



By David Leo, President of WMI® Mutual Insurance Company & WMI TPA®

# BIG PHARMA'S R&D Line is a TOTAL CROCK!

*In case you missed it*, a couple months ago our friends at the Food and Drug Administration (“FDA”) approved the most expensive prescription drug ever. The drug is called Zolgensma, and it’s manufactured by the Swiss drugmaker Novartis. The medicine is used to treat an inherited rare and usually fatal disorder in babies called spinal muscular atrophy, a horrendous disease that destroys muscle control. An amazing medical and genetic advancement to be sure. The only problem is the cost ... a whopping \$2.1 million per course of treatment!

Yep, you read that right. The price for this drug to treat one disease-stricken child is more than 35 times the annual median household income in the United States! ~ G A S P! ~ Before you fall off your chair in disbelief, rest assured that Novartis is not just in it for the money. In fact, as a sign of their noble goodwill and altruism, they are

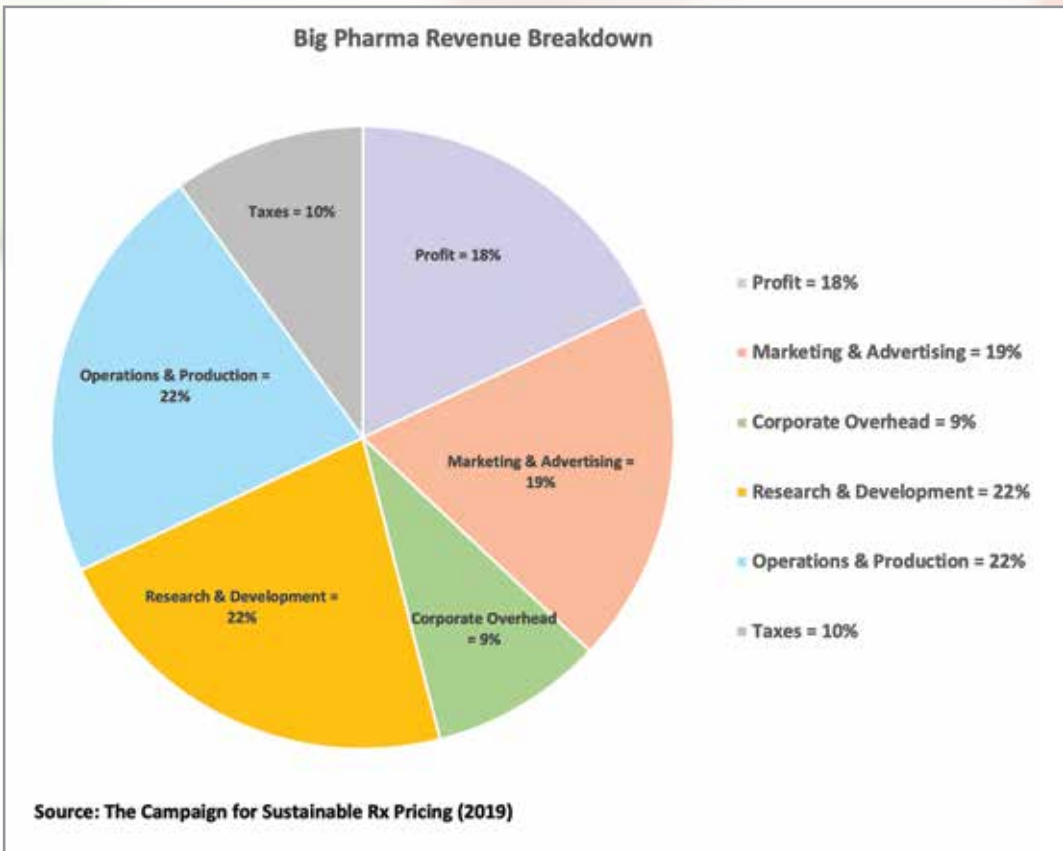
willing to allow insurance companies to pay that \$2.1 million price tag over a five-year period in \$425,000 installments ... and they are even willing to give a partial rebate if the treatment doesn’t work. Phew ... for a minute there, I thought they were money-grubbing opportunists!

For the time being, Novartis has earned the honor of selling the most expensive prescription drug in history, but that doesn’t mean they are as much the outlier as you may think. There are several prescription drugs that cost hundreds of thousands of dollars per year (e.g., Spinraza, Luxterna and Myalept), and there are a multitude of prescription drugs that cost tens of thousands of dollars per year. Medications that cost as much as a new luxury car (each year) include drugs like Avonex and Tysabri for MS; Harvoni and Sovaldi for hepatitis C; Enbrel for rheumatoid arthritis; and my personal favorite, HP Acthar

Gel, which has been around since 1952 and is used to treat infantile spasms. The reason HP Acthar Gel is my favorite is because in 2001, a vial of the drug cost about \$40. It now costs more than \$40,000 per vial, due in large part to an overnight spike (and I mean “overnight”) in 2007 from \$1,650 to more than \$23,000 when it was granted preferential orphan drug designation by the FDA.

