

REFERENCE PRICING

Health care costs weigh heavy on the minds – and budgets – of many Americans. In recent years, policymakers have explored ways to reduce health care spending, looking specifically at prescription drug costs. This “Fast Facts” examines one approach that has generated much debate: reference pricing.

Q: What is reference pricing for prescription drugs?

Reference pricing is an approach to reduce U.S. prescription drug prices by aligning them with the lower prices paid by other countries. Reference pricing can take at least two different forms: the “most-favored nation” approach or the international pricing index approach.

The most-favored nation approach would have the United States select a single country with the lowest prescription drug prices and then adjust domestic prices

accordingly. President Donald Trump introduced the concept in August 2020.¹

The “international pricing index,” introduced in 2018, would set a prescription drug’s price in the United States based on the average price of that same drug across selected developed countries. The maximum price of a prescription drug in the United States would be limited to that average.²

While most Americans support lower drug prices, reference pricing has raised questions about future accessibility and medical innovation in the United States.



Q: Whom will reference pricing impact?

Reference pricing proposals apply to Medicare Part B medications, which are infused or injected in a doctor's office or clinic. These may include treatments for diseases such as asthma, migraine, psoriasis or cancer. Reference pricing would impact patients and health care providers who use these drugs in several ways.

An international pricing index would first directly impact patients and providers selected to participate in the Centers for Medicare and Medicaid Innovation demonstration model to test the approach. The demonstration would require participation by 50% of the patients and providers who use Medicare Part B drugs.³

Indirectly, the approach would also impact the other half of Medicare Part B patients and providers. Even health care providers outside of the demonstration are reimbursed by Medicare based on the average sales price of the Part B drugs they administer. The reimbursement policy is designed to cover the special handling, storage and oversight required for Part B drugs, many of which are complex biologics. If reference pricing drives

down that average price, it may no longer be financially feasible for providers to continue administering certain drugs.

The chain of events ultimately could limit access for patients who rely on these medications.

In September 2020, President Donald Trump issued an executive order on reference pricing that also included Part D drugs. These are medications typically picked up by patients at the pharmacy and taken at home. The president directed the Centers for Medicare and Medicaid Services to initiate a demonstration model testing the impact of reference pricing for these drugs.⁴

Q: Would reference pricing affect the creation of new drugs?

Reference pricing may lower some Americans' prescription drug costs, but it also could weaken medical innovation. Lower prices mean lower return on investment for manufacturers, which could in turn deter investors from supporting medical research and development. The National Bureau of Economic Research reported that price control measures could lead to 50-60% fewer potential medications moving from the lab into clinical trials.⁵



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Q: Will reference pricing make America's health care system more like those in European countries?

In some European countries, lower prescription drug prices come with trade-offs.

The European nations that the United States would use for pricing reference have more restrictions on access to new medicines. Patients can experience longer wait times to receive care and may not have access to a new treatment when they need it most. In the United Kingdom, for example, it takes about 14 years for a new cancer treatment to become available to patients. And between 1986 and 2010, there were 46 new medicines introduced in the United States that were not made available in Europe because of price controls.⁶

