Looking Forward: A Value-Based Approach to Drug Pricing

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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

- Price Flexibility
- Marginal Revenue
- Marginal Cost

Price vs. Quantity

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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