Study finds domestic reference pricing could lower Medicare spending on new drugs by 30%

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Basing new drug launch prices on historical domestic data could limit manufacturers' power to set extremely high launch prices and could reduce Medicare spending on new drugs by up to 30%, according to a new white paper released today by West Health and its Council for Informed Drug Spending Analysis (CIDSA). The study is a collaboration between researchers at West Health, the University of Pittsburgh, and the University of California San Diego, and comes as Congress considers policies to lower drug spending.

The study estimated potential savings to Medicare under a domestic reference pricing model—a proposal that would limit manufacturers' power to set extremely high prices by capping launch prices based on the historical trends of similar drugs. A domestic reference pricing approach could be used for new drugs coming to market without an international price reference. This approach to pricing was first proposed by West Health in the summer of 2020 and has since been of interest to the Senate Finance Committee for inclusion in its upcoming drug pricing legislation.

For this study, researchers analyzed the differences between the proposed domestic reference price and the actual launch price for 66 new brand drugs approved by the Food and Drug Administration between 2015-2019. Researchers found a domestic reference pricing model would have reduced Medicare expenditures on new drugs during this period by 18-30%.

"High launch prices are the greatest contributor to increased drug spending, and manufacturers have shown no restraint in pricing new drugs ever higher," said Sean Dickson, Director of Health Policy at the West Health Policy Center and CIDSA Chair, who led this study. "Domestic reference pricing is a straightforward approach to keep drug launch prices in line with historical prices, prices which have generated the pharmaceutical innovation we see today."

The domestic reference price was based on the average launch price of clinically comparable therapies, as determined by a team of pharmacists. This average launch price was adjusted for inflation, and then was increased by a presumed innovation premium based on the age of the comparator therapies, with a higher premium for innovation in older therapeutic areas.

Of the 66 drugs evaluated, 49 had launch prices higher than the domestic reference pricing model. When applied to drugs with higher launch prices, domestic referencing pricing was projected to reduce launch prices by 34%, on average. This reduction in launch prices would have resulted in savings of $7 billion to Medicare and an additional $1.2 billion in savings to Medicare beneficiaries. While less common, 17 drugs were launched at prices below the calculated domestic reference price, and in limited cases applying the model to these drugs may have reduced Medicare savings. Regardless, during the approval period, there still would have been a net savings of $4.7 to $6.5 billion (18-30%).

"As Congress considers drug pricing policies that save money without limiting innovation, domestic reference pricing must be under consideration," said Inmaculada Hernandez, Pharm.D., Ph.D., associate professor at UC San Diego and co-author of the study. "Without a limit on future launch prices, drug manufacturers will continue to abuse their monopoly power."

"Domestic reference pricing is based on the clinical work pharmacists do every day," said Lucas Berenbrok, Pharm.D., associate professor at the Pitt School of Pharmacy and co-author of the study. "Our model limits high drug launch prices while still allowing drug companies to earn profits consistent with historical practices, not the outsized prices they charge today."

More information: White paper: uploads-ssl.webflow.com/5e59d7 … 0b4e89ec57_Estimated

%20Medicare%20Savings%20from%20Domestic%20Reference%20Pricing.pdf

Provided by West Health Institute