REFERENCE PRICING
REDUCING
PRESCRIPTION DRUG
COSTS
LESSONS LEARNED

MARIA M. PLUMMER, M.D.
HEALTH POLICY FELLOWSHIP
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ISSUE: REFERENCE PRICING

- Impact on reducing prescription drug costs
- Impact on access to affordable, effective Rx
- Is it viable policy to contain Rx spending and maintain access to quality care?
“Employers offering drug coverage can use generic drugs to set reference prices . . .”

“If a worker chooses a brand-name drug instead, the worker would pay the difference.”

Kaiser Health News: *Frequently Asked Questions about Affordable Care Act Implementation (May 2014)*
OBJECTIVES

- Define reference pricing
- Discuss RP’s impact on access to safe, affordable, effective medications
- Discuss unintended outcomes of RP
- Discuss Stakeholders
- Describe use of RP in Medicare
- Discuss lessons learned and implications for future use of RP
Drugs grouped based on therapeutic effect; price set at least expensive (or average price) of drugs in group

- Controls *reimbursement* - not the manufacturer's price

- Manufacturer can agree to accept RP reimbursement for brand name drug - or not

- If patient chooses higher-priced drug, patient pays the difference out of pocket
**Two Types of Drug Groups**

**Generic RP**

Groups of *chemically equivalent* drugs

- amoxicillin
- Amoxcil

**Therapeutic RP**

Drugs grouped together based on *similar clinical effects*

- Nexium
- omeprazole
Example of Reference Pricing with Brands and Generics in the Group

<table>
<thead>
<tr>
<th>Drug</th>
<th>Patient Copay</th>
<th>Plan Payment</th>
<th>Additional Charge to Patient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simvastatin</td>
<td>$10</td>
<td>$7</td>
<td></td>
</tr>
<tr>
<td>Lovastatin</td>
<td>$10</td>
<td>$7</td>
<td>$4</td>
</tr>
<tr>
<td>Lescol</td>
<td>$10</td>
<td>$7</td>
<td>$57</td>
</tr>
<tr>
<td>Crestor</td>
<td>$10</td>
<td>$7</td>
<td>$82</td>
</tr>
<tr>
<td>Lipitor</td>
<td>$10</td>
<td>$7</td>
<td>$98</td>
</tr>
<tr>
<td>Zocor</td>
<td>$10</td>
<td>$7</td>
<td>$123</td>
</tr>
</tbody>
</table>

Source: Jack Hoadley. *Adapting tools from other nations to slow us prescription drug spending*. National Institute for Health Care Reform. August 2012
NEED FOR COST CONTAINMENT

- Use of generic drugs predicted to level off
- Increase in drug spending from 4% in 2011 to almost 9% in 2014\(^1\)
- More Americans covered via ACA: 6-10 million\(^2\)
- 35 million Baby Boomers eligible for Medicare over next 18 years\(^3\)

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\(^1\)Altenburg-van der Broek, E. (2013). Reference Pricing in the US. Quid Novi Foundation
Encourages uses of cheap, generic drugs
Gives payers the power to pay generic prices for drugs still on patent
Shifts the difference in cost to consumers if they choose more expensive option
Decreases overall spending as long as drugs are equally effective and safe

Reference Pricing to Set Spending Limits
UNINTENDED OUTCOMES OF RP

- Questionable cost savings
- Inhibits innovation and constrains drug research and development
- Compromises equity by creating financial barriers to drug access
- Compromises health outcomes
Increase in generic drug use and control of prescription drug costs
Data shows mixed results

- 2012 Meta-analysis - RP reduced drug prices but limitations may have skewed results
  - different health care systems
  - concurrent cost containment policies
- Norway abandoned RP in 2001 after 8 years - cost savings expected did not occur

Michigan Medicaid Maximum Allowable Cost program did not generate cost savings (2002-2004)

3Kibicho J, Pinkerton SD. Multiple drug cost containment policies in Michigan’s Medicaid program saved money overall, although some increased costs. Health Affairs; (2012 Apr).
Compensating drug companies for patented products at generic prices doesn’t give them good financial incentive to invest in developing new drugs.

US more competitive generic market; puts pressure on on-patent drug prices.

RP may lead to decrease in on-patent drug revenues, leaving less money available for research and development.
EQUITY/ACCESS

- Creates financial barriers for low income patients who can’t afford drugs above RP rate
- Creates access barriers for low SES patients who might be less informed about efficacy
Patients vary in their response to different drugs in the same category
- Use of fluvastatin as referent Rx resulted in increase in total cholesterol, LDL cholesterol, and triglycerides¹
- Use of ACE inhibitor as referent Rx resulted in increased risk of admission for surgery related to CV disease and CABG²

Other studies - RP causes decrease in use of some essential meds, adverse effects, and increased number of ED visits³

³Altenburg-van der Broek, E. Reference Pricing in the US. Quid Novi Foundation. 2013
Potential negative impact on profits - less money for R and D
Negative incentive for research and innovation
Unfair disadvantage when payers impose generic prices on drugs still under patent
Patients could be limited to “best deal” drugs, restricting ACCESS to choice because other drugs COST more
Excellus Blue Cross Blue Shield (NY) defended RP
- Decreased cost
- Saved Medicare beneficiaries money and made patients realize cheaper generic alternatives available
AARP
National Seniors Citizens Law Center
Center for Medicare Advocacy
Congressman Pete Stark-Chairman, Health Subcommittee of the House Ways and Means Committee

Medicare patients charged more brand name drugs if generic versions were available
CMS lack of disclosure
CMS abandoned RP in Medicare in 2010 citing complicated formulas, misleading tendencies, and lack of transparency

*Outterson K, Kesselheim AS. How Medicare Could Get Better Prices on Prescription Drugs. Health Affairs, 28, no. 3 (2009);w832 - w841
LESSONS LEARNED

- Cost savings effectiveness not clear
- Possible negative effect on research and development
- Adverse effects on equitable access
- Adverse effects on health outcomes

IF ONLY THE CHEAPEST DRUG IS FULLY SUBSIDIZED (THE REFERENCE DRUG) BUT IS NOT AS EFFECTIVE IN PATIENT 1 AS IN PATIENT 2, THEN PATIENT 1 DOES NOT HAVE ACCESS TO THE SAME POTENTIAL HEALTH OUTCOME.
Reference Pricing is not a viable policy to contain Rx spending due to its negative impact on access to quality care and possible negative impact on health outcomes.

*History . . . cannot be unlived, but if faced with courage, need not be lived again.*

*Maya Angelou*
REFERENCES
10. Altenburg-van der Broek, E. (2013). Reference Pricing in the US. Quid Novi Foundation
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