Pricing Pharmaceuticals for the Common Good: Is Value-Based Pricing Still the Right Solution?

ISPOR EUROPE 2023 PANEL SESSION

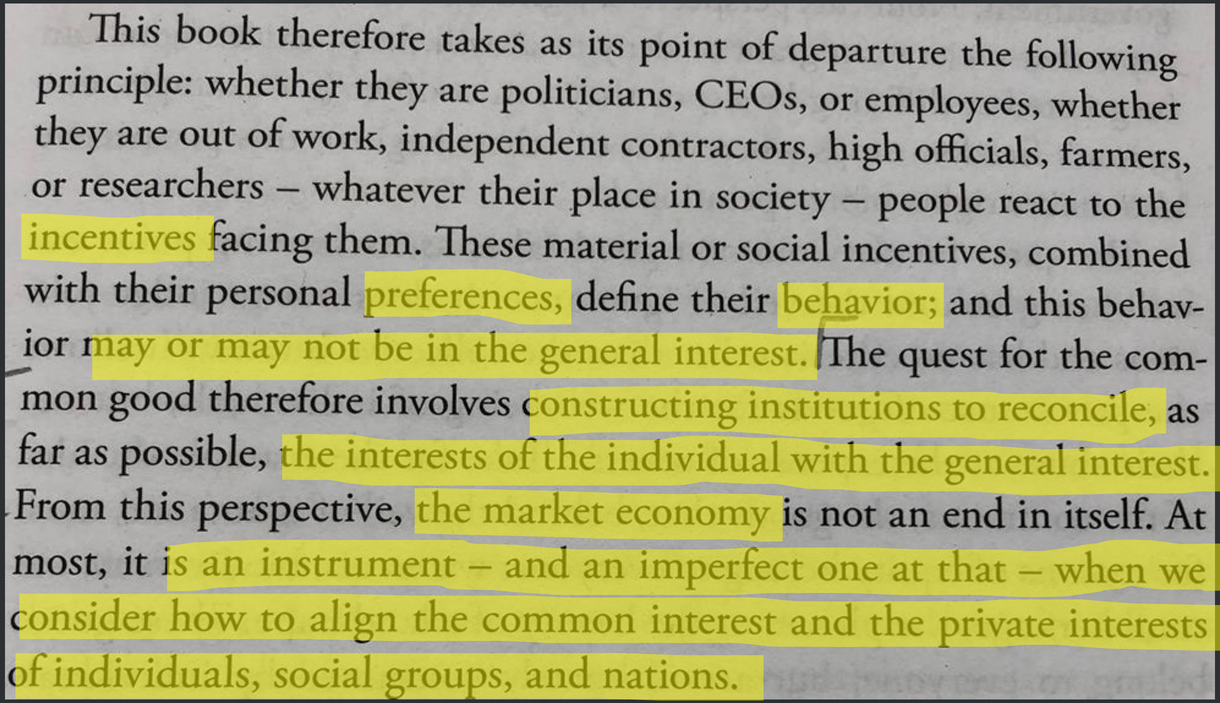
Moderated by
Mikel Berdud
Senior Principal Economist, Office of Health Economics

Setting the context for the discussion: three relevant questions for the audience

1. What is the common good?
2. Is it possible – according to economic theory?
3. What is the role of pricing in achieving the common good?

What is the common good?

Tirole, J. (2018). *Economics for the common good*. Princeton University Press.



This book therefore takes as its point of departure the following principle: whether they are politicians, CEOs, or employees, whether they are out of work, independent contractors, high officials, farmers, or researchers – whatever their place in society – people react to the incentives facing them. These material or social incentives, combined with their personal preferences, define their behavior; and this behavior may or may not be in the general interest. The quest for the common good therefore involves constructing institutions to reconcile, as far as possible, the interests of the individual with the general interest. From this perspective, the market economy is not an end in itself. At most, it is an instrument – and an imperfect one at that – when we consider how to align the common interest and the private interests of individuals, social groups, and nations.

What is the common good?

In the context of pharmaceutical innovation

Individuals, individual interests and behaviours in the pharmaceutical market are...

- Patients, needing fastest access possible to the "most effective" treatments
- Payers, aiming affordable access to the "most effective" treatments
- Policy makers, ensuring health systems sustainability in using the "most effective" treatments
- Industry, seeking to develop the "most effective" treatments and capture a share of of the value of innovation to maximise returns on investment in R&D

And therefore, the general interest in the context of pharmaceutical innovation and markets is...

What is the common good?

In the context of pharmaceutical innovation

Individuals, individual interests and behaviours in the pharmaceutical market are...

