

VALUE-BASED CONTRACTS: CHALLENGES AND OPPORTUNITIES

Recent advances in science are transforming our approach to treating and curing disease. As policymakers seek solutions to ensure patient access to the treatments they need and accelerate discovery of tomorrow's cures, we need thoughtful reforms to advance payment and delivery systems that are as innovative as new medicines.

Stakeholders in the U.S. health care system have begun to tie more payments to value instead of the volume of services provided. One important goal of this shift is to direct health care utilization to where it is most effective, increasing value for spending in the U.S. health care system.

Payers and biopharmaceutical companies are exploring a range of new value-based contracts—also known as results-based contracts—that tie reimbursement for medicines more closely to value for individual patients. These voluntary, private arrangements include performance-based contracts that link payment to demonstrated patient outcomes, varying payment based on how a medicine is used and other forms of risk sharing.

BENEFITS OF VALUE-BASED CONTRACTS

Value-based contracts have the potential to benefit patients and the health care system in several ways:

1. Value-based contracts can improve patient outcomes.

As biopharmaceutical companies reduce the payer's risk for suboptimal outcomes, payers are able to provide broader access to innovative medicines. This allows payers and biopharmaceutical companies to do more to support appropriate patient use of medicines. A 2017 analysis found that 38 percent of payers with outcomes-based contracts experienced improvements in patient outcomes and 33 percent experienced cost savings.ⁱ

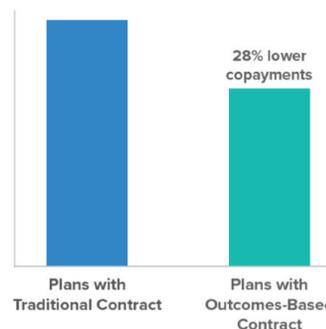
2. Value-based contracts can reduce medical costs.

Recent data show, for example, if results-based contracts lower the burden of diabetes in the United States by five percent, the United States could save more than \$12 billion annually. This data complements an earlier analysis that found 33 percent of payers that used results-based contracts experienced cost savings and 38 percent saw improved patient outcomes.ⁱⁱ

3. Value-based contracts can reduce the cost of medicines.

A recent analysis found, in the past 2 years, commercially insured patients in health plans with value-based contracts for diabetes, high cholesterol and HIV medicines had copays that were, on average, 28 percent lower for those medicines compared to other patients in other plans (see figure above).ⁱⁱⁱ

OUTCOMES-BASED CONTRACTS ASSOCIATED WITH COPAYMENT LOWERING EFFECT*



*Formulary analysis of 2015-2017 Silver level plans to examine tier placement, cost sharing and utilization management was conducted in April 2017 using Avalere Health PlanScape®, a proprietary analysis of exchange plan features. Formulary data is licensed from Managed Markets Insight & Technology, LLC.

BARRIERS TO VALUE-BASED CONTRACTS

We are starting to move toward a value-driven health care system, but we need public policy reforms that allow greater flexibility for innovative payment arrangements that lower out-of-pocket costs and enable patients to access the right treatments the first time. Unfortunately, regulations developed for an earlier era are limiting the number and scope of these new payment approaches.

In surveys, payers and PhRMA's members both identified a range of barriers that limit the scale and scope of value-based contracts in the market.^{iv,v} Recently the U.S. Food and Drug Administration (FDA) released final guidance on communications with payers, which was a substantial and positive step forward in allowing biopharmaceutical companies to communicate in support of value-based arrangements.

To spur more of these arrangements, we also need to reform regulations that discourage companies from offering discounts that are tied to outcomes rather than volume. And we need to clarify existing Medicaid best price requirements that inhibit companies from taking on more risk in new payment arrangements.

In addition to regulatory barriers cited in the PhRMA member survey, biopharmaceutical companies noted that significant operational barriers stand in the way of these contracts. Companies cited their inability to measure and/or track real-world outcomes as a leading barrier to implementing new approaches to paying for medicines.

Value-based contracts can reduce health care system costs and can make medicines more affordable and accessible for patients. While the market is beginning to move in this direction, we need public policy reforms that allow these innovative payment arrangements at a greater scale, lowering out-of-pocket costs and enabling patients to access the right treatments the first time.



i Avalere Health. Payer Perspectives on Outcomes Contracting. May 22, 2017

ii PhRMA. "Delivering Results for Patients: The Value of Value-Based Contracts. February 2018. <https://www.phrma.org/report/delivering-results-for-patients-the-value-of-value-based-contracts>

iii Ibid.

iv PhRMA. "Barriers to Value-Based Contracts for Innovative Medicines: PhRMA Member Survey Results," 2017.

Available at: https://www.statnews.com/wp-content/uploads/2017/03/PhRMA_ValueBased_MemberService_R23.pdf

v Ward AS et al. "Regulatory, Legal Uncertainties Are Barriers to Value-Based Agreements." Health Affairs Blog. November 4, 2016. Available at: <https://www.healthaffairs.org/doi/10.1377/hblog20161104.057443/full/>