March 27, 2023

Chair Stephenson & Members of the House Commerce Committee
State Office Bldg.
St. Paul, MN 55155

RE: Prescription Drug Affordability Board (HF2680, A1 Sec 2 Subd 3 (d), A2 Sec 29-34)

Chair Stephenson and Members of the House Commerce Committee:

The Biotechnology Innovation Organization (BIO) respectfully opposes HF 2680, which would create a Prescription Drug Affordability Board tasked with reviewing prescription drug costs and setting upper payment limits for specified prescription drugs. Government price controls like those proposed in this bill are an especially drastic action with unpredictable consequences. While the intent of this bill is to lower drug prices, we fear HF 2680 will fail to bring down costs for consumers or institutions and likely have long-term harmful effects on innovation and development of new, life-saving therapies.

This bill will not lower prescription drug costs for patients because it does not address out-of-pocket costs. Patients pay a given price when they visit a pharmacy based on what their health insurer determines—it is for this reason why two patients will pay a different price for the same drug. Out-of-pocket costs have been rising for patients as a result of decisions made by health insurers. HF 2680 does not address the price patients pay out-of-pocket and will therefore not directly impact patient affordability for prescription medications.

This bill also provides no clear path for lowering prescription drug costs for public or private payers or the healthcare system overall. While it tasks the board with establishing a process for setting upper payment limits for certain medications, the bill utilizes arbitrary measures for the selection of such medications and prescribes no process for setting this "limit." The price control scheme in HF 2680 is designed around the premise that prescription drug costs have ballooned out of control or are increasing at an unsustainable rate. Yet prescription drugs, including inpatient medicines, have and continue to make up about 14% of national health expenditures—both in the past and projected for the next decade.[1] And medicine spending on a per-patient-per-year basis, adjusted for inflation, grew by less than 1% between 2009 and 2018.[2]

Unfortunately, artificial price controls only serve to disincentivize biopharmaceutical companies from developing new, more effective therapies. Economists have estimated that government price controls can have a significant, damaging effect on the development pipeline. For example, one study found that an artificial 50% decrease in prices could

[1] Roehrig, Charles. *Projections of the Prescription Drug Share of National Health Expenditures Including Non-Retail*. June 2019.
[2] IVQIA Institute for Human Data Science. *Medicine Use and Spending in the U.S.: A Review of 2018 and Outlook to 2023*. May 2019.

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reduce the number of drugs in the development pipeline by as much as 24%,[3] while another study found investment in new Phase I research would fall by nearly 60%,[4] decreasing the hopes of patients who are seeking new cures and treatments.

Price controls will dampen investment and would not allow companies to adequately establish prices that will provide a return on investment. The average biopharmaceutical costs $2.6 billion to bring from research and development to market.[5] Small and mid-sized innovative, therapeutic biotechnology companies who make up most of BIO's membership are responsible for more than 72% of all "late-stage" pipeline activity.[6] They sacrifice millions of dollars, often for decades before ever turning a profit, if at all. In fact, 92% of publicly traded therapeutic biotechnology companies, and 97% of private firms, operate with no profit.[7] Out of thousands of compounds only one will receive approval. The overall probability that a drug or compound that enters clinical testing will be approved is estimated to be less than 12%.[8] Only five out of 5,000 compounds become viable marketed products. Pricing must also account for the 4,995 failures before the company discovers that successful drug compound.

Proposals such as these target the most innovative medicines, disproportionately impacting patients with diseases where there is high unmet need and where low-cost treatment options are not available (e.g. rare diseases), running counter to the aims of personalized medicine, and availability of new treatments. Further troubling, the arbitrary nature of upper payment limits ignores the value that an innovative therapy can have to an individual patient—especially one who may have no other recourse—or the societal impact innovative technologies can have, including increased productivity and decreased overall healthcare costs (e.g., due to fewer hospitalizations, surgical interventions, and physicians' office visits).

For these reasons, we respectfully urge your no vote on HF 2680. If you have any questions, please do not hesitate to contact me to discuss this further.

Sincerely,

Lilly Melander

Lilly Melander
Director, State Government Affairs
Biotechnology Innovation Organization

[3] Maloney, Michael T. and Civan, Abdulkadir. *The Effect of Price on Pharmaceutical R&D* (June 1, 2007). Available at SSRN: https://ssrn.com/abstract=995175 or http://dx.doi.org/10.2139/ssrn.995175
[4] Vernon, John A., and Thomas A. Abbott, "The Cost of US Pharmaceutical Price Reductions: A financial simulation model of R&D Decisions," *NBER Working Paper*. NBER, February 2005. https://www.nber.org/papers/w11114.pdf Accessed: April 18, 2019.
[5] DiMasi, JA, et al., Innovation in the pharmaceutical industry: New estimates of R&D costs. Journal of Health Economics. February 12, 2016.
[6] "The Changing Landscape of Research and Development: Innovation, Drivers of Change, and Evolution of Clinical Trial Productivity," IQVIA Report, April 2019.
[7] Ibid.
[8] Biopharmaceutical Research and Development, The Process Behind New Medicines. PhRMA, 2015. http://phrma-docs.phrma.org/sites/default/files/pdf/rd_brochure_022307.pdf