



Topic

VALUE-BASED CARE NEWS

Employer Reference Pricing Lowers Prescription Drug Expenses

New research finds that employer use of reference pricing can lower prescription drug expenses and increase employee cost-sharing.



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By Thomas Beaton (<mailto:tbeaton@xtelligentmedia.com>)

August 22, 2017 - As payers and employers learn to counter significant increases of prescription drug expenses, reference pricing may hold the key to lowering drug spending and increasing consumer purchases of lower cost drugs, according to research published in *The New England Journal of Medicine*. (<http://www.nejm.org/doi/full/10.1056/NEJMs1700087>)

A team from UC Berkeley School of Public Health found that the RETA Trust — an employer group that purchases health care for clergy, school teachers, and other lay and religious employees — experienced a \$1.34-million decrease in prescription drug spending after implementing reference pricing over an 18-month period.

Rising healthcare costs have payers looking to **management strategies** (<https://healthpayerintelligence.com/news/employer-cost-management-strategies-combat-high-insurance-costs>) that help reduce pricing and affordability issues that persist in the prescription drug market. As healthcare stakeholders and pharmaceutical market experts evaluate these strategies, the research team looked closer at the potential of reference pricing for therapeutic drugs.

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Reference pricing allows a payer or employer to set cost-sharing agreements between organizations and beneficiaries for desired medications and can help payers lower associated costs on medications.

“With reference pricing, the employer or insurer will make a contribution towards paying for the prescription drug chosen by the patient, and the patient will pay the remainder,” said lead author James C. Robinson, director of the Berkeley Center for Health Technology at the School of Public Health in a press release emailed to journalists.

“If the patient chooses a cheap or moderately priced option, the employer's contribution will cover most of the cost. However, if the patient insists on a particularly high-priced option, he or she will need to make a meaningful payment from personal resources,” he continued.

The study analyzed changes in prescriptions and pricing for 1,302 drugs in 78 therapeutic classes in the United States before and after RETA began implementation of reference pricing. Researchers compared the trends to an employee union cohort that did not utilize reference pricing.

In comparison to the cohort union, the RETA Trust experienced a 7-percent increase in prescriptions filled for the low-price reference drug, a 14-percent decrease in average price paid, and a 5-percent increase in consumer cost sharing.

The results of the study indicate that reference pricing may also be a tool for payers and employers to influence how premiums are spent on drugs. Recent data has found that prescription drugs account for **22 percent of premium spending** (<https://healthpayerintelligence.com/news/prescription-drugs-account-for-22-of-payer-premium-spending>), but reference pricing could make it more challenging for drug manufacturers to charge high premium spending on their products.

“The recent spikes in drug prices have increased the attention that policymakers are paying to pharmaceutical spending,” the authors wrote. “Reference pricing may be one instrument for influencing drug choices by patients and drug prices paid by employers and insurers. In the future, pharmaceutical manufacturers who wish to charge premium prices may need to supply evidence of commensurately premium performance.”

The results of the study indicate that employers, as well as payers, can use beneficiary choice and empowerment as an effective tool to manage high prescription drug costs.

The research on reference pricing is part of growing evidence that suggests giving health plan members higher control of their healthcare options makes them more responsible for costs and quality of services.

“Reference pricing changes are what we refer to as the 'choice architecture' of healthcare,” Robinson said. “Patients will have access to health care, but will need to pay attention to the price. Consumer choices in health care will come to resemble consumer choices in other areas, where people will make decisions based on value, which includes both good quality and affordable price.”

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