

How can we set a fair price for drugs?

January 28 2022, by Mary-Russell Roberson



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Health economist Peter Neumann has a proposal for how to rein in the growing costs of prescription drugs.

"Everyone wants lower [drug](#) prices," says Neumann, the Tufts University School of Medicine professor who directs the Center for the Evaluation of Value and Risk in Health (CEVR) at Tufts Medical Center. "But we'd

really like the prices to reflect the value of what the drugs deliver. And that begs the question, how do you measure value and what does it mean?"

Neumann and his CEVR colleagues Joshua T. Cohen and Daniel A. Ollendorf address the issue of fair pricing in their new book *The Right Price: A Value-Based Prescription for Drug Costs* and in a recent article in the *New England Journal of Medicine*. They argue that it is possible to measure the value of a drug to a patient and to society, and that such values ought to inform drug pricing.

Neumann spoke with Tufts Now about value-based pricing and how it could help lower [drug costs](#).

Tufts Now: What is the problem with current pharmaceutical prices?

Peter Neumann: We pay a lot more than other countries for our drugs, and individuals are seeing higher and higher out-of-pocket costs. In some cases, we have some very, very high prices for seemingly small clinical effects. Drug companies are relatively free to set prices in the United States compared to a lot of countries.

The problem with [prescription drugs](#) is there is no well-functioning market. The patient can't judge the value of a cancer drug or a drug for an infectious disease or multiple sclerosis because it's complicated.

Are there ways to measure the value of a prescription drug?

We do have techniques and analytic tools that help us judge the value of drugs. Cost-effectiveness analysis is a tool to estimate consequences and

costs of using drugs in terms of clinical benefits and economic consequences—for example, if you are taking a drug for cancer or depression or asthma that helps you manage your condition, it may keep you out of the hospital or doctor's office and we can account for those potential cost offsets. There are many questions of how to measure costs and benefits. But cost-effectiveness analysis provides a good starting point. And it can and should be used in value-based pricing exercises and negotiations.

How do you assess a drug's projected clinical benefit for a patient?

Life expectancy is a concept we are familiar with. A cancer drug might extend life on average by six months. The question is, what is the quality of life during those six months? We can measure that—one way is on a scale from 0 to 1, where 0 is dead and 1 is perfect health and numbers in between reflect the degree of impairment in terms of physical health, mental health, pain, cognitive ability, the ability to walk and so on. It sounds challenging to do that, and it can be, but these numbers are intended as guides; they are not intended to dictate decisions.

Is value-based pricing used in other countries?

It's used most visibly in countries such as the UK—they have an agency that conducts these kinds of analyses and they use them to help set reimbursement and coverage policy for new drugs and other health interventions.

Has the United States taken any steps toward value-based drug pricing?

There is an institution called the Institute for Clinical and Economic

Review. It's a private nonprofit organization and they are doing these analyses for new drugs and using them to communicate information about what is an acceptable and fair price. They do a good job, but I think it would be even better to have a public body doing that. There is a good argument that the information is a public good, as economists would say, and [public goods](#) are by definition underproduced by private markets and a function better placed in the government. Having this information more broadly available could help make drug pricing less opaque and ultimately fairer. It's important to recognize, though, that value-based pricing won't solve all affordability issues. We still need other changes in the system, like reducing out-of-pocket [costs](#) for patients.

More information: Peter J. Neumann et al, Drug-Pricing Debate Redux—Should Cost-Effectiveness Analysis Be Used Now to Price Pharmaceuticals?, *New England Journal of Medicine* (2021). [DOI: 10.1056/NEJMp2113323](#)

Provided by Tufts University

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