



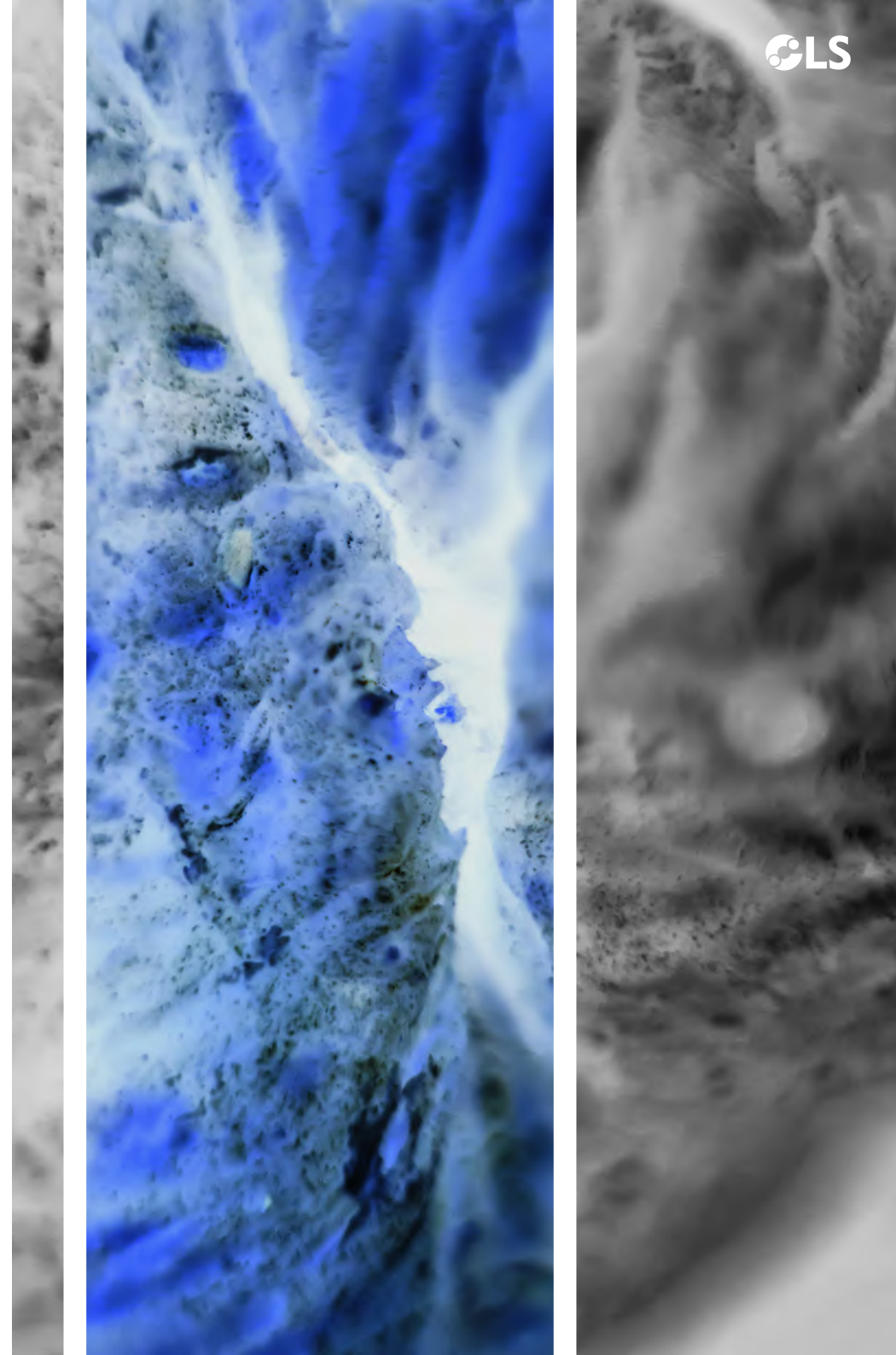
Insight: Footing the bill - How the life sciences industry is reacting to the latest Medicare reforms

#clsinsights



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Executive Summary



The US government is pushing a proposal through the Senate outlining legislation which would progressively cap the cost the US population pays for medicine.

The new laws being passed would give greater power to Medicare and support from the Administration to negotiate the price point for medicines – which has generated significant opposition from pharma lobbyists.



There are more than 1.2 million adults in the US paying more than \$2,000 annually for their medication – with advocacy groups citing it has taken nearly two decades to reach this point.

