

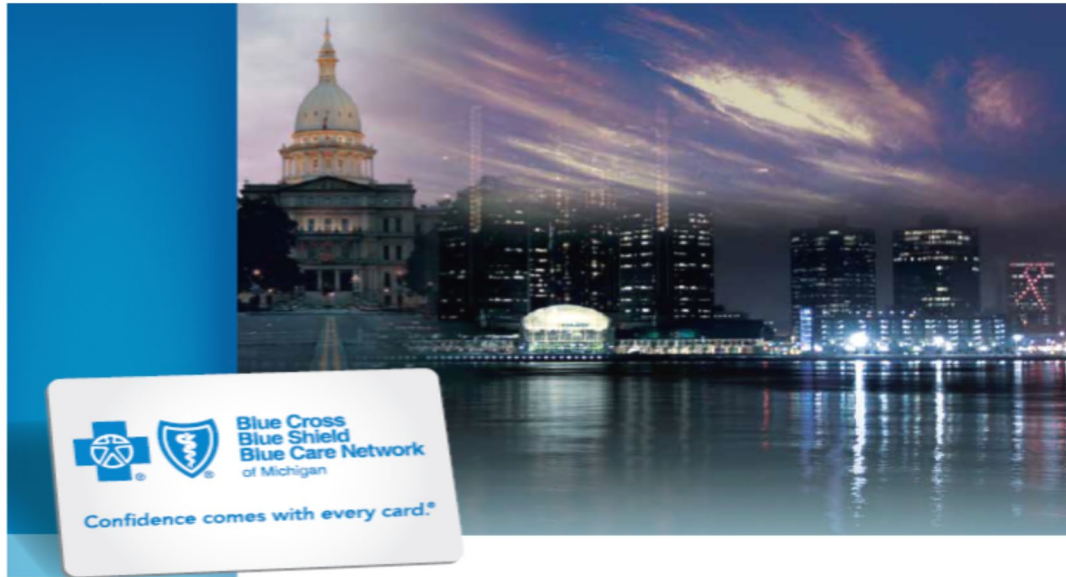
Blue Cross Blue Shield of Michigan Testimony

House Health Policy Committee
Sept. 8, 2020

Testimony from Blue Cross Blue Shield of Michigan:

- ✓ Kristen Kraft, Director, State Government Relations
- ✓ Tim Antonelli, Pharmacy Services

About Blue Cross Blue Shield of Michigan



- A **nonprofit mutual insurance** company founded in 1939
- The largest nonprofit mutual health insurer in Michigan, serving more than **6 million people nationwide**
- Headquartered in Detroit, with more than 8,100 Michigan employees across the state
- Provided more than **\$90 million in 2019** to improve health across Michigan
- Maintained **average operating margin of less than 1 percent for more than 10 years**

Nearly 100 million health care claims processed, with an average claims expense of \$72 million per day

28.7 million prescriptions processed, totaling over \$3.7 billion

Partnership with Civica Rx, a nonprofit generic drug manufacturer with a mission to ensure that essential generic medications are accessible and affordable