- Patients, needing fastest access possible to the "most effective" treatments
- Payers, aiming affordable access to the "most effective" treatments
- Policy makers, ensuring health systems sustainability in using the "most effective" treatments
- Industry, seeking to develop the "most effective" treatments and capture a share of that value to maximise returns on investment in R&D

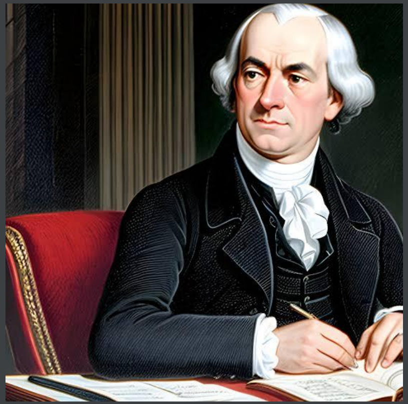
And therefore, the general interest in the context of pharmaceutical innovation and markets is...

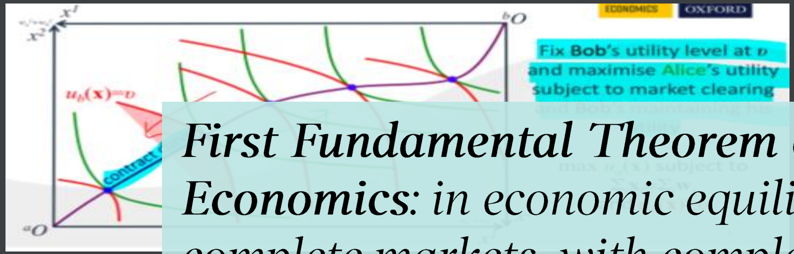
To ensure that patients can access medicines in a way that is sustainable for healthcare systems whilst also supporting a sustainable stream of innovation that delivers continuous improvements in the treatment options available for patients and the society

THE TRIPLE WIN

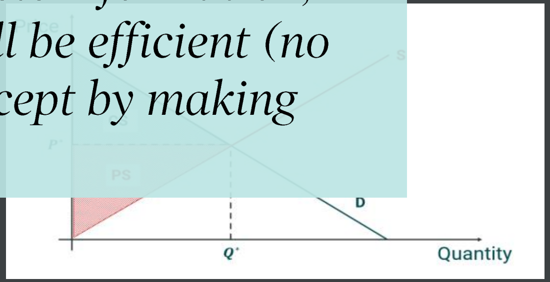
Is it possible – according to economic theory?

The invisible hand!
Every individual by pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.



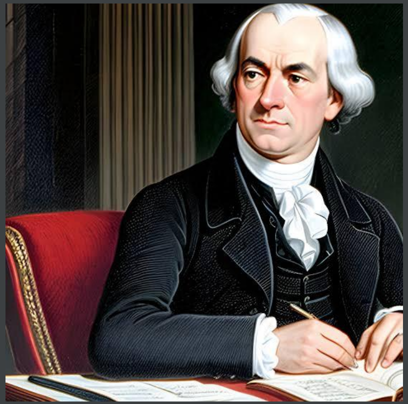


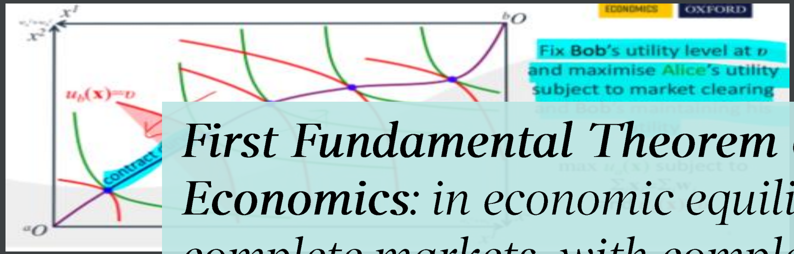
***First Fundamental Theorem of Welfare Economics**: in economic equilibrium, a set of complete markets, with complete information, and in perfect competition, will be efficient (no individual can be better off except by making other worse off)*



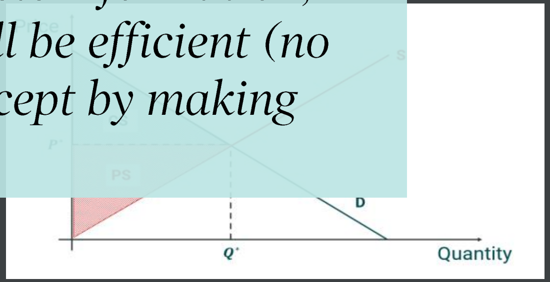
Is it possible – according to economic theory?

The invisible hand!
Every individual by pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.





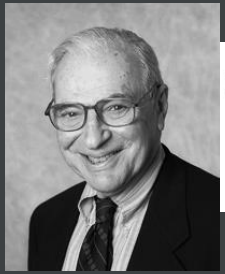
First Fundamental Theorem of Welfare Economics: in economic equilibrium, a set of complete markets, with complete information, and in perfect competition, will be efficient (no individual can be better off except by making other worse off)



OK but… **MARKET FAILURES!**
Externalities, asymmetric information, public goods,…

Market failure: A situation in which the market equilibria or the allocation of goods and services by a free market is not efficient.

