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Alternative Financing Models for Durable Cures

Transformative medicines, like gene and cell therapies, are beginning to be approved in the US, and more are expected to come. These new therapies offer the promise of long-term, or "durable," clinical benefit—including a cure—in a single course of treatment. While their potential benefits are considerable, these 'durable cures' also carry unprecedented price tags.

Current financing mechanisms for drugs are not well suited for durable cures, which are often administered as a single dose with steep upfront costs and benefits that accrue over a significant time horizon. In anticipation of the continued approval of transformative therapies, proposals for alternative financing models have emerged. They include:

- **Drug Mortgages**: Structured similarly to mortgages for property, this model would spread the cost of treatment over a patient's lifespan. It involves patients taking out a loan to pay for the cost of the drug and paying regularly scheduled payments over a period of time.
- **Health Currency:** This model seeks to spread a patient's treatment cost between insurers. It allows patients that switch health plans to carry with them the remaining value of their treatment costs (represented as a transferrable 'health currency'). The patient's new health plan would then reimburse the previous plan for the remaining value of the treatment. Under this model, payers may look to the credit markets to borrow funds to pay for the treatments.
- **Reinsurance:** Under a reinsurance model, multiple payers would contribute funds to a risk pool dedicated to paying for durable cures, in an amount proportional to the size of its membership.

As the wave of new drug approvals looms on the horizon, these proposals are attracting public attention. However, many details have yet to be worked out:

- **Definition of a durable cure.** At the time of a drug's initial launch, it is uncertain how long the treatment will continue to work (referred to its "durability"). This uncertainty will make it challenging for stakeholders to agree on what constitutes a durable cure.
- **Value assessments.** There is no common framework for assessing the value of a durable cure. Current value frameworks are still being debated and may not be appropriate in the context of durable cures given their cost and long-term effect.
- **Information requirements.** Arranging and implementing alternative financing agreements across patients, payers, manufacturers, and the government will require a new level of information sharing and coordination.
- **Credit markets.** Loans or other credit mechanisms may need to be created for payers that seek to borrow to pay the upfront costs of treatments. For patients, the ability to

secure a loan depends on the creditworthiness of the individual. Many people cannot participate in credit markets because of lack of credit history or collateral. Consumer lending practices would need to accommodate alternative financing models.

- **Patient protections.** Alternative financing models may require patient data to be transferred across various parties, raising concerns about privacy protections. In addition, a model under which the patient is the borrower (e.g., drug mortgage) would raise flags about consumer protection.
- **Financial risk.** If a patient stops responding to therapy or if a patient switches plans, there will be sunk costs that will need to be absorbed. Without a mechanism to recoup them, these costs will be a disincentive for patients and payers to participate in an alternative financing arrangement.
- **Harmonization across payer channels.** Patients may cross payer channels in their lifetime, so harmonization of related processes and policies across payer groups will be important.
- **Price reporting regulations.** Clarity on Medicaid's best-price and other price reporting requirements will be needed to encourage manufacturers to participate in alternative financing models.
- **Regulatory frameworks.** Implementing alternative financing models would necessitate new regulatory frameworks to govern lending practices, the transfer of funds and data across parties, and reinsurance pools.

As proposals for alternative financing models evolve, they must take into consideration these operational, market, and regulatory barriers. Policymakers should also consider how adoption of any of these models would ensure long-term economic sustainability for the US healthcare system.

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