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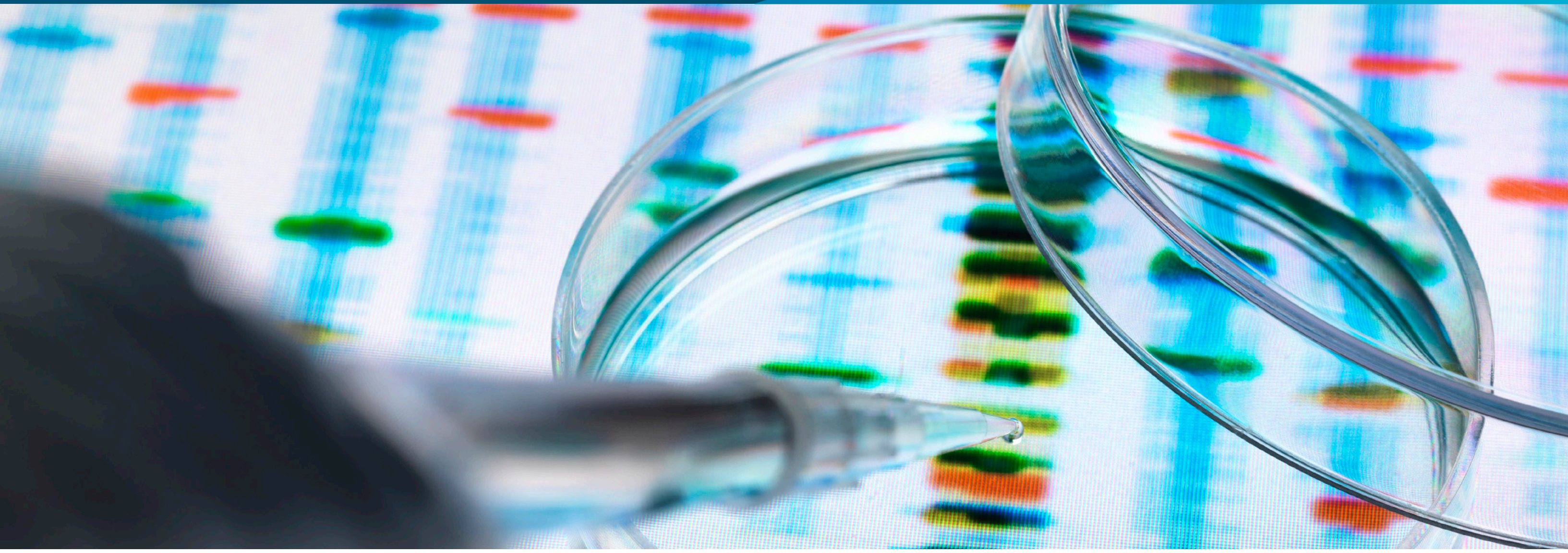

How will gene therapy change the health insurance landscape?

By Phillip Barker, Managing Director, Healthcare Practice, Guy Carpenter

Gene therapy represents a new era of cutting-edge medical science. For payers, that means adjusting their conception of a "high-cost claim."

What is gene therapy?

Gene therapy is a new kind of specialty medical treatment. A patient receives a one-time injection of DNA-filled viruses, and those viruses get to work changing the way a patient's cells react. So far, three gene therapy treatments have been approved by the U.S. Food and Drug Administration: two are CAR T-cell immunotherapy treatments used for fighting leukemia, and one treats a hereditary blindness condition.

Gene therapy is now considered an experimental treatment. If it enters the standard of care, payers may be faced with a whole new universe of high-cost claims.

How might it impact insurers?

Developments around gene therapy have reminded some payers of the events concerning Hepatitis C treatments that hit the market in 2014. As members flocked to the treatment within the first six months of its release, payers were caught off-guard by reimbursements costs. With the establishment of minimum loss ratio requirements that came out of the Affordable Care Act and the inability to react quickly with rate adjustments, insurers had difficulty making up their losses. In some cases, this also was a likely a factor that led to insurer decisions to leave certain markets.

Gene therapy stands to have much greater impact, as cost per treatment is much higher than that of Hepatitis C. The greatest potential impact will be on payers with smaller populations, such as regional insurance companies or employer self-funded plans where premium dollars are more leveraged. While the likelihood of a member requiring gene therapy is low, that claim could exceed USD 1 million. If the payer needs to raise rates as a result, healthy members may leave the plan — a cycle that smaller insurers are familiar with.

Gene therapy differs from other high-cost therapies in that it is meant to be a one-time treatment. This can mean less money paid out over a patient's lifetime compared with a patient who is on an expensive, ongoing drug treatment. However, it places a large burden on one insurer in one city — all at once.

As coverage, be it fully insured, employer stop loss or government sponsored plans, can vary state to state, there is a potential for insurers to be adversely selected against merely based on their jurisdiction. Given the potential efficacy of these treatments and the associated costs, individuals could relocate to ensure coverage options provide them with the desired access to treatment. In some cases where large population centers are situated near state borders, the life adjustment could be very minor. However, insurers could be significantly impacted and their subsequent rate adjustments may affect the general affordability of healthcare within an entire state.

Additionally, while gene therapy is now being tested for potential treatment for a very small number of conditions, its treatment applications could change in the coming years. For example, a Dutch company is now testing a gene therapy treatment for hemophilia B, a common high-cost claim. If gene therapy is shown to be effective in treating a wide variety of chronic conditions, it will significantly impact payers large and small.

How can payers prepare for the adoption of gene therapy?

Gene therapy manufacturers have shown a willingness to work with payers in covering treatment costs. Most of these strategies are based around patient responsiveness to the therapy. For example, Spark, the company making the hereditary blindness treatment, is offering rebates to payers based on the therapy's effectiveness in each case. However, these arrangements, like the treatments themselves, are in nascent stages. Payers must still prepare themselves for high-cost claims.

This is where the reinsurance market can be most valuable, allowing payers to manage risk (and position themselves to take strategic risks by not tying up capital) and better handle volatility by reducing the likelihood of large rate changes from year to year. However, this value is only realized if the coverage is appropriately manuscripted. Reinsurers are monitoring this risk as well. As a result, there may be exclusionary clauses in their contracts, sometimes masked by innocuous language. When approaching the reinsurance market, insurers should take care to ensure that gene therapy or other high-cost claims are not unknowingly excluded from their covers.

A general reverberation of high-cost treatments, exacerbated by treatments like gene therapy, continues to push the roof of the "acceptable claims" spectrum to new heights. Whatever happens, insurers have to be prepared for the impact of innovative and expensive new treatments. The reinsurance market may help alleviate the risks, but buyers must be certain that gene therapy will be included in their policies if and when they mandate.

Guy Carpenter is monitoring the adoption of gene therapy in the market and what it might mean for payers from state to state. As trusted advisors to payers, we can help you structure the right reinsurance cover for your population and your unique risk profile.