Reference Pricing: Reducing Prescription Drug Costs - 
Lessons Learned
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Abstract

This brief will examine the impact of reference pricing on reducing prescription drug costs and access to quality medications. Reference pricing puts drugs into groups based on their interchangeability in terms of therapeutic effect and sets the price for all drugs in that group at the least expensive option or average price of the drugs in that group. Because reference pricing controls reimbursement rather than the manufacturer’s price, it is considered less restrictive than other methods of price control even though it essentially gives the payers the power to charge generic prices for drugs that are still on patent. Drug manufacturers can decide whether to accept the reference price. If they don’t, reference pricing shifts the cost of price differences from a third party payer to the consumer.

The Center for Medicare and Medicaid Services used reference pricing in Medicare Part D. Insurance companies felt it decreased costs, saved beneficiaries money, and made patients realize cheaper generic alternatives existed. However, under pressure from groups like AARP, reference pricing was abandoned by CMS in 2010, citing complicated formulas, misleading tendencies, and lack of transparency.

The brief identifies six major potential unintended consequences resulting from reference pricing. Indeterminate cost savings, possible obstruction to innovation, patient education, barriers to access and equity, and adverse health outcomes make reference pricing questionable as a viable option to control prescription drug spending.