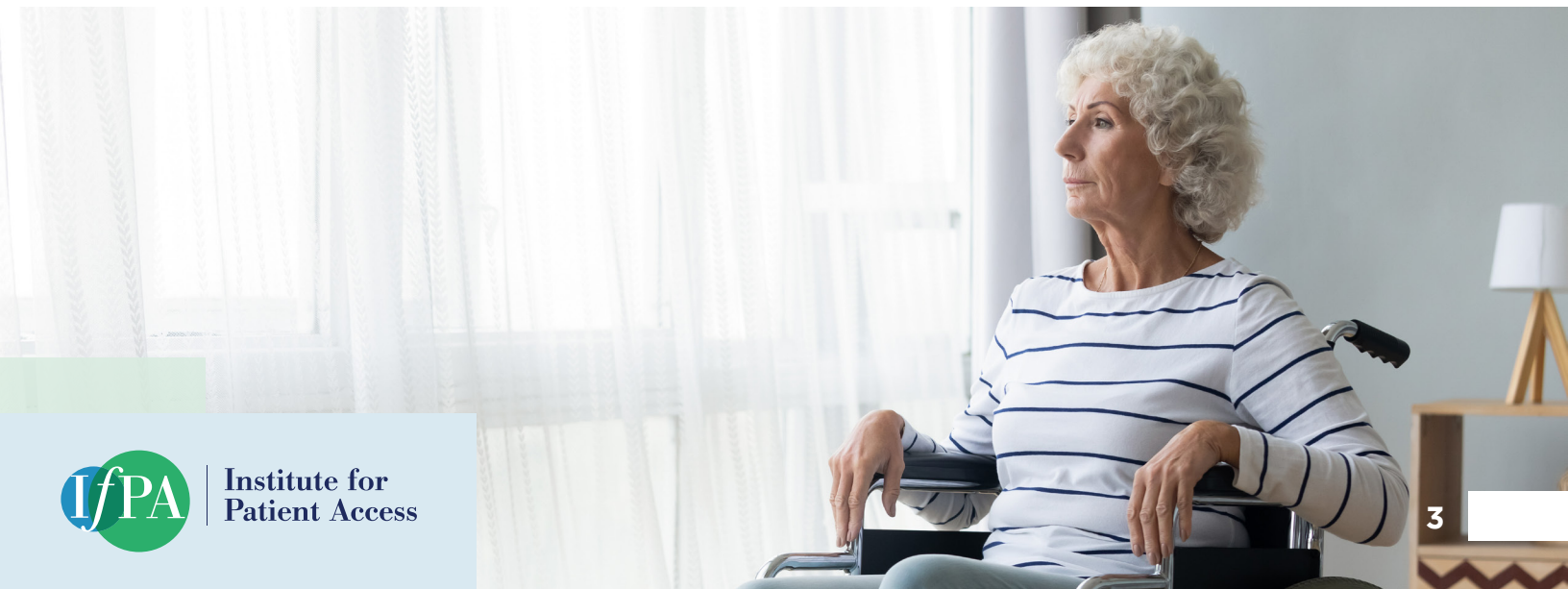
While lower prices for prescription drugs are appealing, it is unclear what the unintended consequences may be of adopting prices from a foreign country where access is based on an entirely different health care system.

Q: How would reference pricing affect older or disabled patients?

U.S. disability and senior citizen advocates worry that reference pricing could open a back door to accepting discriminatory methods of assessing health care value.

Specifically, European countries often determine prices using a controversial metric called the quality-adjusted life year. The QALY, as it's called, measures a drug's value based on how many years of "perfect" health it can provide. For people with disabilities, whose optimal health may not meet economists' definition of perfection, or people who are older and have fewer years ahead of them, the metric falls short.

Policymakers in the United States have been discouraged from using the QALY.⁷⁻⁸ In 2020, the National Council on Disability recommended a ban on QALY due to discrimination concerns.⁹





Q: Will reference pricing fix health care spending issues?

The United States does spend more money on health care than other developed countries.¹⁰ Prescription drugs are a factor in rising health care costs, but so are visits to doctors and specialists, as well as hospital spending. In 2019, hospital spending alone made up one-third of

total health care spending. This was closely followed by physician and clinical services, which comprised 19% of spending. Prescription drugs represented 9% of health care spending.¹¹

While no conversation about health care spending in the United States is complete without considering prescription drug costs, a long-term solution must be far broader than reference pricing.

CONCLUSION

Reference pricing could lower the price of prescription drugs for some, but it may also limit patient access and discourage innovation over the long term. Policymakers would do well to take a comprehensive look at the health care system rather than embrace short-term cost-cutting measures that may pursue savings at the expense of patient care.





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