
- No one (except the manufacturer) knows both what the VA pays *and* what Medi-Cal pays.

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