the weekly Standard

The Complicated Dynamics of Insurance Companies and Drug Prices

Putting a finger on the scale.

Ike Brannon and Devorah Goldman

October 03, 2016

What constitutes a "fair" price for a drug? Unsurprisingly, that depends on who's asking the question, as well as who's answering. To get a price that can actually be construed as fair, it is essential that these are not the same entity.

Many insurance companies would prefer that the Institute for Clinical and Economic Review, or ICER, be tasked with determining fair prices. That makes perfect sense, given that they created ICER in the first place and continue to fund it. ICER received its initial seed money a decade ago from the Blue Cross Blue Shield Foundation, and much of its subsequent funding has come from the insurance industry. It has become a prominent force in the healthcare marketplace and payers use its key offering, the ICER Value Assessment Framework, to guide their decisions on which drugs and medical services to cover and how much to pay.

Estimating the value of a new drug is never a straightforward exercise: it requires placing some valuation not just on months of life saved, but also on quality-of-life improvements offered by the new medicine in comparison with existing drugs. Such measurements are fraught with complications, and it's not difficult to put a "thumb on the scale" to get a desired result.

Some believe that relying on analyses conducted by an insurer-created entity presents a conflict of interest and can lead insurers to forego covering life-saving treatments. If an ICER report concludes that a medication is overpriced, insurers can argue that they should not have to cover it—to the detriment of patients seeking treatment and of providers seeking long-term savings by pursuing future medical developments.

For example, Jim Greenwood, CEO of BIO, argues that the values ICER attaches to medical treatments are "arbitrary, low-balled figures," and that ICER's sole function is to provide insurers low cost-estimates for drugs and other products. A key component of ICER reports is the cost projection of a particular drug to the healthcare system—a difficult number to extrapolate. Many factors are at play – drug sales are influenced by agreements with insurers and pharmacy benefits managers, private rebates, physician preferences, and public awareness of availability and efficacy, among other considerations. One recent study found that ICER overestimated the sales

of new high-cholesterol PCSK9 inhibitor drugs by more than $7 billion. This is a perfect demonstration of how dire warnings about high drug costs can depress sales on their own.

ICER also estimates "appropriate" drug prices, and its calls for price reduction are sometimes shocking. One report called for an asthma drug to have its price slashed by 76 percent; another found that a new blood cancer drug should be sold at 94 percent below its set market price. These extreme price recommendations ignore a basic premise within the biopharmaceutical industry – that drug sales fund innovation for new drugs, and that only one in 10 new medicines make it from Phase I clinical trials to FDA approval and the market.

Peter Neumann and Joshua Cohen, writing in the *New England Journal of Medicine*, also call into question the efficacy of ICER's analysis of PCSK9 inhibitor drug prices, which ICER recommended reducing from over $14,000 to $2,177 per year. Following ICER's report, prescriptions for these medicines were frequently rejected. Unfortunately, the report presents an overly rigid approach that goes well beyond cost-benefit analysis and injects arbitrary policy goals and metrics into decision-making.

Their broader complaint is that ICER imposes artificial constraints on each drug's budget impact in a way that has little to do with efficacy or value. In short, it treats the development of new drugs as virtually independent of the returns that accrue to a successful drug. By giving one entity the power to impact prices, we also give it the power to decide where investments are made and what new drugs are likely to be produced.

In a world of increasingly personalized medicine, attempts to precisely measure and control drug prices can throttle innovation that has the potential to save lives. When determining what is "fair" in the world of drug pricing, it's important to look closely at who is making those decisions and why.

Ike Brannon is a visiting fellow at the Cato Institute and president of Capital Policy Analytics. *Devorah Goldman is assistant editor at* National Affairs.