Pharmaceutical executives have pushed back saying that the cap on costs will have a negative impact on innovation and investment towards R&D, which is a far greater consequence compared to the suggested benefits.



Broad consensus from industry experts that this is a false flag aimed towards political points-scoring.

Pending mid-term elections in the US mean that many consider the announcement a vote-generating ploy for Democrats, and as such it is unlikely to have much real-world impact in reducing market prices for medicine in the US.





Recent developments in the US draws the disparities between different funding models into vivid clarity.

Introduction

In this latest insight article, Compass Life Sciences examine the Medicare bill currently passing through the US Senate, and its impact on patient access to medicine and healthcare in America.

Patient access to medicine and healthcare is one of the key drivers across the life sciences sector; if those needing care, diagnosis, and treatment are not able to access the medical interventions to benefit them, ultimately what is the point of advancing medicine and investing in new therapeutics and diagnostics by the pharmaceutical and broader life sciences sector?

Writing this from the UK, we are in a hugely fortunate position to benefit from a healthcare system that is free at the point of access via the NHS, which has been supporting the UK population for approaching 75 years. However, this publicly funded healthcare system is not universal around the globe, and hearing news about recent developments in the US draws the disparities between different funding models into vivid clarity.

Proposed price cap - and the reaction

A new bill is being passed through the US Senate, despite significant opposition from pharma lobbying groups, which is being hailed as a major victory for the US government over the pharma industry by passing legislation that will progressively cap the price the US population will have to pay for medicines.

The new laws when passed will give Medicare greater power and support from the administration, to negotiate the price point of treatments, initially what appears to be limited in scope and impact relating to only 10 drugs that are both established and that have no competition, in effect allowing Medicare to set the price of these drugs from 2026. Also, the impact will be limited to patients over the age of 65 years old.



If passed, the bill would have a **detrimental effect** on the ability of the industry to be able to invest in R&D and to **develop new medicines.**

The Reaction

Naturally, there are diametrically opposing views from each side of the agreement, with patient advocacy groups citing industry analysis showing that over 1.2 million adults in the US are paying more than \$2,000 per year for their medicines¹. AARP, an advocacy group that took on the sector and who pushed for significant pricing reforms has assessed the passing of this as “historic”.

CEO of AARP, Jo Ann Jenkins has said that *“We have been working for nearly two decades to allow Medicare to negotiate the price it pays for medicine. This bill will save Medicare hundreds of billions of dollars and give seniors peace of mind knowing there is an annual limit on what they must pay out-of-pocket for medications”*.

The impact of this and the potential advancement of such a precedence naturally has been highlighted by a number of Executives from top Pharmaceutical companies². With the likes of Bristol Myers Squibb CEO Giovanni Caforio and Novartis CEO Vas Narasimhan have amongst others, joined the discussion recognising the benefits for patients, yet potentially negatively impacting innovation and investment into the development of new research, J&J CEO Joaquin Duato went further to say:

“Medicare price setting will have a chilling effect in innovation that will be translated in less new medicines for patients. If passed, the bill would have a detrimental effect on the ability of the industry to be able to invest in R&D and to develop new medicines.”

¹ Cubanski, J., Neuman, T., and Damico, A., *Potential Savings for Medicare Part D Enrollees Under Proposals to Add a Hard Cap on Out-of-Pocket Spending* (September, 2021), URL: <https://www.kff.org/medicare/issue-brief/potential-savings-for-medicare-part-d-enrollees-under-proposals-to-add-a-hard-cap-on-out-of-pocket-spending/>

² Sagonowky, E., *Negotiations? AbbVie CEO says current Senate proposal brings “price controls” instead*, (August 2022), URL: <https://www.fiercepharma.com/pharma/negotiations-abbvie-ceo-says-current-medicare-proposal-brings-price-controls-instead>

Examining the implications

It is difficult to assess how far ranging these pieces of legislation will be, and ultimately the impact it will have on the opportunity the pharmaceutical sector has to generate revenue from the US market.

