

POLITICO Pro Healthcare Briefing
Politics and Prices: What's Next for Drug Costs?

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Welcome on behalf of CVS Health and thank you for attending this morning's timely discussion about the elephant in the room, which is that health care spending continues to grow too rapidly.

Today, health care spending makes up 18% of GDP, and if this trend continues, it will reach 20% within the next several years.

Those extra two percentage points equate to more than \$250 billion per year ... money that otherwise could be spent on other national priorities, such as education and infrastructure.

The good news is, the current trajectory of health care spending is not inevitable. But it's going to require addressing numerous cost drivers.

As a pharmacy innovation company, we are working hard every day to get patients the medications they need at the lowest possible cost.

The simple truth is that patients lose access when they can't afford their medications.

We see two relatively new dynamics in health care spending that are causing understandable concern: 1) high launch prices for branded products; and 2) price increases for older drugs.

These dynamic are exacerbated by a lack of true innovation. Over the past few years we've seen more "me-too" drugs come to market and fewer breakthrough therapies, many of these "me-too" drugs supported with heavy direct to consumer advertising and other marketing support.

Pharmacy benefit managers, have a goal of injecting real market competition to keep costs down. And we are seeing success. In 2015, the drug trend for clients of CVS Caremark was less than 5 percent. And for the first half of 2016, it's running at about 3.5 percent. In both cases, well below the published inflation rates.

This sets up important issues that we will hear the panel address today. First, how do we ensure patients have access to medications? Second, how can we be sure that the health care system is not bearing unneeded or unnecessary medications and price increases? And finally, how do we create a framework to re-accelerate bringing innovations to market?



This slide tells the current state of affairs in a powerful way. The red line shows the average year-over-year inflation percentage-point change for the list price of branded drugs.

The grey line on the bottom shows the net year-over-year inflation change for those same drugs, as a result of PBM negotiations.

The difference between these two lines is billions and billions of dollars of savings to the health care system and overall \$6 savings for every \$1 spent on PBM services.

Also, when there is product competition within a class of drugs, the free market has an extraordinary ability to lower prices.

Here's what the private sector was able to do in the high profile case of Sovaldi. As you know, this breakthrough Hepatitis C treatment was introduced in 2014, at a cost of \$84,000 for a 12-week treatment cycle.

When a competing drug with comparable therapeutic effectiveness was introduced in the market several months later and tough private-sector negotiations by PBMs occurred, the price was lopped in half.

As a result, the cost of treating Hep C patients in the U.S. last year was lower than what many government-controlled health care systems pay across the globe.

In other aspects, differences between the U.S. and European markets show more opportunity for improvement.

For instance, the drug approval process in the EU typically takes only 12 months compared to 18 months in the US.

The EU has 20 approved biosimilars, and we have 4. The first biosimilar was introduced in the EU in 2006. For the U.S.: 2015. We have much catching up to do.

Generic drugs are also a powerful tool in controlling drug costs. Eighty-five percent of the drugs dispensed by CVS Health are highly effective, less-expensive generic medications.

Generic drugs are estimated to have saved \$227 billion dollars in 2015 alone.

However, at the same time, we're seeing price increases in some older generic medications, which is concerning.



According to a report released by HHS' Office of Inspector General, prices rose faster than inflation for 22 percent of the top generic drugs reviewed between 2005 and 2014.

Now, I'm not just here to point out shortcomings, because we feel we have a role in making the system better.

Let's remember that prescription benefit management goes beyond price negotiations and can be an important tool in improving health outcomes.

Pharmacists play an essential role, driving medication adherence and closing gaps in care. All too often we tend to discuss the issue in the context of people needing more medications. But Americans taking their medications as prescribed is one of the most effective ways to fight chronic diseases like high blood pressure, diabetes and high cholesterol. In fact, it's estimated this could save over \$300 billion in unnecessary medical costs each year and save tens of thousands of lives.

Our integrated model leverages innovative clinical solutions to support patients across the continuum of care. We have shown that simplifying complex drug treatment regimens for patients, through outreach from our pharmacists, can halve the number of patients who are readmitted to the hospital —improving care and significantly lowering costs to the health care system.

We believe common-sense, market oriented reforms that promote competition will be most effective in making drugs affordable and reducing health care costs.

Let's create more competition to lower the cost of prescription drugs by increasing the flow of generics and biosimilars to the market. This is critically important.

There is currently a backlog of more than 3,000 generic drug applications awaiting approval at the FDA. Clearing out this backlog, and bringing more competition to the market needs to be a top priority. As well as promoting policies that do not delay generic and biosimilar entry.

We should also advance policies that empower pharmacists to provide patient care. They are uniquely positioned to recognize and close gaps in care that would otherwise lead to wasteful or unnecessary spending.

Thank you for being here today. I'll turn it back to Joanne.