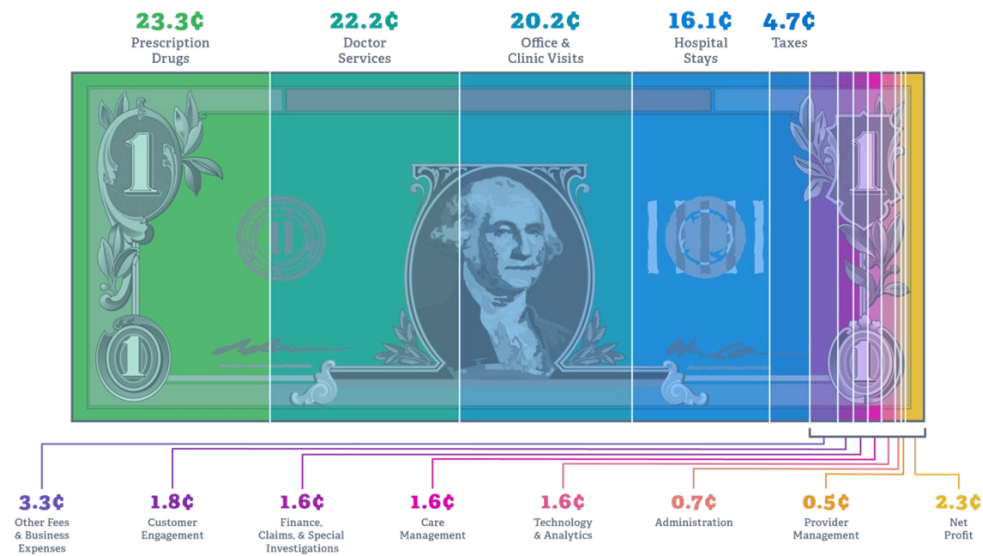
 CIVICA™

The trend in Rx cost is unsustainable

- Prescription drug costs are the fastest growing consumer health expense and will continue that path without action
- Rx costs even exceed the cost of hospital stays
- Branded and specialty drugs, which will include an influx of new and expensive and innovative drugs into the market, will drive up this trend

Our top priority is making prescription drugs available when our members need them.

Estimated national Rx expenditures, 2019-2028



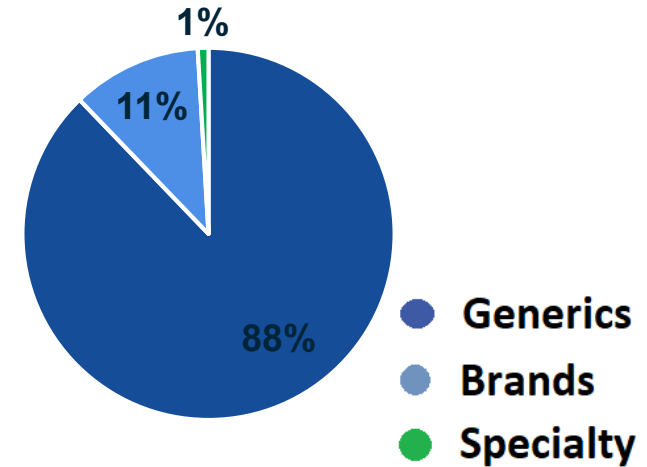
Source: CMS Office of the Actuary, "Projections of National Health Expenditures – 2020; AHIP, "Where Does Your Health Care Dollar Go?"

Blue Cross Blue Shield of Michigan is a nonprofit corporation and independent licensee of the Blue Cross and Blue Shield Association.

Blue Cross has experienced similar Rx trends

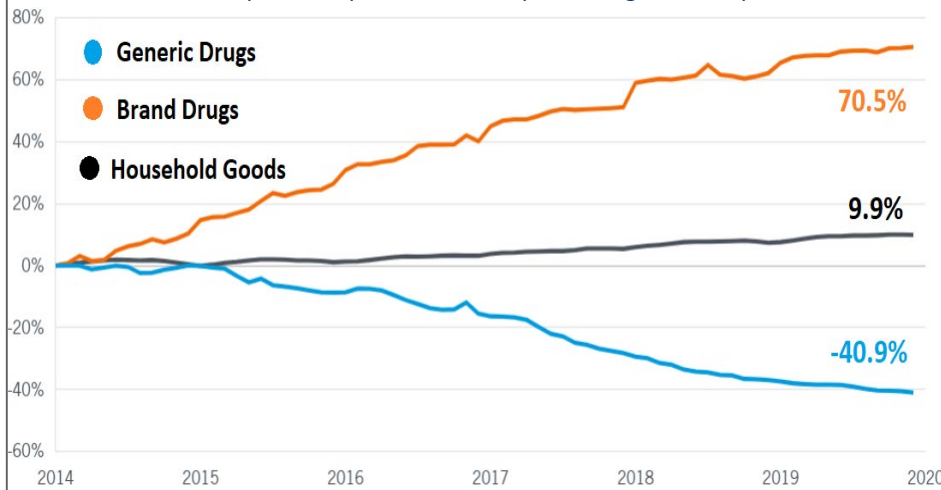
- Specialty drugs account for 1% of claims, yet 47% of all costs.
- The most commonly used brand drugs experienced a list price inflation of 70.5%.
- Without transparency, there is no way to predict how high the cost trend will be, raising health care costs for all.

