House Bill 451
House Insurance Committee
AHIP OPPOSITION TESTIMONY

Chair Brinkman, Vice Chair Lampton, Ranking Member Miranda, and members of the House Insurance Committee, my name is Keith Lake, and I am a Regional Director for State Affairs for AHIP. AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans, including to many patients, families, and employers in Ohio.

As an advocacy organization committed to market-based solutions that make access to high-quality health care affordable, I thank you for this opportunity to speak with you today, on behalf of our members, to share our opposition to House Bill 451.

We believe everyone should be able to get their prescription drugs at a cost they can afford. And we all need to work together to lower out-of-control drug prices for patients. That means advocating with pharmaceutical manufacturers for lower prices, as well as ensuring that patients are prescribed prescription drugs and therapies that are right for them. Health insurance providers stand shoulder-to-shoulder with patients, fighting for both access and affordability.

The real problem has long been – and still is – the price of drugs. As you know, this is the often case with so many of these kinds of issues that come before you.

Health insurance providers are constantly fighting to develop innovative solutions in an effort to make prescription drugs more affordable. One of these solutions is what hospitals and providers refer to as "white bag" dispensing. White bagging is simply leveraging the use of specialty pharmacies to safely distribute clinician-administered drugs – drugs which must be administered by a clinician intravenously, intramuscularly, under the skin, or via injection.

Under white bagging, health plan sponsors – such as employers, unions, retirement systems, local governments and other health plan sponsors – contract with specialty pharmacies to dispense these specialty drugs. The specialty pharmacy ships a patient's prescription directly to the provider, such as hospital, clinic, or physician's office, where it is held until the patient arrives to have the medication administered. Once this occurs, the health plan sponsor reimburses the specialty pharmacy for the ingredient cost of the drug and reimburses the provider for the drug's administration. That's all white bagging is – an alternative sourcing approach to specialty drug dispensing.

The important question is, why have so many payers turned to this approach?

Specialty drug prices are high and growing.

First, it is important to recognize that specialty drugs generally are high priced medications that treat complex, chronic, or rare conditions and can have special handling and/or administration requirements. The price of a specialty drug can range from thousands to tens of thousands of dollars per regimen and, with some drugs, even to six or seven figures. Both the number and the price of specialty drugs have rapidly increased in recent years and there are now more clinician-administered specialty drugs in

development than any other kind of drug. As a result, spending on high-cost, clinician-administered specialty drugs has emerged in recent years as one of the primary drivers of health care spending.

- Specialty drug share of net spending across institutional and retail settings has grown from 27% in 2010 to 53% in 2020.[1]
- Average annual gross spending and average total net retail spending on retail specialty drugs more than doubled from $61.1B in 2010-11 to $157.3B in 2016-17, respectively, and $49.6B in 2010-11 to $112.6 B in 2016-17, respectively.[2]
- Growth in future years will be driven by the number of newly launched drugs, which are expected to occur at higher levels than in past years, with an average of 50-55 new medications launching per year from 2021-2025.[3]

Given this, it's simply imperative that payers examine how they can best help manage these costs. Today, many health insurance customers are demanding solutions that help them manage the high and rising costs of specialty drugs. As a result, many health insurance providers leverage their specialty pharmacy networks because they are a much more cost-effective approach – one that is safe, efficient, effective, and puts patients and consumers first.

Using lower-cost specialty pharmacies saves money for patients and helps to make premiums more affordable.

Prior to the adoption of white bagging, the traditional acquisition and payment method for specialty drugs involved the provider – whether a hospital or a physician's office – purchasing them in bulk from a wholesaler and storing the drugs for later use, and payers reimbursing the provider for the ingredient cost of the drug as well as for the cost of administration to the patient.

