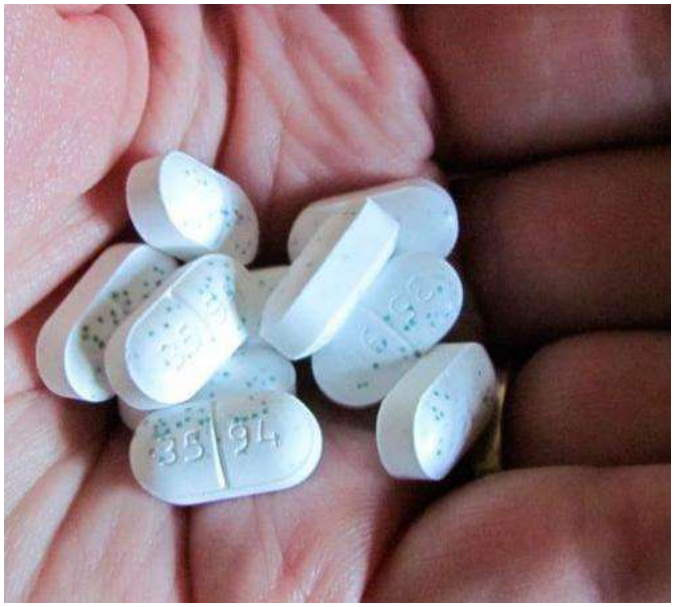
When given the chance to pay less, patients choose cheaper prescription drugs

August 22, 2017



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As prescription drug spending continues to rise in the United States, along with prices for new and well-established drugs, insurers, employers and patients are searching for ways to cut costs. A new study led by UC Berkeley researchers found that a policy called reference pricing is effective at encouraging patients to spend significantly less on prescription drugs by choosing cheaper drugs over name brand options.

Under the reference pricing strategy, the insurer or employer establishes its maximum contribution towards the price of therapeutically similar drugs and then the patient must pay the remainder out of pocket. The insurer/employer contribution is based on the price of the lowest-priced drug in the therapeutic class, called the reference drug. In theory, this policy would encourage patients to save money by selecting cheaper drugs that work just as well as their name-brand counterparts.

Reference pricing has been implemented across the United States by self-insured employers such as CalPERS, the agency which manages the pension and health benefits accounts for California public employees. Yet little has been known about how the policy has influenced patient spending on drugs. The new study found that reference pricing was associated with significant changes in drug selection and spending for patients covered by employment-based insurance in the United States. In the first 18 months after implementation, employers' spending dropped $1.34 million and employees' cost sharing increased $120,000.

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"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. "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."

The study was published in the August 17 edition of the *New England Journal of Medicine*. Previous studies of reference pricing by the Berkeley center examined the strategy's impact on consumer choices and on employer spending on surgical procedures, hospital procedures and tests. The current study was funded by the U.S. Agency for Healthcare Research and Quality and the Genentech Foundation.

The study analyzed changes in prescriptions and pricing for 1,302 drugs in 78 therapeutic classes in the United States, before and after an alliance of private employers began using reference pricing. The trends were compared to a cohort without reference pricing. The study's dataset included 1.1 million prescriptions reimbursed from 2010 to 2014.

Implementation of reference pricing was associated with a 7 percent increase in prescriptions filled for the low-price reference drug within its therapeutic class, a 14 percent decrease in average price paid, and a 5 percent increase in consumer cost sharing, the study found.

"Reference pricing changes are what we refer to as the 'choice architecture' of health care," 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.?"

Future evaluations of reference pricing will need to assess health outcomes, especially if reference pricing is extended to complex specialty drug classes, the authors note.

The data suggest that reference pricing may be one instrument for influencing drug choices by patients and drug prices paid by employers and insurers. In the future, pharmaceutical firms that wish to charge premium prices may need to supply evidence of commensurately premium performance.

"There is huge and unjustified variation within and across geographic areas in the prices charged for almost every test and treatment, drug and device, office visit and hospitalization," Robinson said. "It's not a surprise when one considers that most patients are covered by health insurance and hence do not shop among competing providers on the basis of price. Some providers look at price-unconscious consumer demand and ask themselves, 'Why don't we raise our prices?'"

Explore further: **Reference pricing changes consumers' choices**

More information: James C. Robinson et al, Association of Reference Pricing with Drug Selection and Spending, *New England Journal of Medicine* (2017). **DOI: 10.1056/NEJMsa1700087**

Journal reference: New England Journal of Medicine

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