



In the Literature

REFERENCE PRICING FOR DRUGS: IS IT COMPATIBLE WITH U.S. HEALTH CARE?

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Reference pricing—in which insurers cover only the low-cost, benchmark drugs in a therapeutic class and patients pay the difference in price if they want higher-cost alternatives—is being used in Canada, Germany, and elsewhere in an attempt to control spending on prescription drugs. The technique has more commonly been used by insurers for such items as eyeglasses and wheelchairs, and its application to prescription drugs is relatively novel. A new study supported by The Commonwealth Fund explores arguments for and against reference pricing, and discusses how this approach might work in the United States.

“Reference Pricing for Prescription Drugs: Is It Compatible with U.S. Health Care?,” by former Harkness Fellow Panos Kanavos, a lecturer in international health policy at the London School of Economics, and Uwe Reinhardt, a professor of political economy, economics, and public affairs at Princeton University, was published in the May/June issue of *Health Affairs*.

Already in the United States, Medicaid programs in Massachusetts and Delaware have begun to reimburse pharmacies for the lowest-priced drug in a therapeutic class, regardless of what drug is dispensed, and this cost-containment strategy is gaining attention in the U.S. private health insurance sector as well.

Proponents of reference pricing argue that it makes consumers and their physicians more sensitive to the relative prices of different drugs. Objections about its potential to drive low-income patients toward cheaper, potentially less-effective therapies are common, but the authors note that this argument may not

have currency in the American health care system, in which many, particularly elderly Americans, lack any prescription drug coverage.

More relevant to the United States health system, the authors say, are concerns that reference pricing may drive all products toward an average price, as has happened in Germany and other countries. If patented medicines are grouped together with generics and became less profitable as a result, there may be less incentive for companies to research and invest in innovative new drugs.

The authors conclude that any attempt to put reference pricing into effect in the United States will be complicated by the uncertainty about the impact of reference pricing on health care, as well as the importance of the pharmaceutical industry in this country. Implementing reference pricing will involve politically sensitive trade-offs and implementation challenges for U.S. policymakers.

Facts and Figures

- In 2001 in Germany, drugs under reference pricing represented 61.4 percent of all prescriptions and 36.8 percent of total spending for drugs.
- The price index for drugs that have been under reference pricing in Germany fell by about 30 percent from 1989 to 2001.
- During the same period, the price index for drugs not under Germany’s reference pricing controls increased by 25 percent.