% Prescription Claims

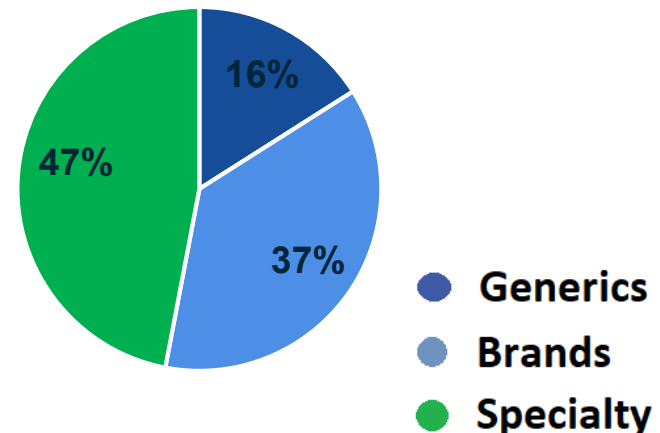


Express Scripts Prescription Drug Price Index 2014-2019

Source: Express Scripts 2019 Prescription Drug Trend Report



% Prescription Costs



Efforts to address high Rx costs



Prescription drug cost transparency

Helps identify drivers of ever-increasing drug prices



Allows pharmacists to provide cost information

Prevents gag clauses in PBM contracts and allows pharmacists to provide various cost information to patients



Limits gifts from drug makers to prescribers

Limits influence of pharmaceutical industry gifts



Limits the use of coupons when a generic option is available

Encourages the use of lower cost generic drugs

2019 10-K Example

| <i>(\$ in millions except per share amounts)</i> | 4th Q | 3rd Q ⁽¹⁾ | 2nd Q | 1st Q ⁽²⁾ |
|--|-----------|----------------------|----------|----------------------|
| 2019 ⁽³⁾ | | | | |
| Sales | \$ 11,868 | \$12,397 | \$11,760 | \$10,816 |
| Cost of sales | 3,669 | 3,990 | 3,401 | 3,052 |
| Selling, general and administrative | 2,888 | 2,589 | 2,712 | 2,425 |
| Research and development | 2,548 | 3,204 | 2,189 | 1,931 |
| Restructuring costs | 194 | 232 | 59 | 153 |
| Other (income) expense, net | (223) | 35 | 140 | 188 |
| Income before taxes | 2,792 | 2,347 | 3,259 | 3,067 |
| Net income | 2,357 | 1,901 | 2,670 | 2,915 |
| Basic earnings per common share attributable to common shareholders | \$ 0.93 | \$ 0.74 | \$ 1.04 | \$ 1.13 |
| Earnings per common share assuming dilution attributable to common shareholders | \$ 0.92 | \$ 0.74 | \$ 1.03 | \$ 1.12 |

Cost of Sales:
Gross margin was 69.9% in 2019 compared with 68.1% in 2018

Segment Profits
Pharmaceutical segment profits grew 14% in 2019 compared with 2018

VIEW MORE:

<https://www.sec.gov/edgar/search-and-access>

Condensed Interim Financial Data (Unaudited)

