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July 11, 2017

Senator James T. Welch, Senate Chair  
Representative Jeffrey Sánchez, House Chair  
Members of the Joint Committee on Health Care Financing  
State House  
Boston, MA 01133

**RE: Testimony on Senate bill 652, *An Act to promote transparency and cost control of pharmaceutical drug prices* and Senate bill 627, *An Act to promote transparency in prescription drug prices***

Dear Chairman Welch, Chairman Sánchez and Members,

Associated Industries of Massachusetts (AIM) wishes to raise a number of concerns relative to **Senate bill 652** and **Senate bill 627** regarding the state's potential regulation of pharmaceutical drug costs in general.

Since the implementation of universal health care in Massachusetts and the Affordable Care Act nationally, our 4,000 employer members statewide have been concerned over the ever-increasing cost of health insurance. Massachusetts employers already lead the nation in providing health care coverage to employees, with 65% of Massachusetts employers offering health insurance coverage to their employees compared with 56% of employers nationwide.<sup>1</sup> This rate is even higher for Massachusetts employers with 200 or more employees – 98% – who employ over 70% of our Commonwealth's workforce.

Massachusetts employers and consumers already pay the highest health insurance premiums in the country. Businesses in particular struggle to manage rising costs with virtually no control over the prices handed to them by insurers. In 2015, over 57% of Massachusetts' insured residents received their coverage via their employers.<sup>2</sup> Even with such a large percentage of employers actively participating in the health insurance system, their individual market power to contain costs is limited.

According to data released by the Executive Office of Health and Human Services, small group premiums increased over 15% from 2013 to 2017. Each year, small employers are bracing for health insurance premium increases ranging anywhere from 10 to 30%. The 2016 Cost Trends Report indicated that prescription drug spending continues to grow more rapidly than any other commercial category of service. Massachusetts' inability to meet our annual cost trend benchmark in health care

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<sup>1</sup> Source: 2016 Employer Survey by the Center for Health Information and Analysis.

<sup>2</sup> Source: 2015 Massachusetts Health Insurance Survey by the Center for Health Information and Analysis

spending is incredibly unsustainable in the long-term; and the consistent increase in prescription drug costs is untenable.

Our members acknowledge the need for effective and well-managed regulation that ensures the health and welfare of society without weakening the financial underpinnings of the job market. The cost of expensive care and services, like high-priced pharmaceuticals, particularly affects the premiums of small employers and their workers, who have no market power to negotiate rates. Large employers, who typically self-insure, have more bargaining power to negotiate for lower-cost health care coverage, but rarely have the opportunity to negotiate their prescription drug coverage. Some pharmacy benefit management (PBM) plans will modify formularies for large employers. Small employers typically cannot self-insure and must bear the costs with limited recourse, placing employees at these companies at a financial disadvantage compared to their counterparts at large employers.

However, the bills under consideration – Senate bill 652 and Senate bill 627 – raise a number of concerns as to the Commonwealth’s proper and effective role in regulating prescription drugs. We would like to raise the following questions and ask respectfully that the Committee consider the ramifications of these questions as they continue to deliberate on this complex matter:

**Federal Jurisdiction**

- What limitations exist on the ability of the Commonwealth to regulate the cost of prescription drugs? Would price caps implemented by the state conflict with existing federal law?

**Data Concerns/Innovation**

- How can we balance the need to collect relevant data with protecting confidential and competitive information?
- How can we balance support for our innovative economy while ensuring employers and their workers have fair, competitive access to cost-effective, vital care in their health plan options?
- What is the most effective way to measure the true cost of a medical service like prescription drugs?

**Cost-Containment**

- How can we ensure that decreased prescription drug costs are passed on to consumers through decreased premiums and/or out-of-pocket costs?

We know definitively that Massachusetts must set an aggressive target for controlling health-care costs. The Massachusetts health care market is already moving to restructure itself to relieve some of the financial pressure on consumers and employers. But more needs to be done – and soon – to ensure quality and affordable care is available across the Commonwealth. AIM believes that the appropriate role of government should be to establish reasonable cost and quality targets and to monitor the market’s progress in achieving them, allowing the market to innovate and adapt along the way.

Five years after a major push toward health care cost containment, businesses have little to show in the way of cost savings and efficiencies. We know it is possible to slow the rate of growth in health care costs; but we also know that we must remain vigilant to ensure that cost growth reflects necessary and efficient changes in the market. It is possible for the market to respond to government pressure and changes in consumer behavior. We believe that, in this instance, the threat of government action will be the impetus for change in the market.

Our Commonwealth stands at a pivotal time in the health care cost containment and has the opportunity to establish an environment that will result in sustainable and meaningful changes to the health care market for health care consumers.

Thank you for taking AIM's position into consideration as you address this important and challenging issue. We look forward to working with you to develop a solution and bring positive change to our Commonwealth. Should you have any questions please feel free to contact me directly at 617-262-1180.

Sincerely,

A handwritten signature in cursive script that reads "Katherine E. Holahan".

Katherine E. Holahan  
Vice-President of Government Affairs  
Associated Industries of Massachusetts