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The future of drug pricing: Value over volume

Doctors and hospitals are increasingly being paid not for the quantity of care they provide, but for the outcome or quality of care patients receive. The emerging trend in health care is about rewarding value, rather than volume. This is the future, where there is less focus on the number of tests or treatments a patient receives and more focus on whether a patient's health is improving.

While value-based pricing is showing great promise in other areas of health care, expanding this approach to prescription drugs is restricted by outdated federal rules. Yet this hasn't [stopped critics](#) from labelling this innovative approach a failure before it has been given a chance to succeed.

With a new wave of breakthrough cures and therapies expected in the coming years, ensuring prescription drugs are accessible and affordable will remain an important concern for drugmakers, policymakers, and the broader public. As the drug pricing debate continues, there are some key facts to keep in mind about a value-based model that highlight why it's important for patients and the future of biomedical innovation.

Outcomes-based pricing is already happening.

This approach may be limited in the area of prescription drugs, but it isn't new. Current value-based agreements cover patients with rheumatoid arthritis, hepatitis C, diabetes, congestive heart failure, and even a form of cancer in children and young adults.

Roughly [20 agreements have been announced](#) in recent months, and each is developed with differing details. For example, some result in larger rebates or lower prices if a drug does not lead to its intended results. Other arrangements let patients "try before you buy" and only require payment if

the therapy works. Still others promote “pay for performance” in which a drug’s cost is tied to its effectiveness.

These efforts are answering important questions and providing insights that will help expand this approach to more patients.

Future treatments will be more accessible and affordable.

While nearly [90 percent of all drugs](#) on the market are low-cost generic medicines, roughly 5 percent of patients take so-called “specialty” drugs to treat serious or life-threatening diseases. These drugs represent one-third of all drug spending, and this trend is expected to continue with the discovery of new treatments for rare diseases and other highly personalized medicines.

Because drugmakers are accountable for patient outcomes, a value-based approach encourages insurers to ease coverage restrictions on more costly, innovative medicines. This occurs when an insurer places a drug on a lower cost-sharing tier, which reduces a patient’s out-of-pocket costs and encourages better medication adherence. What does this mean for patients? It means they have affordable access to the treatments they need and greater opportunity to enjoy healthier lives.

This will bend the cost curve in health care.

Biomedical innovation not only saves and improves the lives of patients, it also reduces other forms of health care spending. For example, every \$1 spent on medicine for congestive heart failure for adherent patients [saves an estimated \\$8](#) in other health services.

Further, the creation of the Medicare Part D prescription drug program reduced annual hospitalization costs by [roughly \\$1.5 billion](#). It has been estimated that if researchers could develop a treatment to delay the onset of Alzheimer’s by five years, it would [generate \\$367 billion](#) in annual health care savings by 2050.

The facts show that prescription medicines — when taken as prescribed — reduce the need for more costly health services (like hospital stays and doctor visits). By ensuring future cures are accessible and patients adhere to their medications, value-based pricing will lower the trajectory of health care spending.

Outdated federal policies are standing in the way.

Over the years, policymakers have adopted several policies designed to protect patients and taxpayers, such as the Medicaid “Best Price” rule and restrictions on communications between drugmakers and payers. These policies may have been appropriate for the old payment model based on

volume or consumption, but they also act as barriers to a value-based approach.

Providing more legal and regulatory flexibility — while maintaining strong protections for patients and taxpayers — will expand the use of outcomes-based drug pricing, and more importantly, advance patient health by providing better access to the treatments they need.

It's one part of a broader effort to address drug costs.

Often policymakers respond to drug costs with calls for heavy-handed government intervention that would stymie innovation and harm patients who rely on new cures and treatments. That's why the [Council for Affordable Health Coverage](#) — a coalition including drugmakers, insurers, pharmacy benefit managers, patient groups and employers — introduced a set of [consensus reforms](#) to tackle affordability of prescription drugs. These solutions leverage the power of the free market to promote greater access to affordable medicines and will protect [biomedical innovation that saves lives](#).

In 2016, Congress passed the [21st Century Cures Act](#). The law reflects years of bipartisan work to deliver new hope to patients by accelerating the discovery of new cures and treatments. To achieve the full promise of the law, policymakers will need to think creatively about how the country pays for prescription drugs.

For the sake of patients and the future of biomedical innovation, value-based drug pricing will need to be at the center of this important effort.

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