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Cost of Medical Innovation Stresses Insurers

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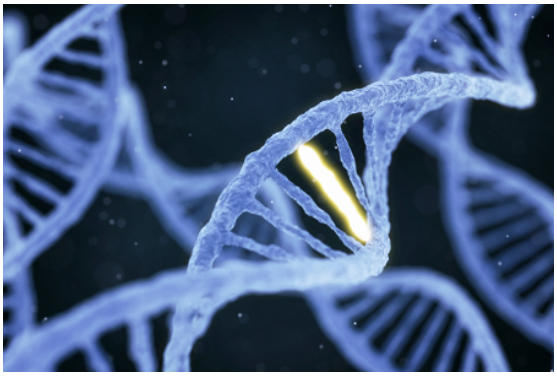

Advances in medicine to treat once-incurable diseases offer new hope to millions of people around the world. But the high cost of developing this new era of personalized medicine and genetically engineered treatments, combined with the often startling efficacy of their outcomes, is fundamentally changing market dynamics for Big Pharma, and forcing insurers to reassess their practices.

Treatment of Hepatitis C is a good example. Five years ago, there was no effective cure for the estimated 2.7 to 3.9 million people in America who suffer from chronic Hepatitis C, which is a long-lasting liver infection. When the drug sofosbuvir, sold as Solvadi won FDA approval and hit the market in 2013, it gave a profoundly better option to patients who were doomed to an otherwise bleak prognosis. In pill form, not only was sofosbuvir easier to administer than other injection treatments on the market, but it was fast and *completely effective*. In most cases, the drug cured patients in 90 days. It was life-changing.

The only hitch – it cost $84,000 for a three-month course of treatment, or roughly $1,000 per pill. Today three pharmaceutical companies manufacture the drug, which has driven down costs a little, but it still represents an extraordinary new cost for health plans.

Drugs like sofosbuvir are miracles of modern science. However, these types of innovations are creating new financial and ethical challenges for both pharmaceutical companies and insurers who have profits top of mind.

Market Dynamics

From a market perspective, the simple problem is that drugs that cure diseases are less profitable than the maintenance drugs that manage life-long, chronic conditions like diabetes, or high cholesterol. When people need to keep buying the same drug over and over, drug companies make money. If you can cure a disease, you effectively wipe out the market for it.

The same is true of vaccines. Many are effective and saves millions of lives, but they're not profitable, and consequently, there's little incentive for drug companies to manufacture them. Vaccines are also difficult

to insure.

Profitability Is Front and Center

The emerging fiscal challenge of the pharmaceutical dynamic looks like this: ensure that new treatments that cure diseases are sufficiently expensive in order to recoup costs and deliver profits, while keeping chronic disease treatments reasonably priced because the market, and ongoing revenue, is stable.

Insurers and plan sponsors struggle with the lack of predictability that the rapid pace of drug development inflicts on their financial model. While the market will ultimately take the costs of new treatments into account and spread the expense over large populations, the short term volatility of high-cost new treatments can be difficult to manage.

Some sectors of the pharma industry have focused their attention on rare diseases. For them, it is more profitable to go after 10,000 patients worldwide with a specific type of retinal degeneration and charge $800,000 for the treatment than to compete with generic drug prices for common conditions.

Given the prevalence of the disease, cancer treatments are also a better candidate for drug companies focusing on profitability. Although the goal is to find cures, mutations in the way that cancers arise seem to ensure an ongoing market.

Historically patients relied on their physicians to prescribe appropriate medications to treat their conditions. Today it's hard to escape the direct-to-consumer promotions. The advertisements exaggerate the benefits of the drug and may give patients false hope. Clinical trials showed that Opdivo, which are advertised for a particular type of lung cancer, can extend life for 90 days. And herein lies another ethical debate. Should we be adding a burden to an already financially stressed health care system to give a patient an extra 90 to 100 days of life?

With the leaps being made in genetics, a whole new set of questions will soon be raised. What will happen when practitioners are able to detect a disease in utero *and perform genetic surgery on the fetus*? Genome surgery is a burgeoning field of medicine that promises such a scenario. Will insurance carriers be responsible for coverage?

With the rapid advances we're seeing in medicine, the insurance industry faces some difficult questions. The process for evaluating the efficacy of new treatments and the payment structure for these drugs may need to be rethought. We are entering a new era where the costs of some drugs may be spread out over several years and continued payment will be based on results.

Want to learn more?

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