Manufacturer drug coupons increase costs

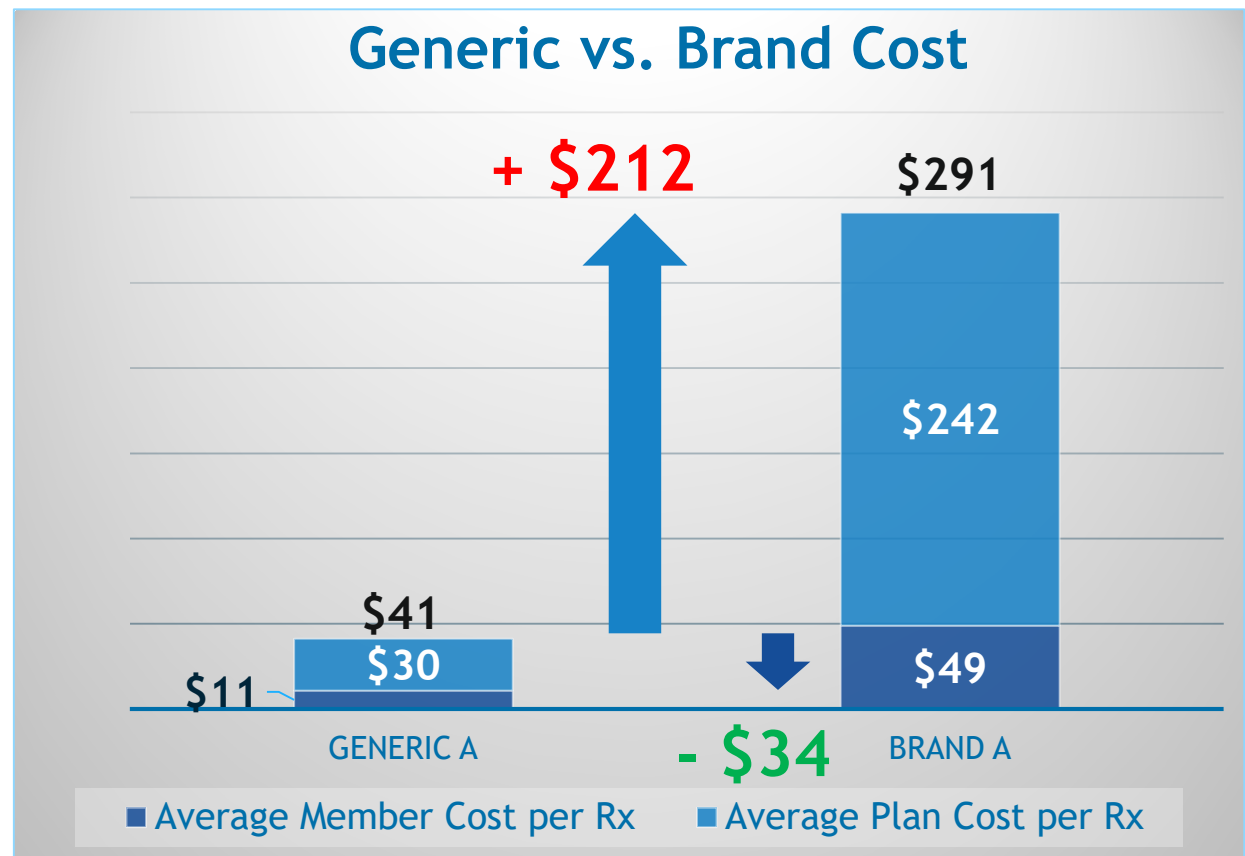
Manufacturer coupons used for brand-name drugs with generics available add unnecessary costs into the health care system.

Example:

Brand A Coupon reduces member cost from \$49 to \$15 (Down \$34)

Increases health system costs by an additional \$212

\$12 billion in coupons provided in 2019



Drug coupons benefit manufacturers while increasing costs for all



It is illegal to use coupons while on Medicare

- ✓ Considered a remuneration offered to consumers to induce the purchase of specific items²

The legislation conflicts with recent federal guidance.

Amounts paid by drug manufacturers to enrollees for Rx drugs are permitted, but not required, to be counted toward annual limitations on cost sharing .³



“We believe that the overall intent of the law was to establish annual limitations on cost sharing that reflect the actual costs that are paid by the enrollee. The proliferation of drug coupons **supports higher cost brand drugs** when generic alternatives are available which in turn supports higher drug prices and increased costs to all.”⁴

1. IQVIA Medicine Spending and Affordability in the United States, Aug. 2020.

Available online @ IQVIA.com.

2. HHS Office of Inspector General, Special Advisory Bulletin, Sept. 2014

3. 45 CFR § 156.130

4. HHS Notice of Benefit and Payment Parameters for 2020

Drug Formularies

Health plans utilize to ensure efficacy, improve outcomes and address costs

Regular review and adjustments ensure the best care



Pharmacy Benefit Managers

Help ensure broad access to prescription drugs, at lower, negotiated prices



High costs drug examples

| Drug | Cost per patient per year* |
|---------------------------|------------------------------------|
| Zolgensma™ | \$2,100,000 |
| Luxturna™ | \$850,000 |
| Exondys 51™ | \$800,000 ¹ |
| Ravicti® | \$790,000 |
| Spinraza® | \$750,000 ² |
| Brineura™ | \$702,000 |
| Soliris® | \$540,000 |
| Hemlibra® | \$500,000 |
| Kymriah Yescarta (CAR-T)® | \$373,000 – \$475,000 ³ |
| Vitrakvi® | \$393,000 |
| Cuprimine® | \$380,000 |
| Kalydeco® | \$307,000 |

*Annual cost estimates are based on wholesale acquisition cost (WAC), average dosing and rounded; Zolgensma™, Luxturna™ and CAR-T are given as one-time treatments

¹ Based on average weight; costs could exceed \$1 million per patient per year

² For first year, then \$375,000 annually

³ Yescarta and Kymriah drug costs; Total medical costs could exceed \$1 million

Questions?

