Insurers, Academics Protest High-Cost Drugs, Propose Solutions

Allowing Medicare to negotiate drug prices seen as useful step

- **by Shannon Firth**
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WASHINGTON -- Insurers and academics berated pharmaceutical companies for jacking up drug prices and suggested ways to alleviate the problem at the America's Health Insurance Plans National Health Policy Conference on Wednesday.

The U.S. spent $457 billion on prescription drugs in 2015, according to the Centers for Medicare & Medicaid Services. Many experts say it's not so much the absolute amount but the rate of increase, 12% from 2013 to 2014, that worries them.

Much of the growth is due to a shift in prescribing higher cost drugs and price increases on existing drugs.

Diane Holder, president of UPMC Insurance Services Division in Pittsburgh, spoke of a friend and colleague who has hepatitis C but is not covered for expensive new curative treatments such as Sovaldi or Viekira Pak. The friend told Holder she was considering mortgaging her house to pay for drugs out-of-pocket.

Holder said she thought to herself, "It's just wrong ... there's a cure" for the disease.

Another insurance executive, John Bennett, MD, president and CEO of Capital District Physicians' Health Plan in Albany, N.Y., said the problem with healthcare today isn't overutilization but the unit cost of needed medications, particularly specialty drugs.

"If we told you now that in your town there was one supplier of electricity and gas and water and that supplier was allowed to charge you whatever they want, would there not be mass chaos, riots in the streets?

He continued, "Why aren't we angry that our grandparents can't get their arthritis drugs without spending their life savings?"

Len Nichols, PhD, a professor of health policy at George Mason University, in Fairfax, Va., said the root of the problem is that the drug market is out of balance, because of America's resistance to regulation.

But he said, "We don't have a free market in drugs."

He continued, "By construction, we made monopolies for the purpose of encouraging innovation," alluding to patents on innovator drugs. "Maybe you want to think about changing the rules, so that the rules serve market forces better."

Nichols critiqued strategies presented by Democratic candidates Hillary Clinton and Bernie Sanders. These have included requiring manufacturers to:

- Meet a set spending ratio between research and development versus marketing
- Explain how they set their prices and the U.S. tax credits they receive
- Make public their transaction prices and profits from overseas

Nichols argued that trying to calculate what drugmakers spend on research is a "fool's errand" that would be unfair and accomplish little besides employing lawyers and accountants. He also noted that pharma companies need profits on current drugs to fund future innovation.

"You do not want to kill all cash flow," he said. "What matters is how are they setting a price today based upon today's market conditions and anticipating conditions in the future and what kind of cash flow does that generate today," he told *MedPage Today*.

Nichols also dismissed as unworkable such proposals as capping out-of-pocket costs, setting price controls, and allowing drug imports from other countries.

Other ideas may be more practical, he suggested. Using reference prices and relative efficacy information to determine a price -- something European governments do -- could be a solution.

He also noted that Clinton, Sanders, and Republican front-runner Donald Trump have favored requiring Medicare to negotiate drug prices to a degree -- in Part B, Part D, or both.

Nichols said, "Allowing Medicare to negotiate gives you some power and that would give you [insurers] power to negotiate on the back-end ... Medicare can't say 'no,' now. That's a problem when they can charge you a hundred thousand bucks an episode to extend a life for two weeks."

Another solution could be to tie marketing exclusivity to the launch price level of a drug. He outlined his solution in a recent policy brief.

"You pick a price that's too high, you don't get the exclusivity. You only get the exclusivity protection that extends past the patent if you price it reasonably."

The key, he said, is picking a price that is reasonable enough to allow capital to continue to feed the market and spur innovation.