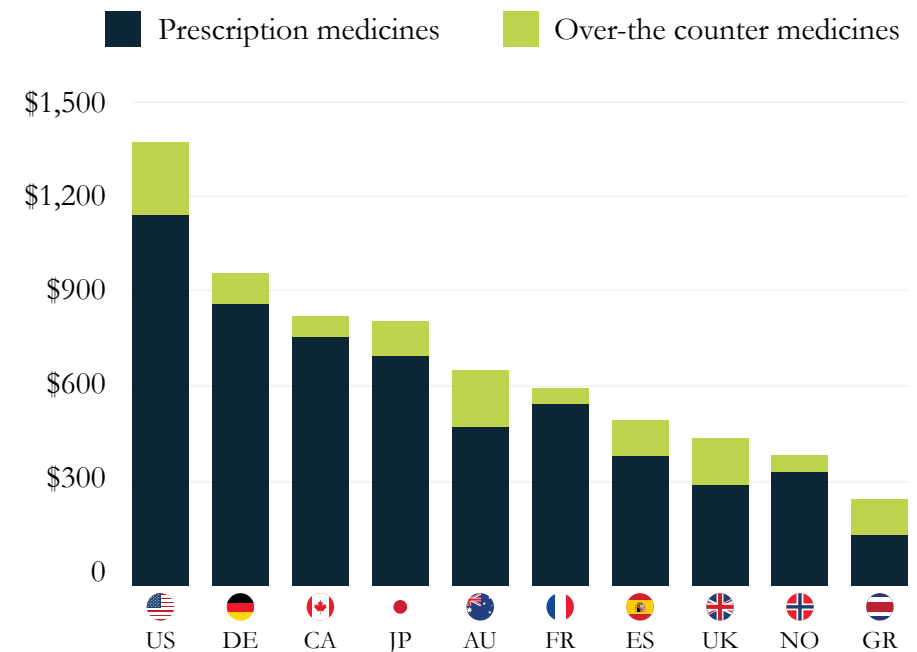
The US, as a population pay more than any of the other OECD³ countries and as the following chart shows, demonstrates that the cost of both prescription drugs and OTC medicine is heavily born by the consumer. This is reflective of the insurer driven market and absence of state governed and financed healthcare systems, however it will be interesting to see what the impact will be on the broader patient population.

The policy itself is limited in scope and as such you could argue that whilst the targeted demographic of over 65s will be both more heavily reliant on frequent and ongoing medication for increasing chronic disease, this leaves a significant proportion of the population not protected by these pending caps. Could this drive up the price for treatment for the rest of the population, where typically illness that requires long term treatments are more severe and/or expensive to medicate?

A less cynical thought would be that with the increasing efficiency of the development of modern medicine, better utilization of personalized healthcare, and better access to medicine, this will force further innovation that looks more critically at cost-benefit analysis.

Americans Spend Much More on Pharmaceuticals

Per-capita expenditure on pharmaceuticals in selected OECD countries in 2019*



*Or latest available. Adjusted for purchasing power parity Source: OECD

Source: Statista⁴

³OECD iLibrary, *Pharmaceutical Expenditure*, URL: <https://www.oecd-ilibrary.org/sites/ae3016b9-en/1/3/9/1/index.html?itemId=/content/publication/ae3016b9-en&csp=ca413da5d44587bc56446341952c275e&itemIGO=oecd&itemContentType=book>

⁴Buchholz, K., *Statista: Americans Spend Much More on Pharmaceuticals*, (August, 2022), URL: <https://www.statista.com/chart/3967/which-countries-pay-the-most-for-medicinal-drugs/>

“Any time that government institutions have tried to influence pricing and policy decisions on access to healthcare, there has always been significant resistance from the pharmaceutical sector.”

David Jolley, EVP & Country Head at Compass Life Sciences, commented:

“Any time that government institutions have tried to influence pricing and policy decisions on access to healthcare, there has always been significant resistance from the pharmaceutical sector. Given the huge investments made by pharma to develop innovative medicines, there is naturally going to be a significant push back when legislation is proposed that would limit revenue generation.

From speaking with several experts within my network across the US and Europe, there is broad consensus that this policy may be more of a false flag to generate votes for the Democrats ahead of pending mid-term elections, and as such, are likely to have very little real-world impact on reducing market prices of drugs in the US.

Reducing the price of existing drugs, will inevitably result in the increase in price of new drugs, coupled with the overall burden of this cost increase falling on insurers and as such their policy holders to supplement Medicare packages.”

Conclusion

At time of writing, the full information on this package has not been released into the public domain⁵ so therefore pharma companies and analysts are only able to go off of the available details.

Analysts were waiting to see whether the Senate parliamentarian supported this bill. However, they are currently in the middle of their recess period, so the process may be playing out over the span of several weeks and months. We will be watching closely for further updates on how this develops and effects the life sciences industry.

⁵Ibid



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