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REFORM

Congress of the United States
House of Representatives
Washington, DC 20515-4500

MEMO

**TO: Senate Committee on Health & Welfare
House Committee on Health Care
House Committee on Human Services**

FROM: Congressman Peter Welch

SUBJECT: The Rising Cost of Prescription Drugs

DATE: January 22, 2016

Skyrocketing drug costs have had a dramatic impact on consumers, businesses, and taxpayers, as well as on state and federal budgets.

- The Department of Vermont Health Access (DVHA) reported over \$185 million in prescription drug-related spending in FY2015, an increase of 19 percent over FY2014.
 - This spending is projected to rise to approximately \$198 million in FY2016 - a 6.6 percent increase.
 - DVHA has also experienced increased costs for so-called specialty drugs: from 9 percent of total drug spending in FY2013 to 16 percent in FY2015.
 - Vermont spent \$738 million in total on Medicaid in FY 2015.
 - One example: the cystic fibrosis drug Orkambi has an annual cost of more than \$250,000 per patient. Coverage of this drug alone is projected to increase the state Medicaid budget by more than \$3 million.
- Medicaid drug expenditures for the nation as a whole rose by 12.2 percent in 2014.
 - This spending is projected to rise by 8 percent from FY2015 to FY2016.
- Nationally, spending on prescription drugs totaled \$374 billion in 2014, an increase of 13 percent, which is more than eight times the rate of inflation.
- In 2014, a nearly 11 percent increase in Medicare's drug costs contributed to a 2.3 percent rise in per beneficiary costs.
- Prescription drug spending is now 15.9 percent of total health care spending for an average family of four.

Initial Priorities of the House Democratic Caucus Drug Pricing Task Force (Co-chaired by Rep. Doggett and Rep. Welch)

- Increasing transparency for pharmaceutical companies, by requiring them to disclose information about the true cost to develop new drugs and the prices they charge for them.
- Harnessing the purchasing power of the federal government by giving the Secretary of Health and Human Services the same authority as the Veterans Administration to negotiate lower prices for Medicare prescription drugs.
- Closing loopholes that allow brand pharmaceutical companies to prevent generic companies from acquiring the samples they need to develop less-costly alternatives.
- Promoting comparative-effectiveness research on new medications and providing the findings to consumers and drug purchasers so they can make more informed decisions.
- Encouraging the Obama administration to use its executive authority to address the issue, including issuing guidance on when a drug's extraordinarily high cost would trigger march-in rights, which would allow for the immediate development of the drug's generic alternatives.

Possible State Initiatives

There are at least three potential areas where state legislation could provide relief:

Transparency:

Increased transparency would provide policymakers and the public with crucial context regarding how drugs are priced, allowing consumers to make better-informed decisions about their purchases and aiding state price negotiations. The state could require pharmaceutical companies to disclose information on their spending, particularly on R&D and marketing; differing pricing rates, both domestically and internationally; and their profits per drug.

Since 2015, legislators in California, Massachusetts, Minnesota, New York, North Carolina, Oregon, Pennsylvania, and Texas have introduced legislation that would put in place some form of cost and price transparency for prescription drug manufactures.

Spending Limits:

As efforts to reduce drug prices are put in place, they must be paired with reforms to ensure savings are passed on to consumers. Vermont currently limits yearly out-of-pocket expenses for prescription drugs to \$1,250 per year. The state could also consider legislation to limit monthly copayments once a plan's deductible has been met, or to prohibit specialty tiers.

Informing Consumers and Physicians:

The state could consider legislation to help consumers make better-informed decisions about their health care spending. This could include a requirement that health plans provide their members with an estimate of their out-of-pocket costs for specific drugs; information on how to acquire drugs not

included in their formulary; and details on the pricing of each drug tier. Additionally, the state could require insurers to give their enrollees adequate notice before changing prices or implementing specialty tiers. Finally, the state could permit doctors to access their patients' drug coverage information through their e-prescribing systems, allowing them to discuss a drug's cost with their patient when prescribing.

California currently requires plans to provide comprehensive pricing information to consumers. Alaska requires insurers who wish to implement specialty tiers to give consumers 90-day notice.