However, in-network specialty pharmacies can provide these drugs at lower prices. Because specialty pharmacies can deliver drugs directly to a physician's office right before a patient's appointment, patients can avoid excessive markup costs that hospitals and physicians charge to buy and store specialty medications themselves. Hospital markups on specialty/clinician-administered drugs are significant. They are also well documented:

- JAMA Internal Medicine (2021): The median negotiated prices for the ten drugs studied ranged from 169% to 344% of the Medicare payment limit.[4]
- Bernstein (2021): Hospitals mark up prices on more than two dozen medications by an average of 250%.[5]
- AllianceBernstein (2019): Markups ranged on average 3-7 times more than Medicare's average sale price.[6]

[1] https://www.iqvia.com/insights/the-iqvia-institute/reports/the-use-of-medicines-in-the-us#:~:text=Specialty%20share%20of%20net%20spending,slowed%20due%20to%20patent%20expiries
[2] https://www.uspharmacist.com/article/net-spending-on-specialty-pharmaceuticals-surging
[3] https://www.iqvia.com/insights/the-iqvia-institute/reports/the-use-of-medicines-in-the-us#:~:text=Specialty%20share%20of%20net%20spending,slowed%20due%20to%20patent%20expiries
[4] https://jamanetwork.com/journals/jamainternalmedicine/article-abstract/2785833
[5] https://www.statnews.com/pharmalot/2021/01/20/hospitals-biosimilars-drug-prices/
[6] https://www.axios.com/hospital-charges-outpatient-drug-prices-markups-b0931c02-a254-4876-825f-4b53b38614a3.html

- The Morgan Company (2018). Hospitals charge patients and their health insurance more than double their acquisition costs for medicine. The markup was between 200-400% on average.[7]

Just last month, AHIP released a new study where AHIP researchers analyzed the cost of ten drugs that are stored and administered in a health care setting, such as a hospital, but could also be safely delivered through a specialty pharmacy for provider administration. The study examined data from 2018-2020 and found:

- Costs per single treatment for drugs administered in hospitals were an average of **$7,000 more** than those purchased through pharmacies. Drugs administered in physician offices were an average of **$1,400 higher**.
- Hospitals, on average, **charged double the prices** for the same drugs, compared to specialty pharmacies, and
- Prices were **22% higher in physicians' offices** for the same drugs, on average.[8]

These costs were in addition to what hospitals and physicians are paid to administer the drug to the patient.

Utilizing specialty pharmacies can – and does – protect patients, employers, and other purchasers of health care from these excessive hospital markups. With the growing pipeline of new specialty medications, skyrocketing drug list prices, and significant markups over acquisition cost by providers, it is more important than ever for health insurance providers to leverage these kinds of comprehensive cost control strategies.

Unfortunately, HB 451 will not only eliminate an important cost saving tool but will create a statutory monopoly on clinician-administered drugs to hospital-owned pharmacies – and leave patients, families, and employers exposed to out-of-control specialty drug prices and excessive markups. Instead of pursuing legislative mandates to protect their market power, hospitals that wish to prevent health insurance providers from saving patients and employers money by pursing safe alternatives to hospital-based drug administration can do so by offering these drugs to patients and employers at a reasonable cost.

The truth is, the real reason hospitals are pursuing this legislation is because they want to regain the upper hand that they've lost in contract negotiations as plans have begun to require white bagging. This will allow them to be able to charge essentially whatever they wish knowing the plan will once again have no choice but to pay their excessively marked up prices. Ultimately, though, it's the consumers that will lose because they will be the ones paying for the higher drug costs.

As I've explained, clinician-administered drugs are a leading contributor to drug spending growth. Only shared stakeholder responsibility will address the burden these rising costs put on patients and payers.

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[7] http://www.themorancompany.com/wp-content/uploads/2018/09/Hospital-Charges-Reimbursement-for-Medicines-August-2018.pdf

[8] https://www.ahip.org/news/press-releases/new-study-hospitals-charge-double-for-drugs-specialty-pharmacies-more-affordable

Health plans welcome the opportunity to come to agreements that reduce the cost of these expensive drugs for patients, enhance patient access to care, and improve the quality of care provided – without the costly interference of government contracting mandates that solely benefit hospitals over the competing interests of other health care providers.

Specialty pharmacies lower health care costs by protecting patients, families, and employers from exorbitant hospital/physician markups. Because HB 451 will undermine affordability and access to care and coverage for the people of Ohio, we urge opposition to this bill. Thank you. And thank you for the opportunity to speak to you today about the work AHIP's members plans are doing to fight for more affordable medications for the residents of Ohio and patients, families, and employers across the country.