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Looking Forward: A Value-Based Approach to Drug Pricing



Today's Discussion

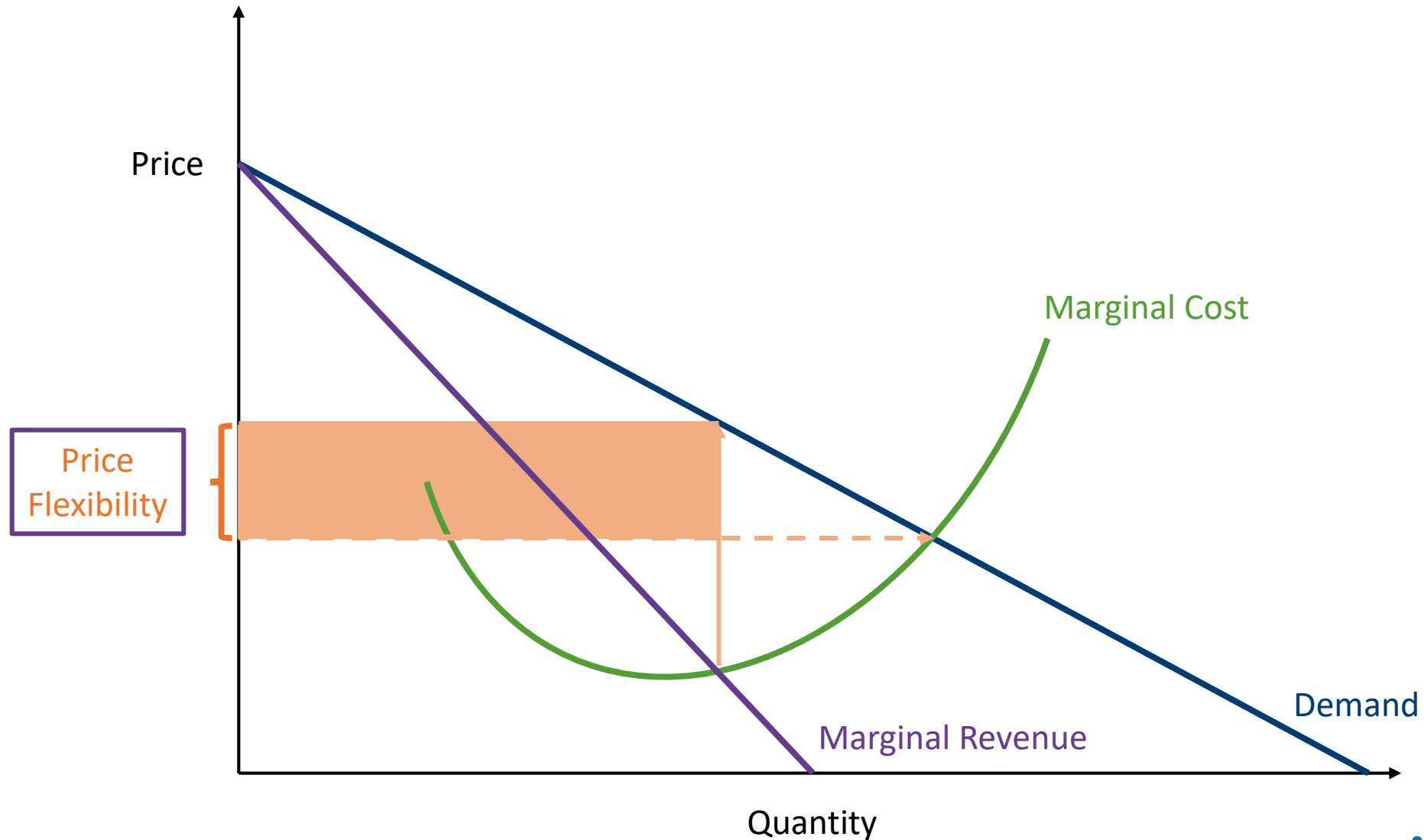
- Value in Theory
- Value in Context
- Value as a Backstop



Value in Theory

- When consumers can walk away, they don't pay more for a product than it is worth
 - Hedonic pricing – consumers' willingness to pay reflects a product's value
- Either the price paid for a drug is at or below total value or purchasers are forced to pay above the drug's value
 - Total value can include subjective value and transaction costs of switching
 - Purchasers mandated to pay above value because still profitable to remain in market

