Introducing Value-Based Differential Pricing

Center for Global Development
March 2020
• Price in each country based on a health system’s willingness to pay (via pooled resources)

• Willingness to pay reflects the actual, assessed value of the product within that market/health system accounting for affordability and budget constraints
Defining Value: Three Factors

How much additional value will the product create?

What are the net additional costs to the health system of adoption?

How much is the health system willing/able to pay for additional health benefits (per DALY/QALY)?
Service coverage (5.3):
South Africa “Detailed treatment guidelines, based on available evidence about cost-effective interventions, will be used to guide the delivery of comprehensive health entitlements. Treatment guidelines will be based on evidence regarding the most cost-effective interventions.”

HTA unit budgeted @R368m in 2018 budget by country’s Treasury

Indonesia: Minister of Health’s Decree No. 71 /2013 Article 34
(5)Health Technology Assessment Committee provide policy recommendation to the Minister on the feasibility of the health service as referred to in paragraph (4) to be included as benefit package of National Health Insurance

“the India Medical Technology Assessment Board for evaluation and appropriateness and cost effectiveness of the available and new Health Technologies in India...standardized cost effective interventions that will reduce the cost and variations in care, expenditure on medical equipment...overall cost of treatment, reduction in out of pocket expenditure of patients...’ Ref: MTAB, Ministry of Health & Family Welfare, Government of India
• Dramatically increase accessibility and affordability of health innovation
• Remove choice between restricting access or allowing a high price that damages other parts of the health system
• Make UHC more politically and financially sustainable
• Improve cross-country and within-country inequities in access to innovation
• Help signal LMIC health needs and demand to product developers
• However: if VBTP < marginal cost, still no commercial incentive to offer product for sale
What’s In It for Me? – Industry

- Increase revenue and profit during patent protection
- More predictable listing decisions, and therefore revenue
- Creates locally affordable access and may reduce risk of arbitrary or more extreme measures (price controls, compulsory licensing, etc.) to address unaffordable pharmaceutical prices
• **Transition planning**: mechanism for transitioning countries to continue receiving commodities through affordable, pooled mechanism; could be combined with predictable co-financing system

• **Better targeting of aid money**: Allows agencies to reallocate resources to the poorest countries versus subsidizing products at unnecessarily high prices

• **Value-informed market shaping**: Help inform commercial R&D and supplier investments based on comparative clinical value and global/national affordability
Challenges for the Implementation of VBTP

- **Countries with large out-of-pocket markets**: Individual demand curves (ability and willingness to pay) differ from population-wide willingness to pay.

- **External reference pricing**: May achieve short-term savings but in long-run leads to convergence toward single (high) global price; may dissuade supplier from offering a VBTP in a lower-value market.

- **Other forms of leakage**: E.g., reimportation to higher-value markets.
Imagining VBTP in Practice

Value-Based Assessment
- Based on incremental benefit experienced by population
- Limited by (a global, national or subnational, public or private) payer budget.

Value-Based Tiered Pricing
- Differential or tiered pricing based on local assessment of value
- Applied across countries or regions (states, provinces) with divergent wealth levels and health spend

Coordination mechanism and/or pooled procurement
- VBP determines differential prices across participating countries/states
- Procurement agent manages different VBPs through central rebates