Understanding Value from the Payer’s Perspective: the NHS Experience – Karl Claxton, Professor of Economics, Centre for Health Economics, University of York

Prepared for: Differential Pricing Based on Value: Progressing the Discussion from Theory to Practice

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2:00-4:00PM
What is a value based price?

Health opportunity costs $K_h = £20,000$ per QALY

- Price > $P^*$: £60,000
- Price = $P^*$: £40,000
- Surplus to the HCS: £20,000
- Price < $P^*$: £20,000

Net Health Benefit:
- 1 QALY
- -1 QALY

QALYs gained

Health opportunity costs $K_h = £20,000$ per QALY
UK estimates of health opportunity costs


Incentives for future innovation?

Threshold for decision = health opportunity costs ($P^*$)
- Patent expires and generic entry at $t=15$
- Generic prices are 25% of the brand
- All prescribing switches to generic
- Or new brands compared to generic versions of old brands
- Discounted (3.5% for UK Treasury)
TA391 Cabazitaxel for prostate cancer

- Consumer surplus does not rise above zero due to high approval norm
- Consumer surplus will be lower if initial approval within the Cancer Drugs Fund taken into account
A global problem

Rebate required

Price

L=P1

P2

P3

HCS1

HCS2

HCS3

Q1

Q2

Q*

Quantity
Mechanisms for price discrimination

- NICE Appraisal
  - Benefits, costs
  - Appropriate volume

- Centre (DH)
  - Rebate required
  - Appropriate volume
  - Rebate beyond volume

- Assessment of health opportunity costs
Mechanisms for price discrimination

NICE Appraisal
Benefits, costs
Appropriate volume

Centre (DH)
Rebate required
Appropriate volume
Rebate beyond volume

Assessment of health opportunity costs

Manufacturer
Agrees to include in rebate calculation
Pays rebate based on sales

Prescriber
Pays manufacturer
Fully reimbursed by centre
NICE Appraisal
Benefits, costs
Appropriate volume

Centre (DH)
Rebate required
Appropriate volume
Rebate beyond volume

Assessment of health
opportunity costs

Manufacturer
Agrees to include in rebate
calculation
Pays rebate based on sales

Manufacturer
Does not agree to include in
rebate calculation

Prescriber
Pays manufacturer
Fully reimbursed by centre

Prescriber
Pays manufacturer
Not reimbursed

Mechanisms for price discrimination