

RUNAWAY

AFFORDABLE PRICES FOR REAL CURES



Investigation Finds Revenue, Not Access, Drove Sovaldi Pricing Strategy

An 18-month investigation by the U.S. Senate Finance Committee concludes Gilead Sciences, Inc. set the price of its \$84,000 Hepatitis C treatment, Sovaldi, with one goal in mind: to maximize revenue. The drug was in no way priced to foster broad, affordable access to a cure, according to the 144-page [report](#).

Pricing Unrelated to R&D or Acquisition Costs

The Committee [determined](#) that basic financial matters such as R&D or the purchase price of Pharmasset, Sovaldi's developer, played no role in setting the price of Sovaldi.

**"If Gilead's approach to pricing is the future of how blockbuster drugs are launched, it will cost billions and billions of dollars to treat just a fraction of patients."
– U.S. Senator Ron Wyden**

Rather, *"Gilead pursued a calculated scheme for pricing and marketing its Hepatitis C drug based on one primary goal, maximizing revenue, regardless of the human consequences... Gilead knew these prices would put treatment out of the reach of millions and cause extraordinary problems for Medicare and Medicaid, but still the company went ahead."*

No Consideration for Patients or Taxpayer Budgets

Despite spending \$1.3 billion on Sovaldi last year, Medicaid was only able to treat 2.4 percent of the estimated Medicaid population infected with Hepatitis C. Medicare spends more on Hep C drugs in three weeks than it did in all of 2013 before Sovaldi's – and later Harvoni's – launch.

No Discounts for Medi-Cal

California's Medicaid program, Medi-Cal, did not receive any supplemental rebates from the manufacturer in 2014. **Medi-Cal's fee-for-service system spent nearly \$25 million treating roughly 340 patients with Sovaldi and Harvoni.** With roughly 80 percent of Medi-Cal beneficiaries enrolled in managed care, fee-for-service represents a fraction of total state spending on Hepatitis C treatments.

California Specifically Targeted

What is more, Gilead specifically considered California's high patient population – both in public programs and prisons as well as in commercial enrollment – when setting the price for Sovaldi. Yet still it chose to disregard payer concerns over access to treatment if the drug was priced too high.

- Gilead presented pricing scenarios with possible payer reaction at each price tag. It *"discussed contracting strategy in detail and its unwillingness to discount from the WAC price to gain access on payers' formularies and/or preferred drug lists."*
- **States with high Medicaid managed care populations, including California, were specifically targeted. For the Department of Corrections and Medicaid fee-for-service, the primary target was California.**

- The company decided **“reactive contracting with low rebates should be sufficient”** for most payers. The company’s pricing team then presented a price range of \$80,000-\$85,000 for senior management to consider and a summary of possible reactions, **“including the expectation that certain patients would have problems accessing the drug.”** (See [Pages 46-47, 50](#))

Gilead Refused to Offer Meaningful Discounts

The investigation also finds that even in the face of public outcry and access restrictions designed to prevent state Medicaid programs from going bankrupt, Gilead refused to lower its prices.

Gilead offered minimal supplemental rebates (10 percent) to state Medicaid programs but only if they lifted all access restrictions. Only five states ultimately accepted Gilead’s terms, as all other states would have seen a huge increase – rather than decrease – on prescription drug spending under such a scheme. California was not one of those states.

More Transparency Needed

As Senator Wyden points out, Sovaldi is just one drug, and there are dozens of other diseases for which Americans need innovative treatments, including cancer, Alzheimer’s, diabetes, and HIV. But such treatments will be out of reach if the costs are unaffordable.

*“This report sheds light on one example of the pricing decisions made by one company with a new prescription medicine that entered the market without competition in high demand. **This might be an example that received the most attention in some time, but it won’t be the last.**”*

The *Los Angeles Times*’ Michael Hiltzik [says](#) the “first blow for rational drug pricing” would be to take the blindfold off of drug pricing. California’s [AB 463](#) (David Chiu) would, for the first time, require transparency for drugs priced over \$10,000.

“Drug manufacturers cannot continue to hide behind claims of research and development costs when setting sky-high prices for drugs. With one in three Californians covered by Medi-Cal and millions of consumers in the private market, we need all sectors of health care focused on affordability. Lawmakers, employers, and taxpayers deserve more information on how drug prices are set.”

**– Charles Bacchi, President & CEO
California Association of Health Plans**

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CAHP’s RunawayRx campaign highlights the trend of rising prescription drug prices to provide Californians with a full picture of the state of health care costs and to encourage a path toward more sustainable and affordable pricing.