Additional information for your reference regarding the high cost of prescription drugs.

- **Slide 13 and 14:** Strategies utilized by manufacturers to prevent competition in the market
- **Slide 15:** Unexplained price increase examples
- **Slide 16:** International pricing comparisons
- **Slide 17:** Existing transparency requirements

Manufacturer strategies to prevent competition

Patents

Exclusivity

Sovereign Immunity

Pay for Delay

REMS*

Citizen Petitions**

Patents and exclusivity PhRMA reports that on average it takes 10 years and \$2.6 billion to bring a new drug to market

Analysis of the twelve best selling drugs in the U.S. in 2017 revealed the following:

- Averaged 71 patents issued
- Averaged 15 years on the market
- Average list prices increased 68% since 2012

Top 12 grossing drugs of 2017

| | AVG/DRUG | TOTAL | RANGE |
|-------------------------------|----------|-------|-----------|
| NUMBER OF PATENT APPLICATIONS | 125 | 1498 | 48-247 |
| PATENTS ISSUED | 71 | 848 | 27-132 |
| PRICE CHANGE SINCE 2012 | +68% | N/A | -58%-163% |
| YEARS BLOCKING COMPETITION | 38 | 456 | 31-48 |
| YEARS ON THE U.S. MARKET | 15 | 176 | 6-21 |

