Negotiation: A three-step solution to affordable prescription drugs

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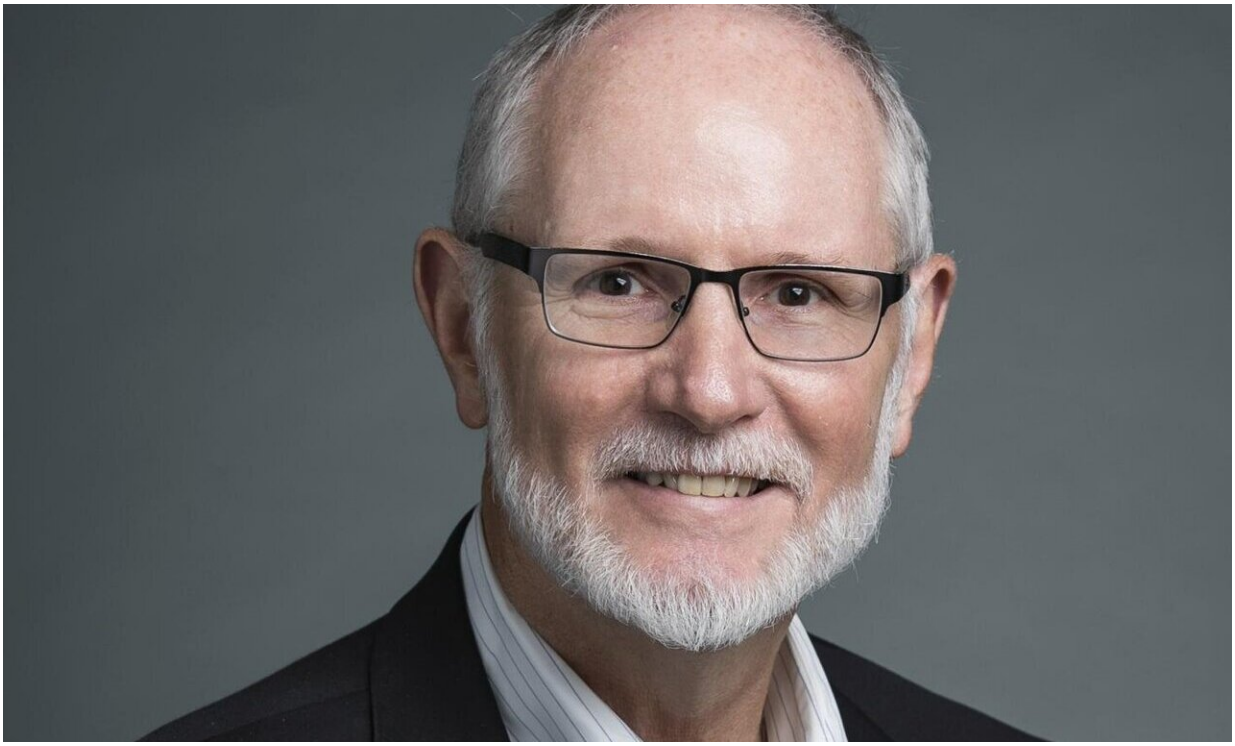

Dr. Len Nichols. Credit: George Mason University

Medicare often spends $3,590 for an individual's 30-day prescription after adjusting for all rebates, and prices continue to rise.

Dr. Richard G. Frank of the Harvard Medical School and Dr. Len M. Nichols of George Mason University's College of Health and Human

Services offer a perspective published today in the *New England Journal of Medicine* that balances prescription drug costs and incentives for innovation.

"The problem is lack of competition, and consumers and taxpayers are left picking up the check," explains Nichols. "Giving Medicare the ability to negotiate prices with pharmaceutical companies is critical to bring down the cost of health care."

Medicare spending for prescription drugs is growing at higher rates than other Medicare spending (9% for Medicare Part B drug spending and 7.3% for Medicare Part D, annually). Specialty drugs—those for a smaller number of patients that cost more and require clinical supervision—were responsible for 63% of the spending growth in Medicare Part D from 2010 to 2015.

"We need carefully designed Medicare prescription drug negotiations," says Frank. "We've proposed specific criteria to guide negotiations and maximize savings while preserving incentives for innovation."

To optimize negotiations, Frank and Nichols recommend two guiding principles: (1) targeting the right drugs and (2) establishing reference prices for negotiations. Medicare would begin negotiations on drug pricing when one of two criteria are met: (1) little competition with high markups and (2) high levels of annual Medicare spending or more than $500 million.

However, negotiations need to meet 3 items for success. First, Medicare will need the power to penalize manufacturers if a reasonable price could not be obtained. Second, upper and lower limits of drug pricing would be set in advance by using the dollars per quality-adjusted life-year (QALY) gained or a similar index. This step will allow higher prices for drugs providing more clinical value and, thereby, provide incentive for

developing medications needed most by populations. Third, a neutral third-party arbitrator would become involved if negotiations could not be reached between Medicare and a manufacturer.

Implementing these criteria, which are administratively feasible, would foster exchange and voluntary agreements between Medicare and pharmaceutical manufacturers to balance power amongst consumers and manufacturers while preserving incentives to innovate. This process would reduce the cost of prescription medications for taxpayers and consumers and slow accelerating Medicare expenses.

Provided by George Mason University