Public Comment to
Connecticut Healthcare Cabinet

Tuesday, November 15, 2016

Paul R. Pescatello, J.D., Ph.D., Senior Counsel and Executive Director,
Connecticut Bioscience Growth Council

Connecticut Healthcare Cabinet Recommendations
Preliminarily Approved November 1, 2016

Comments for Lieutenant Governor Wyman and members of the Healthcare Cabinet.

The Connecticut Bioscience Growth Council is a committee of the Connecticut Business and Industry Association's biotech and biopharma members.

The Bioscience Growth Council was formed as a means to foster collaboration both among Connecticut biotech and biopharma companies themselves and, just as importantly, *with* our state. As you know, Connecticut's General Assembly has chosen wisely to invest in the life sciences as a means to draw high paying jobs into the state and help rebuild the Connecticut economy.

The Bioscience Growth Council appreciates the opportunity to comment on the Lieutenant Governor's Healthcare Cabinet's Recommendations (preliminarily approved November 1, 2016) and, in particular, it's *Potential Strategies to Better Control Rising Pharmaceutical Costs*. The latter document was released with materials for the November 1 meeting of the Healthcare Cabinet, though not discussed at that meeting or at today's Cabinet meeting. Nevertheless, since *Potential Strategies* will likely inform the work of the Cabinet in drafting its recommendation for the General Assembly, the Growth Council believes its observations and comments on *Potential Strategies* can be helpful to the Cabinet.

Medicine Accounts for Just 10% of Healthcare Spending

It is imperative that policy makers not lose sight of the fact that prescription medicines account for only about 10% of healthcare spending. In Connecticut, only 7.4% of Medicaid spending is for prescription medicines. This drugs-as-10%-of-each-healthcare-dollar figure has been remarkably stable for more than 50 years. If the goal is to understand and address the cost of healthcare, it is critical that the other 90%+ of healthcare spending is scrutinized with the same rigor as that applied to prescription medicines.

Many Factors Affect Medicine Pricing

What drives the cost of prescription medicines is complex – production, distribution and transportation costs, list prices, basic rebates, CPI rebates, to name only a few of the components that make up medicine pricing. Medicine pricing, however, is remarkably commonsensical. It reflects manufacturing and marketing costs but, more importantly, research and development costs and the costs of incenting investors – whether managers at large, biopharma companies or venture capitalists – to take on risky projects and fund them.

Risk and failure define new medicine research and development. It takes 10 years and $2.6 billion to bring a new medicine from laboratory insight to FDA-approved product on pharmacy shelves. Further, only 12% of new medicine candidates that make it to the costly clinical trial stage of development in fact prove themselves (in the clinical trials stage) and achieve FDA approval. Even fewer promising medicines become candidates for clinical trials. Indeed, the process of researching, testing and developing new medicines is

sometime referred to as a "cornucopia in reverse." Only about one in 10,000 well thought through concepts proceed through the R&D process to become an FDA-approved medicine. The cost of each FDA approved medicine reflects many, many worthwhile R&D efforts that nevertheless do not pan out.

Artificially Controlling Medicine Prices Will Increase Healthcare Costs

Artificially interfering/controlling prices will result in fewer new medicines and will *increase* healthcare costs. Medicine innovation works consistently to lower healthcare costs. Cardiovascular drugs – statins, which lower "bad" cholesterol, for example – replace much costlier surgeries, hospitalizations and nursing care. The breakthrough class of medicines that cure hepatitis C are often cited as costly but, in fact, their cost is a fraction of what they save the healthcare system. Malcolm Gladwell, author of *Tipping Point*, *Outliers* and other perceptive books, and no apostle for the biopharma industry, has noted that the cost of *Sovaldi* (Gilead Sciences hepatitis C cure)

> *. . . sounds like a lot of money. But hepatitis C is a costly disease. It's the leading reason for liver transplants, which are among the most expensive of all medical procedures. . . . [T]he journal Hepatology estimated the lifetime health-care costs of the average hepatitis C patient . . . at more than $200,000. The drug regimens that came before Sovaldi didn't work very well and had terrible side effects. . . Sovaldi targets a painful and costly disease with a substantially cheaper, safer and more effective one-time cure. This is what we want drug companies to do.*

The Bioscience Industry is a Pillar of Connecticut's Economic Development Strategy

Connecticut has made bioscience and therefore the biopharma industry a pillar of its economic strategy. Proposals to require disclosure of pricing-related data inevitably touch on intellectual property and other proprietary information. Given the myriad of factors that affect medicine pricing, as well as the life sciences industry's need for trust that its proprietary innovations will be respected, such proposals would interfere with new medicine development. They would have the unwanted effect of causing life sciences entrepreneurs, biopharma venture capitalists and innovative biomedical companies to look outside Connecticut to establish and/or expand operations.