The Cost of Medicines in Context

Council of State Governments
September 22, 2015

Leslie Wood, Deputy Vice President, State Advocacy
HIV/AIDS: Then & Now

**Then:** 1980's

**HIV/AIDS Patients Were Suffering and Dying**

In the early years of the AIDS epidemic before ART was available, the median survival after an AIDS diagnosis was measured in weeks to months and patient care was confined to diagnosing and treating a complex array of opportunistic infections and AIDS-related types of cancer.

**The New York Times**

September 15, 1989

**AIDS Treatment Costs Put at $5 Billion a Year**

“We have got to get our act together now because the medical system is going to be crushed in two years”

Daniel Hoth
Director of the Division of AIDS
National Institute for Allergy and Infectious Diseases

**The Washington Post**

June 13, 1988

**The Big Deal about AIDS**

Public health experts estimate the AIDS deal will reach total annual costs of $66.5 billion by 1991—a figure that could bankrupt our health care system.

**Now**

**Ongoing Innovation Has Brought Down the Death Rate By 83%. Lives Are Dramatically Longer and Better**

In stark contrast to the early and mid-1980s, if a person aged 20 years is newly infected with HIV today and guideline recommended therapy is initiated, researchers can predict by using mathematical modeling that this person will live at least an additional 50 years—that is, a close-to-normal life expectancy.

**Remember HIV?... thanks to a wave of new discoveries that came both from academic centers and the pharmaceutical industry, the HIV crisis was transformed into a stable condition which is managed very differently by society where good drugs are available. They are controlling the disease, and society has been saving an enormous amount of money as a result of these innovative drugs by providing better care out of hospitals.**

Hervé Hoppennot
CEO, Incyte

**We used to think HIV costs would overwhelm us....but we figured it out and let drug development progress.**

Ira Klein, M.D.
M.B.A., FACP, Aetna
Cystic Fibrosis
New treatments targeting both the symptoms and root cause of the disease have contributed to improvements in quality of life for patients as well as increases in life expectancy.

HIV/AIDS
In the last 2 decades, advances in treatment have contributed to a nearly 85% decline in death rates and transformed the disease from an acute, fatal illness to a chronic condition.

Cancer
New therapies have contributed to a nearly 22% decline in cancer deaths since the 1990s. Today, 2 out of 3 people diagnosed with cancer survive at least 5 years.

Rheumatoid Arthritis (RA)
Therapeutic advances have transformed the RA treatment paradigm over the last 20 years, shifting from a focus on symptom management to now aiming for slowed disease progression and even disease remission.

Medicines Are Transforming the Treatment of Many Diseases
Medicines offer great hope, but developing new treatments and cures is challenging.

On average, it takes more than 10 years and more than $2.6B to research and develop a new medicine.

**Between 1998 and 2014**

**Unsuccessful Attempts**
- 123 Alzheimer’s Disease
- 96 Melanoma
- 167 Lung Cancer

**Successful Attempts**
- 4 Alzheimer’s Disease
- 7 Melanoma
- 10 Lung Cancer

Just 12% of drug candidates that enter clinical testing are approved for use by patients.

*Source: Tufts Center for the Study of Drug Development (CSDD)
**Source: PhRMA
Curbing Health Care Costs

If all non-adherent patients with diabetes were to become adherent, 341,000 hospitalizations and 699,000 emergency room visits could be avoided annually, resulting in nearly $5 billion of medical savings.

As more hepatitis C patients receive the newest generation of medicines with cure rates of more than 90%, we can expect to see a decline in the cost of treating patients.

Average health care costs for a patient battling liver cancer: $112K per year.
Average cost for a patient who may need a liver transplant: $500K.

The need for continued development of new treatments is critical.

In the fight against Alzheimer’s disease, a new medicine that delays the onset of the disease by five years would save $367 billion in health services.
Retail Spending on Prescription Medicines Is a Small Share of Health Care Spending

US Health Care Spending

Health Care Dollar, 2014

Prescription Drugs $0.09

Other* $0.23

Hospital Care $0.32

Physician and Clinical Services $0.20

Government Admin. & Net Cost of Private Insurance $0.07

Home Health and Nursing Care $0.08

US Medicaid Spending

Medicaid Spending, 2013

Hospital Care, 36.4%

Professional Services, 13.9%

Other Health, Residential and Personal Care, 18.4%

Nursing Facilities, 10.4%

Administration Costs, 8.6%

Home Health, 6.5%

Brand Prescription Drugs, 3.3%

Generic Prescription Drugs, 1.4%

Durable Medical Equipment, 1.1%
Medicaid Rebates on Prescription Medicines Increase Substantially Under ACA

Independent analysts estimate the expansion of Medicaid prescription drug rebates in the Affordable Care Act could increase brand manufacturers’ costs by more than $40 billion over 10 years (2012-2021).  

