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If This Doesn't Make Your Blood Boil, You Are Not Paying Attention!

In case you missed it, the US Food and Drug Administration (“FDA”) recently approved the world’s most expensive drug. It’s a gene therapy called Hemgenix, and it’s administered by IV infusion as a treatment for adults with hemophilia B, a disease that affects about 1 in 40,000 people or about 15% of people with hemophilia.

Hemgenix is manufactured by biotech company CSL Behring, and it costs a whopping \$3.5 million per dose! Let me say that again ... this drug, which is a single treatment for a single person who has a life-threatening condition, costs \$3,500,000 per dose! For perspective, that is the equivalent of an entire year’s worth of groceries for 718 people (according to cost estimates from the US Department of Agriculture)! In what world is that sustainable or acceptable?!?

For those who are not familiar with hemophilia B, it is a hereditary bleeding disorder that is caused by a lack of blood clotting factor IX. Without enough factor IX, blood cannot clot properly to control bleeding (MedlinePlus.gov). Needless to say, hemophilia is a very serious life-threatening disease. It is usually treated by injecting clotting factor concentrates into a person’s vein to replace the missing clotting factor so blood can clot properly (CDC.gov). Without clotting factor, a person can die.

It’s hard to argue with the pharmacological value of a life-saving drug like Hemgenix, but quite frankly, there are a lot of life-saving treatments and pharmaceutical drugs that are every bit as amazing as this drug but cost a fraction of the price. Take for example the common drug insulin, a pharmaceutical preparation of human protein hormone that according to the American Diabetes Association treats high blood glucose in more than 8 million Americans. Without insulin, diabetics would suffer a multitude of problems and ultimately death.

After gouging ... er, I mean charging Americans hundreds or even thousands of dollars a year for these very cheap-to-manufacture insulin drugs, Eli Lilly, Novo Nordisk and Sanofi recently announced they were slashing their insulin prices to a \$35 out-of-pocket cap. On the surface, that may sound like a glimmer of drug company altruism, but I should note that these drug companies aren't limiting the cost they will charge insurance companies, they are merely limiting the patient's financial responsibility. As a side note, I've never quite understood how a drug manufacturer can dictate how much an insured individual must pay out-of-pocket while charging insurance companies with impunity (and I would argue they legally can't do that), but that's a discussion for another day. Point being, the value of Hemgenix isn't simply the fact that the drug is a life-saving therapy, because there are many other life-saving drugs that are reasonably priced and affordable. Moreover, while Hemgenix

may be the latest and greatest treatment for hemophilia B, it isn't the only effective treatment. Indeed, there are alternative treatments for hemophilia B that, while still expensive, are a fraction of the cost of Hemgenix.

To be fair, the despicable practice of pricing drugs at obscenely profitable levels isn't limited to the manufacturer of Hemgenix. In fact, I'm sure it's only a matter of time before another blockbuster drug earns the reprehensible distinction of being the most expensive drug ever. For illustrative purposes, I've created the table below which identifies a few of the drugs that are currently on the market and that threaten to upend the health insurance industry all while lining the pockets of fat cat Big Pharma executives. Sadly, this list isn't exhaustive.

<u>Drug / Therapy</u>	<u>Condition Treated</u>	<u>Cost (Per Dose)</u>
Skysona	Childhood Cerebral Adrenoleukodystrophy ("CALD")	\$3,000,000
Upstaza	Pediatric Aromatic L-Amino Acid Decarboxylase ("AADC") Deficiency	\$3,000,000
Zynteglo	Beta-Thalassemia (Blood Disorder)	\$2,800,000
Roctavian	Hemophilia A	\$2,500,000
Zolgensma	Spinal Muscular Atrophy ("SMA")	\$2,100,000
Luxturna	Inherited Retinal Disease ("IRD")	\$850,000

continued

I'm sure there are plenty of people who couldn't care less how much pharmaceutical companies charge for their drugs since they aren't paying the cost and they believe it's the lesser of the evils whether their premium dollars are pocketed by drug companies or health insurance companies. That logic is short-sighted and misguided because it ignores the reality that they would pay lower health insurance premiums if drug costs were brought in line with other more elastic products.

I've never been an apologist for the health insurance industry, but contrary to popular belief, insurance companies don't have a printing press in the basement that prints money whenever claim costs increase. Our business model is basically a fairly simple math calculation ... we collect premium, we pool risk, and we pay claims. When claim costs increase, premium increases must follow. When drug costs skyrocket, premiums must necessarily rise. When health insurance premiums can go no higher, the death spiral ensues and the system collapses. It's really that simple.

As I examined in a recent *WPMA News* article,¹ the overwhelming majority of premium dollars collected by health insurance companies (81.7%) goes directly to pay for health care costs incurred by their members. Of the balance, 15.3% goes to insurance company overhead, and a measly 3% (in a good year) goes to profit. Needless to say, profit is not guaranteed, so if claim costs spike, the insurance company loses money. When an insurance company loses money, it must increase premiums or it will go insolvent.

In a simplified mathematical equation (and assuming a profit and not a loss), an insurance company's basic business model can be summed up as follows:
Claims + Overhead + Profit = Premium.

As claims increase, profit decreases until it goes to zero. At that point, premium must be increased or the insurance company will go broke. Since there's only a 3% profit margin in the system to begin with, the relationship between claims and premium is nearly dollar for dollar, so when one dose of a particular drug therapy adds \$3.5 million to the claims side of the equation, those paying premium must contribute an additional \$2.86 million to the premium side of the equation just to maintain equilibrium. This isn't fair, reasonable or sustainable.

Now for my legal disclaimer ... the views expressed in this article are my personal opinions and are attributable solely to me and to no other person or entity. I make no secret of the fact that while I am amazed and grateful for the medical and pharmacological contributions of drug manufacturers, I abhor the way they price their products. In fact, I would even go so far to say that in my personal opinion, it is unethical, immoral and disgusting that drug manufacturers profit at such lucrative levels from a person's health misfortune. I would (somewhat laughingly and entirely tongue in cheek) call on Congress to do something about this; but alas, we all know that Congress is impotent ... at least until such day as the health insurance system collapses due to unfettered greed.

1 *Just how Greedy is my Health Insurance Company?* [wminutual.com/publications/pdf/2021/WPMA_Article_\(3-21\).pdf](http://wminutual.com/publications/pdf/2021/WPMA_Article_(3-21).pdf)

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@wminutual.com

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The thumbnail shows the cover of a WMI Word article. The title is "Just How GREEDY Is My Health Insurance Company?". It features a pie chart with segments in yellow, green, and red. Text on the cover includes: "For many people, it's a foregone conclusion that health insurance companies and their executives are greedy... second only to lawyers. As an insurance company executive (and a lawyer), I'd like to ask that you challenge me a few minutes of your time to rebut that widespread (albeit convenient) fallacy... or at least offer an application to its question." Below the title, it asks: "Question: The average net profit of U.S. health insurance companies is ...% of revenue." The answer options are: A. 3%, B. 5%, C. 10%, D. 12%, E. 15%. The correct answer is B. 5%. The cover also mentions "81.7% of premium dollars go to pay for health care costs" and "15.3% goes to insurance company overhead, and a measly 3% goes to profit".