[Individuals' pursuit of pure self-interest leads to results that are not efficient from the social point of view]



UNCERTAINTY AND THE WELFARE ECONOMICS OF MEDICAL CARE

By KENNETH J. ARROW*

The Market for 'Lemons': Quality Uncertainty and the Market Mechanism*

GEORGE A. AKERLOF†

EXTERNALITIES IN ECONOMIES WITH IMPERFECT INFORMATION AND INCOMPLETE MARKETS*

BRUCE C. GREENWALD AND JOSEPH E. STIGLITZ

Is it possible – according to economic theory?

In the context of pharmaceutical innovation

OHE

Pharmaceutical innovation suffers from three generic sources of market failures:

- Uncertainty: risk of making and adopting new things
- Indivisibilities: large set-up cost and low marginal cost
- Externalities / public-good nature: non-rivalry in consuming knowledge

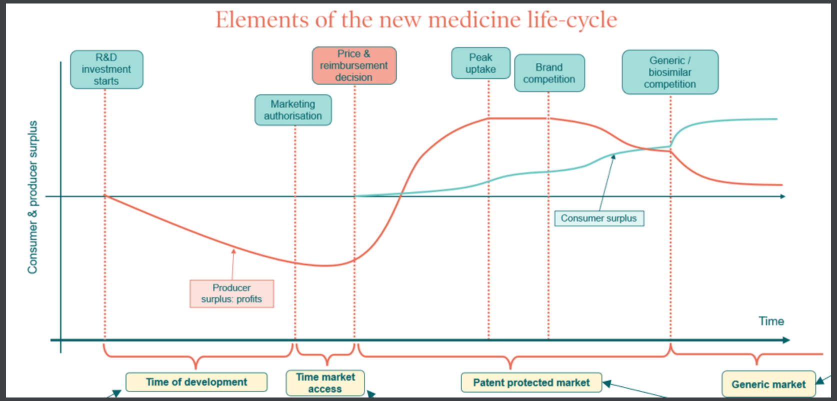
In pharmaceutical markets, intellectual property (IP) protection (patents) fixes these market failures: it allows innovators to charge higher prices during the patent term and address the issue of appropriability *i.e. innovator's capacity to appropriate value of innovation*

- Too low appropriability means low incentives to invest in R&D and causes socially suboptimal (too low) levels of investment for future innovation and a future economic, health loss and social welfare loss
- Too high appropriability (protection/prices) means unaffordable innovation: too high prices are charged resulting in suboptimal access whereby new medicines are not efficiently used by groups of patients/countries/systems producing an economic, health and social welfare loss

But… the IP protection and pricing during the patent term need to be carefully determined to achieve the triple win, and therefore, the common good.

What is the role of pricing in achieving the common good?

- In markets where quantities* are (quite) determined (maximum patient access possible), the price* at which this is achieved defines the equilibrium and allocative efficiency – how much each party wins in the transaction!
- Markets for pharmaceutical innovation are characterized by DYNAMICS:
  - Static efficiency: relates to achieving the maximum health gain from the use of existing innovation, in the present and with fixed resources – the minimum price the innovator would accept from a payer who aims to maximise use
  - Dynamic efficiency: relates to achieving the maximum health gain from the use of existing and future innovation, which requires optimal amount of future innovation is developed by investing in R&D today(!) – the price that secures a return on investments that keep innovators investing in future innovation



- Second best static and dynamic efficiency: a situation where dynamic efficiency is achieved at the minimum level possible of static in-efficiency – maximum access possible while keeping enough incentives for future innovation
- *Are we getting closer to the common good?*

Pricing Pharmaceuticals for the Common Good Is Value-Based Pricing Still the Right Solution?

1. Is Value-Based Pricing still the right solution?
2. How do other pricing approaches compare to VBP in achieving the common good?
3. Which challenges do we expect in making prices reflect value in real world pricing and reimbursement decisions?
4. What does value of pharmaceutical innovation mean for different stakeholders e.g. policy makers, payers, patients, healthcare systems, innovators? How can it be captured?
5. How can VBP be implemented in the real world to work for all countries and help to achieve the common good internationally?

Pricing Pharmaceuticals for the Common Good – **Our Panellists**

OHE

Eleanor Bell (OHE), will discuss how far competing pricing models deliver for the common good based on economic theory, empirical scientific literature, and recent OHE research.

Oriol Sola-Morales (HITT), will discuss challenges in implementing a European strategy for value measurement to support an EU VBP pricing approach, and advocate for Value-Based HTA as a way forward.

Thomas Allvin (EFPIA), will present the Equity-Based Tiered Pricing framework as an evolution of VBP designed to ensure that ability to pay across countries is considered in the prices of innovative medicines.

Pricing Pharmaceuticals for the Common Good – **Our Panellists**

Graham Cookson (OHE), will discuss how far competing pricing models deliver for the common good based on economic theory, empirical scientific literature, and recent OHE research.

Oriol Sola-Morales (HITT), will discuss challenges in implementing a European strategy for value measurement to support an EU VBP pricing approach, and advocate for Value-Based HTA as a way forward.

Thomas Allvin (EFPIA), will present the Equity-Based Tiered Pricing framework as an evolution of VBP designed to ensure that ability to pay across countries is considered in the prices of innovative medicines.