By Ashley Noble

Everyone knows prescription drugs can be expensive. But what if the price of a drug was linked to whether it cured or improved the condition of a patient who used it?

This pricing strategy, known as value-based purchasing, or value-based contracting (VBP/C), is gaining interest from private insurance carriers and pharmaceutical companies.

Value-based purchasing contracts between insurance carriers and pharmaceutical companies can take a variety of forms. The principle behind them, however, is essentially the same. In such an arrangement, a pharmaceutical company enters into a contract with a health insurance carrier that includes the company’s drug on its formulary. If patients who use the drug do not sufficiently improve or have poor reported health outcomes, the company will provide discounts, rebates or refunds to the carrier.

For example, Amgen, which manufactures Repatha to treat high cholesterol levels, signed a contract with Harvard Pilgrim, an insurance carrier based out of Boston, earlier this year. In addition to negotiated discounts, Amgen promised additional rebates if patients did not experience reductions in cholesterol levels comparable to results found in the clinical trials. Or, if a Harvard Pilgrim subscriber who is prescribed Repatha suffers a heart attack or stroke while taking the drug, Amgen will provide Harvard Pilgrim a full refund for the carrier’s costs to cover the drug for that patient.

The Commonwealth Fund recently published an issue brief examining this emerging strategy to lower drug costs while ensuring high quality of patient care. The brief’s authors interviewed experts and contract professionals from nine pharmaceutical manufacturers and eight insurance carriers to determine the effect of value-based purchasing on patient outcomes and overall drug spending.

The study indicated mixed results. Because sample sizes are relatively small and pricing information for insurance formularies are often subject to strict confidentiality rules, it can be difficult to get a full picture of the effects of value-based purchasing or contracting. However, the report authors and interviewed stakeholders identified several potential benefits and drawbacks should these practices be adopted:

Potential Benefits

- Patients may receive access to new, innovative, and effective drugs more quickly than they might otherwise, since value-based contracting agreements can be used to encourage carriers to include new, expensive drugs in their formularies more quickly than they would without the reassurance that if the drug is ineffective in treating patients on the carriers’ plans, the carrier can recoup its costs for the drugs.

- Additionally, carriers can use these agreements to improve their formularies to include only the most effective drugs by weeding out new drugs that don’t offer the desired results in patient outcomes.

Potential Drawbacks

- Patients are unlikely to see any difference in out-of-pocket costs from value-based contracting programs. This is because the reimbursement rates for drugs are negotiated between insurance carriers and the pharmaceutical companies. If a drug doesn’t work for a patient who is covered by an insurance carrier’s plan, then the pharmaceutical company will give the carrier a refund or rebate to cover at least a portion of the cost of the drug, but not the portion of the costs borne by the patient. Determining whether a drug was effective for a patient and issuing the refund can take years.

- As of yet, no evidence exists that these plans make a measurable difference in prescription drug costs.

Want to learn more about this topic? Check us out at our NCSL Capitol Forum Dec. 10-11 in Coronado, Calif. NCSL members will be examining value-based purchasing and many other timely health care agenda issues.