AbbVie HUMIRA

CONDITION(S) TREATED **Arthritis**

NUMBER OF PATENT APPLICATIONS **247**

NUMBER OF PATENTS ISSUED **132**

PRICE CHANGE SINCE 2012 **+144%**

YEARS BLOCKING COMPETITION **39**

ON THE U.S. MARKET SINCE **2002**

Amgen ENBREL

CONDITION(S) TREATED **Arthritis**

NUMBER OF PATENT APPLICATIONS **57**

NUMBER OF PATENTS ISSUED **41**

PRICE CHANGE SINCE 2012 **+155%**

YEARS BLOCKING COMPETITION **39**

ON THE U.S. MARKET SINCE **1998**

Pfizer LYRICA

CONDITION(S) TREATED **Pain**

NUMBER OF PATENT APPLICATIONS **118**

NUMBER OF PATENTS ISSUED **68**

PRICE CHANGE SINCE 2012 **+163%**

YEARS BLOCKING COMPETITION **32**

ON THE U.S. MARKET SINCE **2004**

Johnson&Johnson XARELTO

CONDITION(S) TREATED **Blood Clots**

NUMBER OF PATENT APPLICATIONS **49**

NUMBER OF PATENTS ISSUED **30**

PRICE CHANGE SINCE 2012 **+87%**

YEARS BLOCKING COMPETITION **31**

ON THE U.S. MARKET SINCE **2011**

Manufacturer strategies to prevent competition

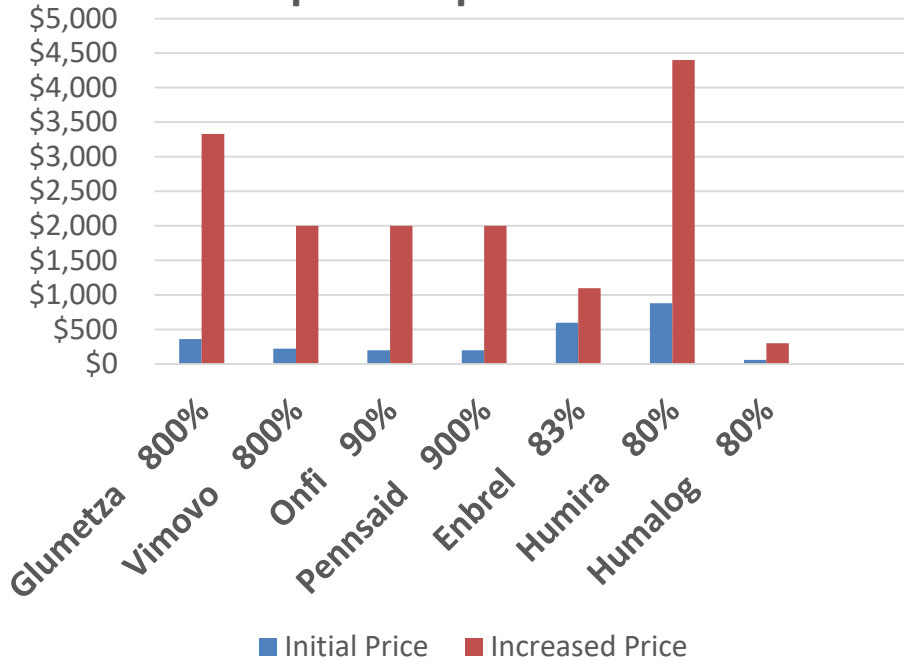
| Patents | Exclusivity | Sovereign Immunity | Pay for Delay | REMS* | Citizen Petitions** |
|--|-------------|--|---|--|---------------------|
| <h3>Sovereign Immunity</h3> <ul style="list-style-type: none"> • Allergen transferred patents for Restasis to the St. Regis Mohawk Tribe in 2017 • St. Regis Mohawk Tribe exclusively licensed the rights back to Allergan • Intent was to invoke sovereign immunity to dismiss patent challenges filed by generic makers | | <h3>Pay for Delay</h3> <ul style="list-style-type: none"> • Settlements between brand and generic drug makers to delay generic competition • Supreme Court affirmed that settlements where brand manufacturers pay generics to settle patent litigation and delay entering the market could have “significant anticompetitive effects” and violate the antitrust laws (<i>Actavis vs FTC 2013</i>) | <h3>REMS*</h3> <ul style="list-style-type: none"> • Intended to help ensure that new drug benefits outweigh their risks • Brand manufacturers have used REMS to block potential generic applicants from accessing product samples needed to create a generic or biosimilar • FDA publishes a list of manufacturers potentially blocking samples (<i>Current list published 2/7/19</i>) | <h3>Citizen Petitions**</h3> <ul style="list-style-type: none"> • Intended to allow citizens to raise concerns on FDA policy • Brand manufacturers have used to raise frivolous/questionable claims to prevent competition • Roughly 40% filed a year or less before generic approval • FDA denies the requested action for approximately 80% of petitions filed by drug companies | |

* Risk Evaluation and Mitigation Strategy (REMS)

** Feldman R, A Citizen’s Pathway Gone Astray — Delaying Competition from Generic Drugs, N Engl J Med. 2017 Apr 20;376(16):1499-1501. doi: 10.1056/NEJMp1700202. Epub 2017 Mar 1

Prescription drug pricing is unpredictable

Unexplained price increases



AG Nessel joins coalition filing third complaint into antitrust, price-fixing investigation of generic drug industry, WLUC, 6/10/2020

No end in sight to rising drug prices, study finds, NBC News, 5/31/19

Drug prices in 2019 are surging, with hikes at 5 times inflation CBS News July 1, 2019

Drug price hikes are back for 2020, Axios, January 6, 2020

FDA approves a generic version of the drug Martin Shkreli monopolized

Damian Garde

February 28, 2020

The Food and Drug Administration on Friday approved a generic version of Daraprim, the anti-infective treatment made famous when Martin Shkreli's company raised its price by more than 5,000%.

The approval means Shkreli's company, now called Phoenixus, will no longer have a monopoly on Daraprim, which lost patent protection years ago. Cerovene, a U.S. generics company, will market an identical product.

