

# External reference drug pricing could save medicare tens of billions

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A new study by researchers at the Johns Hopkins Bloomberg School of Public Health found that prices for brand-name prescription drugs averaged 3.2 to 4.1 times higher in the U.S. when compared with prices in the United Kingdom, Japan and the Canadian province of Ontario. The study also found that the longer the brand-name prescription drug was on the market, the greater the price differential.

If the Medicare program used the same [prices](#) as these other countries, the estimated savings to Medicare Part D would have been almost \$73 billion in 2018 alone, the study found. Medicare Part D is an optional prescription drug benefit, available to Medicare beneficiaries for a premium and administered by private insurance companies.

The findings will be published in the May issue of *Health Affairs*.

U.S. prescription drug prices for [brand-name drugs](#) are the highest in the world. One approach to lower U.S. prescription drug prices is to benchmark drug prices to those paid in other countries using a [pricing model](#) known as external reference pricing.

An estimated 29 European countries as well as Australia, New Zealand, Brazil and South Africa use this approach for the purposes of setting and negotiating the price of a drug.

"Every year we pay more for brand-name drugs and other countries pay less for the same drugs," says Gerard Anderson, Ph.D., professor in the Bloomberg School's Department of Health Policy and Management and the paper's senior author. "Medicare beneficiaries pay much higher prices for the same drugs that seniors in other countries pay. If they paid the same prices as other countries, their drug bills would drop considerably."

The study examined drug prices of 79 single-source, brand-name prescription drugs that are under patent—meaning no generic versions are available—with the greatest spending on Medicare Part D in the United States. The study compares the prices to what is paid in Japan, the United Kingdom and the Canadian province of Ontario. The drugs covered by the study treat a range of illnesses including blood clotting, diabetes, with antivirals and immunosuppressants as well as other brand-name blockbuster drugs that had been on the market for at least three years. Researchers examined drug prices before and after rebates from drug manufacturers and calculated savings based on different assumptions. Pharmaceutical rebates are a type of refund of a purchase price from the drug manufacturer to a wholesaler or pharmacy benefits manager intended to increase sales and are often confidential.

Researchers selected the countries of comparison based on their similar per capita incomes, large pharmaceutical markets and their unique price-setting approaches. The U.K. sets drug prices by looking at the value of the drug, while Japan uses external reference pricing and has a formula that continually lowers the price and Canada uses a combination of benchmarking models.

They obtained foreign drug price information from public sources used by external reference pricing authorities. Domestic drug pricing and rebate information were obtained from published wholesaler acquisition costs and other public sources. Drug utilization information was obtained from Medicare Part D data to estimate the potential savings with various external reference pricing situations.

The study found that these 79 single-source, brand-name prescription drugs accounted for over half of total Medicare Part D spending in 2018. Before rebates, the findings show average drug prices in the U.S. were 4.3 times higher than prices in the U.K., and 3.8 and 3.4 times higher in Japan and Ontario, respectively. After rebates, the U.S. had average drug prices 3.6 times higher than the U.K., and 3.2 and 4.1 times higher than Japan and Ontario respectively.

The study also found large variations of drug prices for the same drug between the U.S. and the foreign counterparts. For some drugs the price was only 30 percent higher in the U.S., while other drugs were 7,000 percent more expensive in the U.S. Diabetes medications had the largest average price differential, 9 times more expensive in the U.S. than the same [drug](#) in the U.K. Injectable drugs were 11.5 times more expensive in the U.S. as compared to the U.K. and around 8 times higher than Japan and Ontario.

If these prices were adopted the Medicare program, Medicare beneficiaries would pay considerably less than they do today. In one scenario using external reference pricing, the researchers found that if the U.S. purchased the same drugs at the U.K. pre-rebate price, Medicare spending would have been reduced by more than 70 percent in 2018. In another scenario, researchers used the average price for drugs sold in two or more countries and found more than a 67 percent reduction.

"Ideally, the U.S. should be paying similar prices to other countries," says Anderson. "In fact, Medicare beneficiaries and taxpayers are paying much more for the same drugs as other countries. Given that many Medicare beneficiaries cannot afford their drugs, this is a serious problem that does have a

solution."

**More information:** "Using External Reference Pricing In Medicare Part D to Reduce Drug Price Differentials With Other Countries" *Health Affairs* (2019).

Provided by Johns Hopkins University Bloomberg School of Public Health

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