According to a new study by The Campaign for Sustainable Rx Pricing, the average American spends \$1,200 per year out-of-pocket while the large

Graph 1

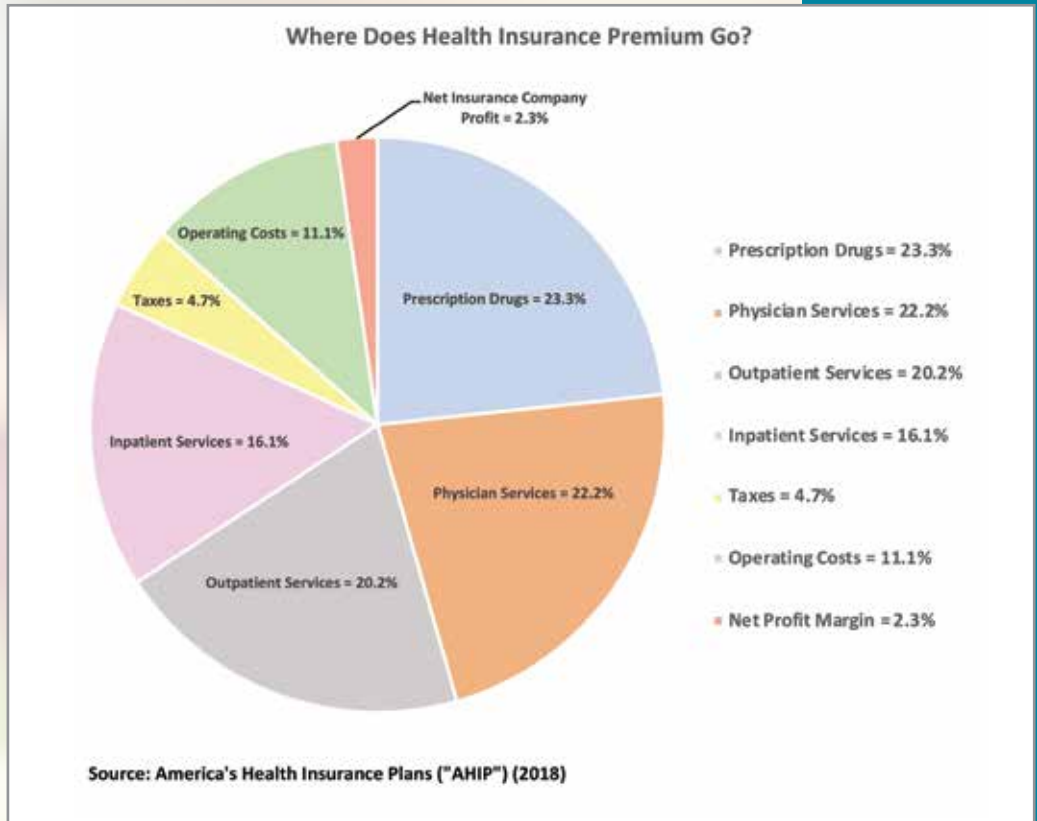


pharmaceutical companies (collectively referred to as “Big Pharma”) rake in record profits and \$245 billion in annual revenue. As justification for the astronomical cost of prescription drugs, pharmaceutical manufacturers often argue the obscene prices are necessary to offset the money they spend on research and development (“R&D”), but the facts show that R&D makes up only 22% of Big Pharma’s spending and they spend more than twice as much on advertising (19%), profit (18%) and corporate overhead (9%)!

See Graph 1 (source: [www.csrxp.org](http://www.csrxp.org)).

For an interesting and detailed comparison of Big Pharma’s take compared to health insurer profitability, take a moment to review Graph 2 that shows where your health insurance dollar goes. Despite the fact that pretty much everyone hates health insurance companies because they (unfairly and erroneously) believe we are rolling in piles of gold, a quick look at the graphic below compiled from data collected by America’s Health Insurance Plans (“AHIP”) will show we really aren’t as bad as people think. By way of summary, health insurance companies spend 81.8% of premium dollars on medical services and prescription drugs, 15.8% on operating costs and taxes, and (if we’re lucky), we earn a mere 2.3% profit. Compare that to the 19% advertising spend and 18% profit earned by Big Pharma, and you might just reach the conclusion that drug companies are charging a bit too much for their critically necessary product and are making just a bit too much profit!

See Graph 2 (source: [www.ahip.org](http://www.ahip.org)).



To be fair, I’m not suggesting that pharmaceutical companies don’t play an inimitable role in health care or that their products haven’t saved hundreds of millions of lives around the globe. I’m simply saying there’s a social responsibility that comes with the power to save or dramatically improve the quality of a human life, and that moral and ethical responsibility must yield to the almighty dollar. Charging tens of thousands ... er ... hundreds of thousands of dollars year-after-year for a medication to treat a chronic health condition is loathsome and indefensible to me, especially when nearly half of the cost goes to profit, marketing, advertising and corporate overhead!

I like to think of myself as a rational capitalist who advocates the basic principles of supply and demand; however, when demand is inelastic and supply is protected by government laws and regulations, it’s hard not to advocate for socialist intervention and ... dare I say ... price control.

## Graph 2

**If you have questions about this article** or would like to discuss your company’s health insurance program, feel free to contact me at **(801) 263-8000** or **[info@wmimutual.com](mailto:info@wmimutual.com)**.