Note: Graphic is Illustrative only.

Sources: PwC Health Research Institute; Medicaid.gov

- Base rebate increased from 15.1% to 23.1%
- Medicaid rebate extended to Managed Care Organizations (MCOs)
- Medicaid eligibility expands
- AMP definitional changes cause further rebate increase
Medicines are Part of the Solution...
AND MORE CAN BE DONE TOGETHER

**COST CONTAINMENT**
Look at all health care costs, reduce administrative costs and waste, replicate effective cost-containment practices.

**PAY FOR VALUE**
Support evidence-based care and empowered patients and providers, backed by sound research and strong quality measures.

**SOLUTIONS**
Avoid blanket policies that chill investment, and collaborate to find new approaches.

[www.phrma.org/cost](http://www.phrma.org/cost)
At the same time, the biopharmaceutical industry works with patients to HELP PATIENTS ACCESS NEEDED MEDICINES

Despite more Americans having insurance, barriers to accessing needed medicines still exist, underscoring the importance of platforms such as The Partnership for Prescription Assistance (PPA), to educate and empower patients and caregivers to obtain information about their prescription assistance options.

www.pparx.org

Since the program’s launch in April 2005, PPA has connected nearly 9.5 million uninsured or underinsured Americans to public and private assistance programs.
CASE STUDY
Manufacturer-payer hepatitis C negotiations

What Payers Claimed Would Happen

“What they have done with this particular drug will break the country…. It will make pharmacy benefits no longer sustainable. Companies just aren’t going to be able to handle paying for this drug.”

—EXPRESS SCRIPTS (APRIL 2014)

“This pricing, which Gilead attempts to justify as the cost of medical advancement, will have a tsunami effect across our entire health care system.”

—AMERICA’S HEALTH INSURANCE PLANS (JULY 2014)

What Actually Happened

“The price is sufficiently low that we can go to our clients and say that they can treat every patient with hepatitis C.”

—EXPRESS SCRIPTS (JANUARY 2015)

“We are receiving market-leading rates from both companies. Neither company wanted to be left off the formulary.”

—PRIME THERAPEUTICS (JANUARY 2015)

“Competitive market forces and hard-nosed bargaining” make ‘tremendously effective’ new hepatitis C medicines not just more accessible to ailing patients – but also offer good value to the U.S. health care system.”

—THE NEW YORK TIMES EDITORIAL BOARD (SEPTEMBER 2015)
### THEN & NOW

How Prescription Drug Prices Fall Significantly Over Time

<table>
<thead>
<tr>
<th>MEDICINE</th>
<th>BRAND NAME THEN</th>
<th>VS</th>
<th>GENERIC NOW</th>
<th>% CHANGE</th>
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<tbody>
<tr>
<td>DIOVAN HCT*</td>
<td>2010</td>
<td>$87</td>
<td>$13</td>
<td>-85%</td>
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<td>Hypertension</td>
<td></td>
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<tr>
<td>LIPITOR®</td>
<td>2010</td>
<td>$85</td>
<td>$4</td>
<td>-95%</td>
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<tr>
<td>Cholesterol</td>
<td></td>
<td></td>
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<tr>
<td>PLAVIX®</td>
<td>2011</td>
<td>$166</td>
<td>$5</td>
<td>-97%</td>
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<tr>
<td>Blood Thinner</td>
<td></td>
<td></td>
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<tr>
<td>SEROQUEL®</td>
<td>2010</td>
<td>$87</td>
<td>$3</td>
<td>-97%</td>
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<tr>
<td>Schizophrenia</td>
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<tr>
<td>ZYPREXA®</td>
<td>2010</td>
<td>$393</td>
<td>$8</td>
<td>-98%</td>
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<td>Schizophrenia &amp; Bipolar Disorder</td>
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Biopharmaceutical companies invest in pioneering research to bring new treatments to patients, and over time those medicines become available as lower-cost generic copies.

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*Figures represent the average annual price for 30 pills of the most commonly dispensed form and strength. “Then” price represents the average price in the year prior to generic entry. “Now” price represents the average price in CY 2014. Source: IMS analysis for PhRMA, May 2015*