Medical Xpress

Alternative way to pay for expensive drugs may be needed, analysis says

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In an era of $1,000-a-pill medications, a new approach may be needed to finance an emerging breed of highly expensive pharmaceuticals and vaccines, according to a new RAND Corporation analysis.

In other industries, it is common for suppliers to encourage investment through approaches such as equipment leases or supplier-financed credit. Health care could learn from such approaches, according to Dr. Soeren Mattke, lead author of the analysis and a senior scientist at RAND, a nonprofit research organization.

Instead of paying upfront for the cost of a treatment—$20 billion to vaccinate Brazil's 203 million people against dengue fever, for example—a health system could issue debt instruments to the manufacturer. Those instruments could be structured as bonds, as mortgages or as lines of credit. Terms and interest rates would vary.

It's not unprecedented, even in the healthcare industry, researchers say. When hospitals need expensive equipment, they might lease it, or the supplier might offer a financial arrangement to help with the upfront cost.

"So it's not far-fetched for pharmaceutical companies to offer payers financial arrangements to ease some of the up-front costs," said Mattke, the managing director of RAND Health Advisory Services.

New approaches to pay for health care may be needed as the

pharmaceutical industry has turned its attention to specialty breakthrough drugs.

"Pharmaceutical companies are focusing on highly targeted medicines to treat rarer conditions and smaller numbers of patients," said Mattke. And when the drug offers a cure, the companies must make their investment pay off over a shorter period of time.

"In order to get to a blockbuster, drug companies may need to charge $100,000 per course of treatment and give a medication to 10,000 people," said Mattke. "In this scenario, you have a drug that is highly effective, a good value for the money, and yet you have payers saying that they cannot afford it because of the front-loaded nature of the cost."

One drug that captures the tension between immediate budget concerns and the long-term value of treatment is Sovaldi, a drug made by Gilead Scientific that cures hepatitis C in 95 percent of patients, albeit at $1,000 per pill, or $84,000 for a typical course of treatment in the United States.

The short-term impact on healthcare budgets can put this cure out of reach. Express Scripts, a pharmacy benefits manager, estimates that prescription drug spending on hepatitis C will increase 1,800 percent by 2017.

But Sovaldi might pay for itself in, say, 10 years in savings from reduced hospital stays and liver transplant costs. "So stretch those payments over the time period in which the savings would materialize," Mattke said.

There are caveats to such financial schemes, write Mattke and co-author Emily Hoch. For example, companies would have to show that real-world outcomes were as good as clinical trial results in order to receive full payment.

If the drug or vaccine didn't work as well as promised, repayment would be lowered accordingly. A neutral third party would need to design and evaluate the payment arrangement and evaluate the effectiveness on a real-world sample of patients.

Such financial arrangements could work well in countries with national health systems or at least stable insurance coverage. They would be more difficult in the United States, where patients change health plans often.

"It's possible, in theory, in the United States if you have a transfer mechanism," Mattke said. "If I get cleared from hepatitis C from one insurer, the debt would have to travel with me to my next insurer." The authors are currently working on a paper to explore options for how a long-term repayment system could operate in the United States.

More information: The perspective, "Borrowing for the Cure: Debt Financing of Breakthrough Treatments," is available at www.rand.org

Provided by RAND Corporation

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