International price comparisons

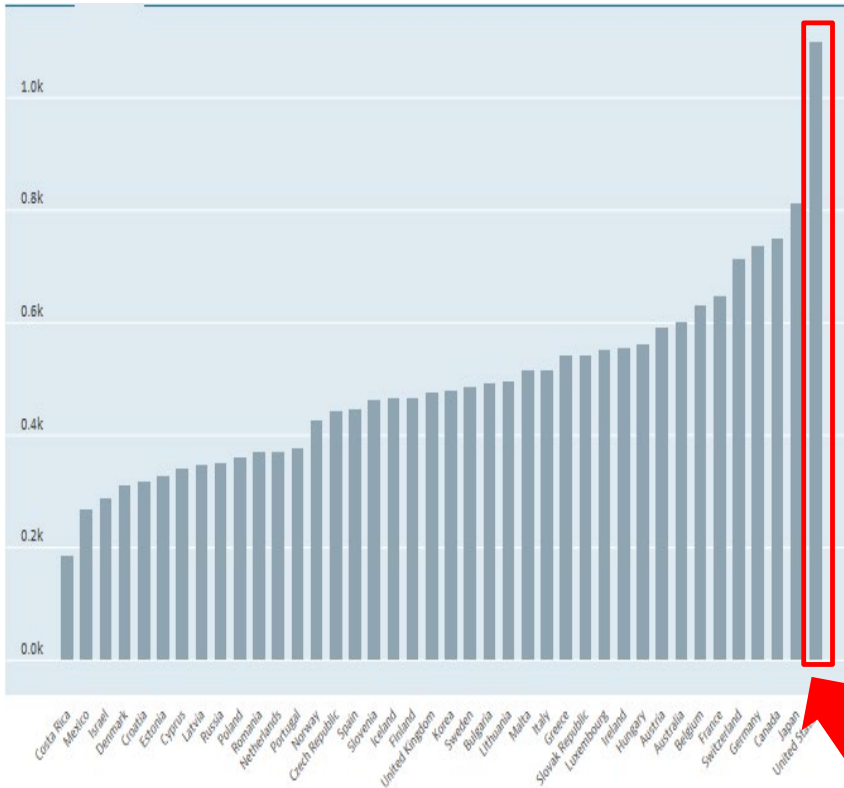


Exhibit 10: Global Invoice Spending and Growth in Selected Countries

| | 2019 SPENDING US\$BN | 2014-2019 CAGR | 2024 SPENDING US\$BN | 2020-2024 CAGR |
|--------------------------|----------------------|----------------|----------------------|----------------|
| Global | 1,250.4 | 4.7% | 1570-1600 | 3-6% |
| Developed | 821.6 | 3.8% | 985-1015 | 2-5% |
| United States | 510.3 | 4.3% | 605-635 | 3-6% |
| Japan | 87 | -0.2% | 88-98 | -3-0% |
| EUS | 173.7 | 4.0% | 210-240 | 3-6% |
| Germany | 52.1 | 4.9% | 65-75 | 4-7% |
| France | 34.9 | 1.6% | 38-42 | 0-3% |
| Italy | 33.5 | 5.1% | 41-45 | 3-6% |
| United Kingdom | 28.7 | 4.5% | 37-41 | 4-7% |
| Spain | 24.5 | 4.0% | 30-34 | 3-6% |
| Canada | 22.5 | 4.6% | 26-30 | 4-7% |
| South Korea | 16.1 | 7.3% | 21-25 | 5-8% |
| Australia | 12.1 | 3.5% | 13-17 | 3-6% |
| Pharmerging | 357.7 | 7.0% | 475-505 | 5-8% |
| China | 141.6 | 6.7% | 165-195 | 5-8% |
| Tier 2 | 71.2 | 9.4% | 90-120 | 7-10% |
| Brazil | 33.6 | 9.9% | 45-49 | 6-9% |
| India | 22 | 9.5% | 31-35 | 8-11% |
| Russian Federation | 15.6 | 8.4% | 23-27 | 8-11% |
| Tier 3 | 145.1 | 6.2% | 195-225 | 5-8% |
| Rest of the World | 71 | 4.8% | 85-95 | 2-5% |

Source: IQVIA Market Prognosis, Sep 2019; IQVIA Institute, Dec 2019
 Notes: Spending in US\$Bn, CAGR = Compound Annual Growth Rate using Constant US\$ with Q2 2019 exchange rates

U.S. spending significantly outpaces other countries.

Sources:

- IQVIA Institute, Global Medicine Spending and Usage Trends, March 2020
- Organization for Economic Co-operation and Development (OECD) [report](#)

Current transparency and financial requirements

Health Plans Drug Companies

- Profit Caps (Medical Loss Ratio)
- Rate Approval - State Regulators
- Rate Approval - Federal Regulators
- Publicly filed price justification
- Reasonable price justification
- GAAP Accounting practices
- Maximum out-of-pocket cap
- Coverage Requirement Transparency
- Formulary Benchmark
- Product Exclusivity Protected
- Unaccountable price increases