Value in Theory

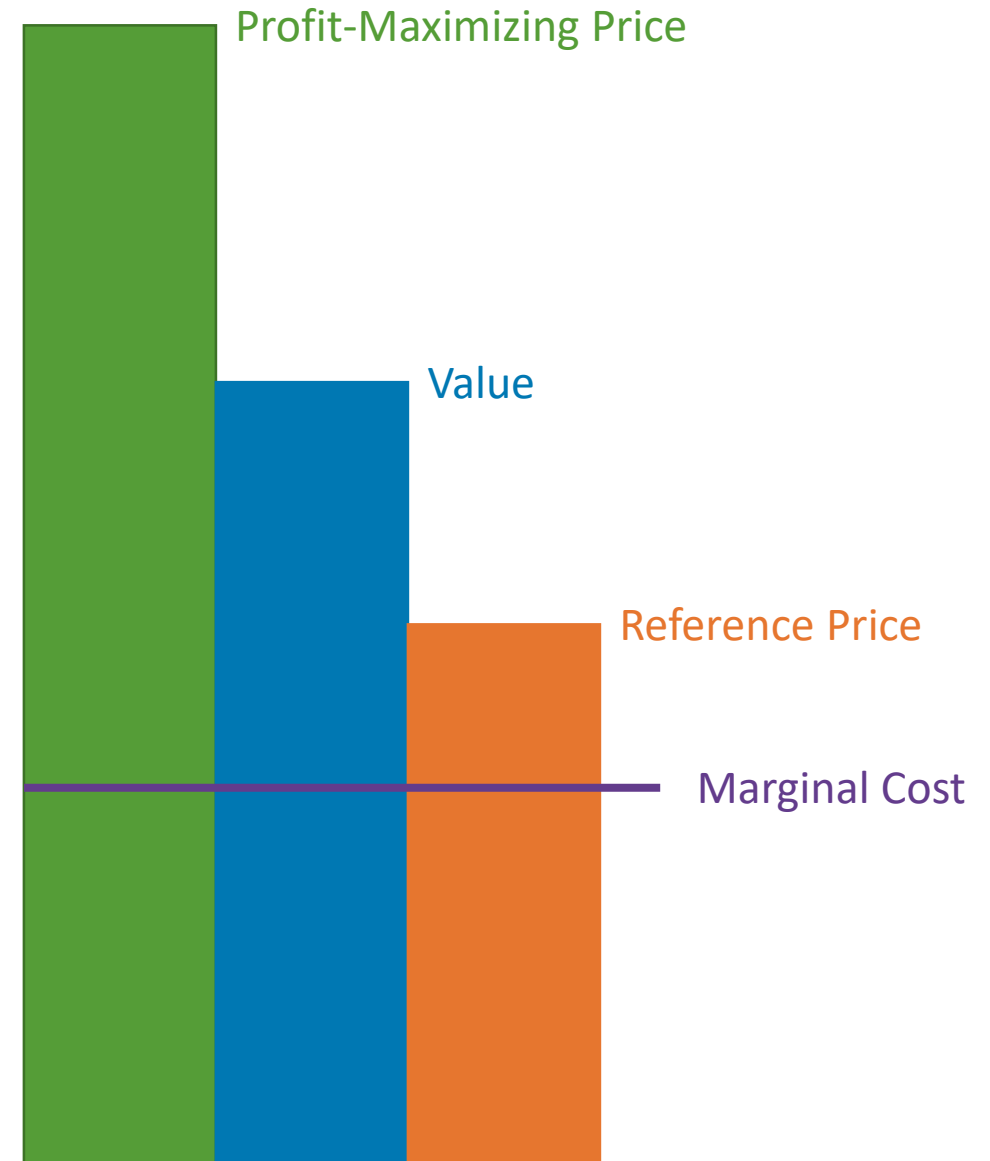


Value in Context: One Example

- Changes in prices for Hepatitis C curative treatments demonstrate how value can exceed price manufacturers will accept
 - “ICER’s cost-effectiveness analysis found that, at a 12-week cost of \$94,500, LDV/SOF regimens for treatment-naïve and treatment-experienced patients met commonly accepted thresholds of \$50,000-\$100,000 per additional quality-adjusted life year gained”
 - ICER, The Comparative Clinical Effectiveness and Value of Novel Combination Therapies for the Treatment of Patients with Genotype 1 Chronic Hepatitis C Infection, January 30, 2015
- Even though higher prices were cost-effective, manufacturers began dropping prices in 2016, with prices falling to \$24,000 in 2018

