# Can We Apply Value-Based Pricing to Highly Effective, but High Cost Therapies?

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## Outline of Presentation

- What is value-based pricing?
- Challenges posed by highly effective, but high cost therapies
- Possible ways forward

# What is 'Value-Based Pricing?

- Put simply, this involves pricing medicines according to the value they add (as compared with the current stand of care)
- Normally, 'value' is defined from the perspective of the payer
- In practice, value-based pricing raises a number of issues

# Issues Raised by Value-Based Pricing

*Defining the dimensions of 'value'*

- health gain only?
- other considerations?

*Determining the local decision rule*

- explicit cost per QALY threshold?
- general rating (e.g. 0-5), as a guide for price negotiations?

*Dealing with multiple indications*

- price/volume agreements?
- weighted price?

*Determining the level of transparency*

- publication of assessments?
- publication of negotiated prices?

## Challenges Posed by Highly Effective, but High Cost Therapies

- *Example 1: Where no effective treatment currently exists*

  - in this case, current expenditure might be quite low and the new therapy, while being highly effective, would greatly add to costs (eg new drugs for spinal muscular atrophy (SMA) in young children

- *Example 2: Where the therapy replaces an existing, high cost therapy for a chronic disease*

  -in this case, a new therapy might justify a very high price by offering a potential 'cure', as a replacement for an expensive therapy for a chronic disease (eg new drugs for haemophilia A with inhibitors

## Possible Ways Forward

- Expanding the notion of 'value'
- Employing different decision rules
- Developing novel payment models

# Possible Elements of Value

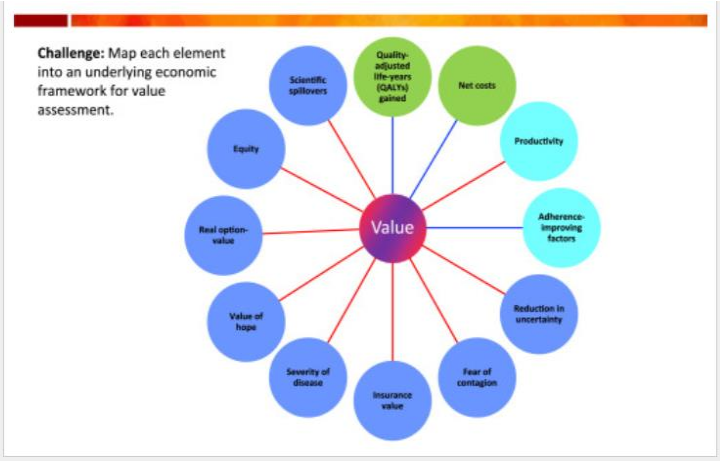


**Fig. 1**

Elements of value. Note. Green circles: core elements of value; light blue circles: common but inconsistently used elements of

# Relevance to Highly Effective, But High Cost Medicines

- Although quality-adjusted life-years are likely to be a relevant measure of benefit, other 'novel' aspects of value may need to be explored
- These may include:
  - severity of disease
  - insurance value
  - scientific spillovers
  - option value

# Different Decision Rules

- Some jurisdictions that use cost-effectiveness thresholds are employing 'modifiers' to the threshold (eg Scotland, Sweden)
- Some jurisdictions have a different threshold for highly effective, but high cost medicines (eg NICE's higher threshold for 'highly specialised technologies in the UK)
- Rate of return pricing has been suggested for situations where value-based pricing cannot be applied (Drummmond and Towse, *European Journal of Health Economics* 2019)

# Use of Rate of Return Pricing

- Sometimes value-based pricing is difficult to apply:
  - where the therapy is not cost-effective by normal criteria
  - where a value-based price might imply a very high cost for the therapy
- Although not ideal, one approach would be to price based on the principle that the manufacturer should not make a return higher than the market average
- The main disadvantages of this approach are that:
  - manufacturers' costs for drug development are not very transparent
  - the manufacturer has no incentive to control costs, or to conduct research in' high value' areas of need

Drummond MF, Towse A. *Eur J Health Econ 2019*
https://doi.org/10.1007/s10198-019-01032-7.

# Novel Payment Models

- Where the concerns relate to the uncertainties about long-term effectiveness, '*outcomes-based*' agreements may be useful
- Where the concerns relate to affordability, '*finance-based*' agreements may be useful