February 5, 2018

Chair Greenlick and members of the House Health Care Committee,

I am writing to express my support for HB 4005: The Prescription Drug Price Transparency Act. I am an Associate Professor of Pharmacy in the OSU/OHSU College of Pharmacy and conduct research on prescription drug policy. The opinions expressed below are my own and do not represent either Oregon State University or Oregon Health & Science University.

The high cost of prescription drugs has become a major public policy concern. While specialty drugs for cancer, hepatitis C, and many biologic therapies for chronic conditions are the most visible representations of this problem, annual price increases exceeding 10% are common in many therapeutic areas. My own research has documented the rapid escalation in drug pricing for medications to treat multiple sclerosis (MS) (Hartung, Bourdette, Ahmed, & Whitham, 2015). Over the last 15 years, the median annual price increases for the most commonly used therapies such as Betaseron, Avonex, and Copaxone have ranged from 14% to 18% per annum (Hartung, 2017). Acquisition costs for MS disease-modifying therapies (DMTs) have roughly doubled between 2015 and 2017. As of 2018, the list price for 9 of 15 MS DMTs exceed $80,000 annually. The ultimate consequence of escalating prices for these and other drugs is an erosion of access for patients who face increased insurance company restrictions and rising out-of-pocket costs.

While the exact reasons for rising prices remains murky, the simplest explanation is that drug companies raise prices because they are profit maximizing firms seeking financial growth for their shareholders. For any particular product, the easiest way to increase revenue is through price escalation. However, unlike other consumer goods, pharmaceutical companies are unconstrained by market forces that stabilize prices for other consumer products. This fundamental dysfunction is exacerbated by the opaque and convoluted web that connects manufacturers, payers, pharmacies, wholesalers, and PBMs in the drug distribution channel. Free market forces that have brought down pricing for flat screen TVs and other consumer goods are wildly distorted, or otherwise absence for pharmaceuticals. Their absence, coupled government issued market exclusivity and abuse of the patent system, contributes to the upward spiral of pharmaceutical prices that has destabilized payers and consumers.

There is a critical need to lift the veil of secrecy on the market for prescription drugs. While transparency will not be a magic bullet to the problem, it is an essential first step in addressing out-of-control prices. Given that some estimate the pharmaceutical industry spends about twice as much on marketing as it does on research, the view that high prices are required to support robust R&D is no longer sufficient (Gagnon & Lexchin, 2008). Moreover, excessive price inflation has also been observed for drugs that have been available for decades and whose research and development costs have long since been recouped (Hartung et al., 2017; Luo, Avorn, & Kesselheim, 2015).

HB 4005 is a sensible first step towards greater clarity and accountability in pharmaceutical pricing decisions. There is broad public support for greater oversight of

prescription drug prices. This legislation is similar to laws passed in other states and has bipartisan support in Oregon. HB 4005 has several very reasonable reporting provisions when prices are increased more than 10% or more per year, which is well above typical medical CPI inflation. Most notably, companies that take a price increase over 10% in a single year are required to provide net sales, publicly supported research and development expenditures for that product, and prices set in other countries. Additionally, companies launching specialty drugs, defined as those with a price over $600 per month, would be required to report similar data. Specialty drugs are expected to account for nearly half of all drug spending by 2020. Finally, the provision requiring health insurers report drug specific expenditures will be helpful for understanding how the pharmacy benefit spending affects patient premiums.

I fully support the reporting requirements of HB 4005 which are in the public good and a step in the right direction.

Sincerely,

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