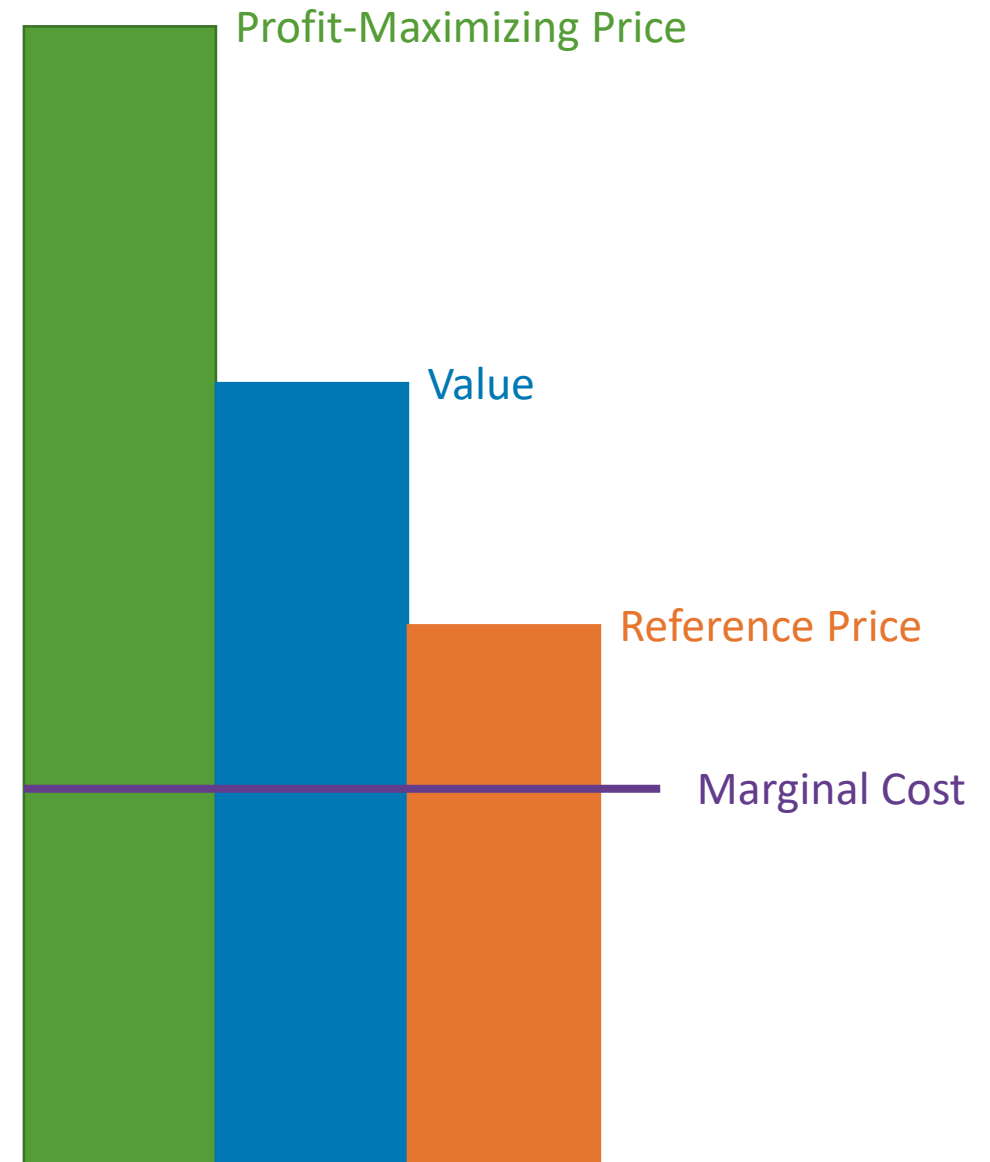
Value as a Backstop

- Current model: Manufacturer proposes **profit-maximizing price**, value assessment suggests lower **value-based price**
- Alternative model: Purchaser proposes **reference price**, manufacturer rebuts with **value-based price**
 - Shifts cost of identifying value to the manufacturer



Value as a Backstop

- Reference Price options:
 - Cost-Plus
 - International Reference Price
 - Domestic Reference Price
 - Costs of existing therapies multiplied by presumed innovation premium



Value as a Backstop

- Value should always be the maximum payment
- Rather than payers using value to lower costs, encourage manufacturers to use value to justify higher cost
 - Manufacturer absorbs transaction costs, launches with better data
- Time horizon – avoid lock-in to value-based price when market forces could reduce prices