SCRIP
CITELINE COMMERCIAL

27 Jun 2023 | **Opinion**

Stock Watch: Why Pharma Should Care About UnitedHealth's Woes

Litigation Is Probably Not The Best Answer To The Inflation Reduction Act

by Andy Smith

Hospital procedures are rebounding following the pandemic and the US population is aging. But what sounds like good news for pharma is curbed by the risk of Medicare insolvency, and suing the government cannot solve that.

Managed care organizations are reeling from a bolus of post-pandemic medical procedures hitting their bottom line. This will not continue forever, but the aging of the US population is a less ephemeral trend that will keep the pressure on. While more procedures sound like good news for pharma, the strain is increasing on the system as a whole, to the point where the cost implications demand a reshaping of US health care. It is in the interest of all stakeholders to find a workable solution.

The UnitedHealth Downer

When *UnitedHealth Group* announced that its second quarter of 2023 medical loss ratio (MLR) would be higher than analysts' consensus estimates, it sent ripples through the managed care organization (MCO) universe and beyond, because of what it said about trends in medical procedures. However, although the ripples reached US hospitals and medical device manufacturers, they did not touch pharmaceutical companies – but they should have done.

The MLR is the percentage of the health insurance premiums paid to MCOs that is spent on medical and preventative care and administration costs. UnitedHealth indicated that strong Medicare outpatient activity in the first quarter of 2023 continued through the second quarter with a "meaningfully higher number of cases being performed." The increased procedure volume is due to pent-up demand from seniors who have become more comfortable accessing healthcare facilities after the pandemic and are now catching up on their elective surgical procedures. The rise in the number of surgical procedures is a positive trend for patients needing hip or knee replacements – who may have spent the years since the start of the pandemic paying their Medicare Advantage premiums but unable to venture out much – and for medical device manufacturers like *Johnson & Johnson*. Also on the plus side of the equation are those pharmaceutical companies with products such as anesthetics, antibiotics and anticoagulants – like *Bristol Myers Squibb Company*'s (BMS's) Eliquis (apixaban)– that are used in, or as a result of, surgical procedures. However, for MCOs it indicates that the days of collecting premiums with far fewer outlays than before the pandemic now seem to have passed.

UnitedHealth Sneezes And Managed Care Catches A Cold

UnitedHealth's stock price finished the day of its announcement down by nearly 7%, only marginally outperforming the fall in the S&P 500 Managed Health Care Sub Industry Index (MHCI). By contrast, the NYSE Arca Pharmaceutical Index finished largely unchanged on the day of UnitedHealth's announcement, perhaps reflecting the naivety of investors not seeing the possibility of a connection between the profitability of MCOs and that of drug companies. The stock price of the smaller and less diversified MCO *Humana Inc.* fell by over 11% on the day of UnitedHealth's announcement and by a further 4% two days later (when the MHCI closed down by nearly 2%), after Humana confirmed the same utilization increases as UnitedHealth.

For US senior enrollees, inpatient (Part A) and outpatient (Part B) costs have to be covered under "Original Medicare" but the increased utilization reported by UnitedHealth and Humana will undoubtedly find a way to raised beneficiaries' premiums in due course. As far back as June 2022, Medicare Part A's insolvency in 2028 was being discussed as forecasts of increased enrollment and usage were estimated to outpace its funding from payroll taxes. To redress the shortfall, the congressional budget office suggested that an 8% cut in spending would be required in the first year that costs exceeded inflows.

The Real Battle – Medicare

While not forecasted to plunge into insolvency, the separate Medicare Part D prescription drug coverage is partly funded by separate taxes for enrollees who are uninsured and by Medicare Advantage (sometimes called Medicare Part C) for seniors who can afford to pay health insurance premiums and elect for additional benefits like dental. However, changing demographics look likely to put pressure on all of the Centers for Medicare and Medicare Services (CMS): just last week census data showed that Americans are older than ever and seniors are estimated to grow from nearly 17% of the population in 2020 to about 20% in 2030. Against this backdrop, the pharmaceutical sector assumes the role of villain, whose first attempts at a drug to treat Alzheimer's disease (AD) – *Biogen, Inc.*'s Aduhelm (aducanumab), initially priced at $56,000 per year – was billed as the drug that could bankrupt Medicare. (Also see "*With Access Restricted, Aduhelm Appears Poised For A Slow Start*" - Scrip, 15 Jul, 2021.)

A review of oncology trends in 2021 by the *IQVIA Institute* found that US spending on cancer drugs increased by over 13% in the five years to 2020, while at the same time the US senior population only grew by 2%. Some of this difference was due to branded oncology drug pricing, which amounted to nearly 10% of the cancer drug spend over the same period. A simplistic conclusion from reading the report and the cumulative pressures on Medicare was that one of the targets to relieve the pressure on the federal healthcare budget would be branded drugs administered to US seniors.

Solutions Not Problems, Or Suits

The US government – probably with access to better data – had already reached a similar conclusion in enacting the portions of the Inflation Reduction Act (IRA) that allow CMS to renegotiate drug prices with manufacturers for branded drugs covered by Medicare Parts B and D. Cue much hand-wringing from the Pharmaceutical Research and Manufacturers Association of America (PhRMA) trade group and big pharmaceutical company CEOs. This was followed by *Merck & Co., Inc.*, the US Chamber of Commerce, the PhRMA and BMS all filing suits against the US government on the IRA while *Eli Lilly and Company* blamed the act for its decision to shelve three experimental drugs. (Also see "*Lilly Sidelined Three Drugs Due To IRA, CEO Ricks Says*" - Scrip, 14 Jun, 2023.)

The vested interests are obvious. First-quarter sales of BMS's biggest drug Eliquis grew by 19% on the same quarter of 2022 (probably related to increased Medicare enrolee procedure volumes) and its second biggest drug – Opdivo (nivolumab) for solid tumors, frequently diagnosed in senior patients – will also probably come in for future Medicare drug price renegotiation. Lilly's donanemab to treat AD – typically in seniors –and Biogen's and partner *Eisai Co., Ltd.*'s new drug Leqembi (lecanemab), also to treat AD, are likely to find themselves in the drug price renegotiating cross-hairs too. Eisai have recently taken the opportunity to publicly hit back at CMS's proposed registry restrictions on Leqembi. (Also see "*Eisai/Biogen's Leqembi Gets Some Medicare Coverage Certainty In CMS Update*" - Scrip, 1 Jun, 2023.)

It is easily possible to see both sides of the argument – the unsustainability of the demand for new drugs to treat a burgeoning US senior population on the one hand, and the threat that the profitability of any successful new drug may be reduced by price renegotiation on the other. In response to these pressures, big pharmaceutical company CEOs have defaulted to using the courts to address this conundrum. For a sector that helped the world emerge from the pandemic I would have hoped for more imaginative and equitable solutions to keep the golden goose of Medicare healthy.

Andy Smith gives an analyst and investor's view on life science companies. He joined the independent research house Equity Development in October 2019 having previously been an analyst at Edison group and a Senior Principal in ICON PLC's Commercialization, Pricing and Market Access consulting practice. Smith has been the lead fund manager for four life science–specific funds, including 3i

Bioscience, International Biotechnology and the AXA Framlington Biotech Fund, and was chief investment officer at Mannbio Invest. He was awarded the techMark Technology Fund Manager of the year for 2007 and was a global product manager at SmithKline Beecham Pharmaceuticals until 2000.