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ON HEALTH CARE

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States experiment with innovative purchasing models

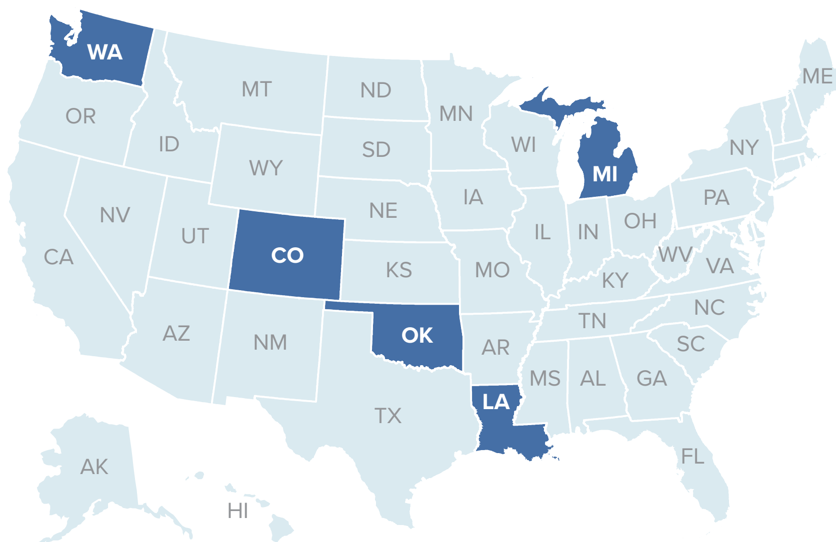
In late June, CMS approved a plan by the state of Louisiana to purchase Hepatitis C drug therapies through its Medicaid program using a "subscription-style" contract.

Under the arrangement, the state will pay drugmaker Gilead Sciences up to $35 million dollars annually — approximately the same amount the state paid for Hepatitis C drugs in fiscal 2018 — in exchange for an unlimited supply of the treatment over a five-year period. The state will then seek to treat its entire infected Medicaid-eligible population.

According to CMS, Louisiana is the fifth state to obtain approval for this type of value-based purchasing arrangement — an agreement with a manufacturer to obtain a product outside of the normal pricing scheme, usually over a specific period of time, for a specific population or according to a particular benchmark for success.

In November 2018, Sen. Bill Cassidy (R-La.) coauthored an article in the Journal of the American Medical Association proposing a subscription-style drug contract to purchase Hepatitis C medication for all infected individuals regardless of Medicaid eligibility. Under Cassidy's proposal, the contract would be awarded using an auction-style bidding system, and the winning drugmaker would receive bonus payments for treatment milestones.

States with CMS approved value-based supplemental rebate arrangements



Proponents argue treating more patients immediately will reduce long-term costs

According to the Louisiana Department of Health, 73,000 state residents suffer from Hepatitis C, including 39,000 eligible for care through Medicaid or the state Department of Corrections.

However, due in part to annual budget constraints, only a fraction of those eligible received treatment in 2018, with priority given to those whose livers were already damaged by the virus.

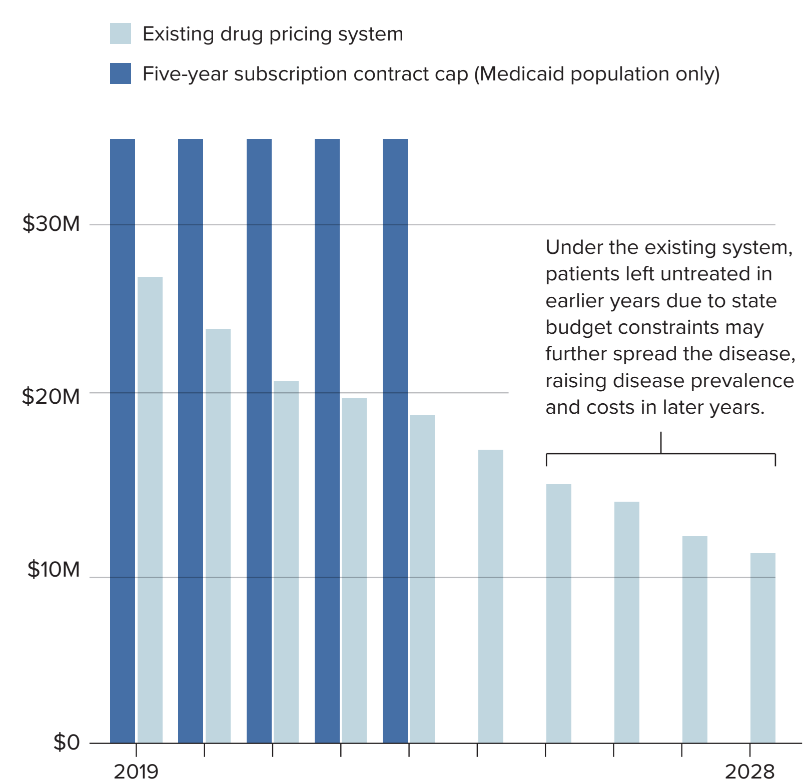
Newly invented treatments can effectively cure the disease in the vast majority of cases. However, individuals who are not cured in a given year may infect others, increasing the future prevalence of Hepatitis C. Therefore, from a medical perspective as well as from a long-term budget perspective, the optimal way to treat the disease is to eliminate it as quickly and thoroughly as possible across the entire infected population.

According to Cassidy, while drugmakers may prefer to reap larger revenues by selling the drugs at current high prices over an extended period of time, a subscription-style state program could entice drugmakers with market access. If the contract is put up for bidding in an auction-style process, drugmakers are less likely to sit out the auction if it would mean losing market share to a rival.

To take advantage of this dynamic, Cassidy argues that a subscription-style contract should include private payers as well. In addition to raising the stakes for market exclusivity, this would also enable the state to target the entire infected population, including those with private insurance.

Estimated annual cost of Hep C treatment in Louisiana

Projections of anti-HCV regimen sales revenues for Gilead Pharmaceuticals



Note: Massachussets has a similar value-based arrangement using bundled hospital payments

Sources: CMS; Mark Trusheim, Bill Cassidy and Peter Bach, "Alternative state-level financing for Hepatitis C treatment - the 'Netflix Model,'" JAMA; Memorial Sloan Kettering Drug Pricing Lab; Health Affairs

By Tucker Doherty, POLITICO Pro DataPoint