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HCRP:
Perspective on Drug Pricing in the US

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This election year has raised the profile of drug pricing and pharmaceutical commercial practices as a political issue; it would be natural to ask what impact that may have on the other side of the election. The issue was highlighted by Hillary Clinton's famous tweet following Martin Shkreli's brazen defense of Turing Pharmaceutical's startling price increase on a generic drug. Some of the questions surrounding Valeant Pharmaceutical's use of captive specialty pharmacies only exacerbated the noise.

Pharmaceuticals have occupied a peculiar place in the discussion surrounding healthcare costs. Drugs account for somewhere between 10 – 20% of healthcare spending, but receive a disproportionate share of attention in the debate. Pharmaceuticals provide the best 'ROI' of any medical intervention – whether it is a vaccine preventing life-threatening illness, a drug that controls blood glucose in a diabetic patient, or a novel cancer therapeutic that dramatically extends life.

But patients are more aware of drug costs than the costs of other elements of healthcare spending, which are typically paid for directly by insurers. The patient who goes to the pharmacy monthly to refill a prescription cannot help but notice how much they are paying for that drug. The net effect is that patients are often more vexed by a prescription costing $160 per month than by a $20,000 hospital bill.

Where do we expect the current political furor over drug pricing to lead? It is a particularly important question, given the fact that drug pricing is one of the populist issues that both Democrats and Republicans are exploiting in the presidential race. It is hard to predict any specific outcome, but certain trends seem likely:

1. There will continue to be pressure, from both governmental (Medicare and Medicaid) and private payers, on drug pricing. That pressure will be felt most acutely by those drugs with substitutes. Conversely, those drugs which afford unique clinical advantages will able to preserve the most attractive pricing.

2. Generics and biosimilars (the equivalent of generic drugs for biotechnology products) will benefit from the push to constrain spending on drug treatments. In contrast to typical generic drugs, which are priced at a steep discount to innovator drugs, biosimilars are expected to preserve pricing power better.

3. Clinical pathways and guidelines will grow in use and impact. That will benefit those drugs affording the greatest clinical benefit in specific situations. It may also mute the revenue ramp of new drugs that enter markets to compete with existing therapies that have significant effectiveness.

4. We are likely to see a shift toward value-based pricing. Stated simply, value-based pricing means that the same dose of the same drug can command different prices when used in different indications, when the effectiveness in those indications can be predicted. This will probably enter first in the oncology area. For

example, if a given therapy has 40% efficacy in the treatment of cancer A, but has demonstrated 65% efficacy in cancer B, payers may be willing to pay $25,000 for a course of treatment in cancer B, but only $15,000 for the same course of therapy in cancer A. This has already been proposed by certain pharmacy benefits managers, such as Express Scripts.

5. Pharmaco-economic analysis and comparative effectiveness research will grow in importance, as both payers and pharmaceutical companies seek to understand and demonstrate the economic value of therapeutic interventions. This work is currently most advanced in certain European bodies, such as NICE (the UK's National Institute for Health and Care Excellence), that are methodically evaluating new therapies as they are introduced.

Placing these trends into context, it is important to recognize that drug treatment will continue to afford the best value – in terms of clinical outcome for a given price – of any form of medical intervention. The pharmaceutical industry will continue to innovate, and those drugs which can demonstrate differentiated clinical benefit will continue to maintain pricing power, because they will also provide demonstrable pharmaco-economic benefit.

HealthCare Royalty Partners has been including reimbursement analysis as part of its product evaluation since its inception. The selection of products that have the differentiation and efficacy to preserve pricing requires precisely the skills in product analysis in which HealthCare Royalty Partners excels.