

# VALUE-BASED CONTRACTS: CHALLENGES AND OPPORTUNITIES

Breakthrough medicines are revolutionizing how we fight disease, but too often patients have to fight to access these treatments. We can improve access and affordability for patients through market-based reforms that promote competition, modernize the drug discovery and development process, improve insurance affordability and move toward a system that prioritizes results for patients.

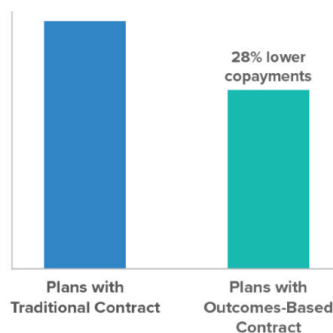
As we move toward a value-driven health care system, the focus should be on outcomes that matter most to patients, such as how medicines make patients feel, whether they can return to work or how their quality of life has improved.

Biopharmaceutical companies are working with payers, like insurance companies, to develop innovative and flexible ways to pay for medicines that focus on results, lower out-of-pocket costs, and enable patients to access the right treatments the first time. To spur more of these types of arrangements, policymakers need to modify outdated laws and regulations that limit the ability of private companies to negotiate better deals for medicines.

## BENEFITS OF VALUE-BASED CONTRACTS

Value-based contracts—also known as results-based contracts—can help patients and the health care system in several ways:

### 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 Avelere Health PlanScape®, a proprietary analysis of exchange plan features. Formulary data is licensed from Managed Markets Insight & Technology, LLC.

### 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% of payers with outcomes-based contracts experienced improvements in patient outcomes.<sup>i</sup>

### 2. Value-based contracts can reduce medical costs.

Recent data show that if results-based contracts lower the burden of diabetes in the United States by 5%, the United States could save more than \$12 billion annually. This data complements a 2017 analysis that found 33% of payers that used results-based contracts experienced cost savings.<sup>ii</sup>

**3. Value-based contracts can reduce the cost of medicines.** A recent analysis found that in the past two years, commercially insured patients in health plans with value-based contracts for diabetes, high cholesterol and HIV medicines had copays for those medicines that were, on average, 28% lower compared to patients in other plans.<sup>iii</sup>

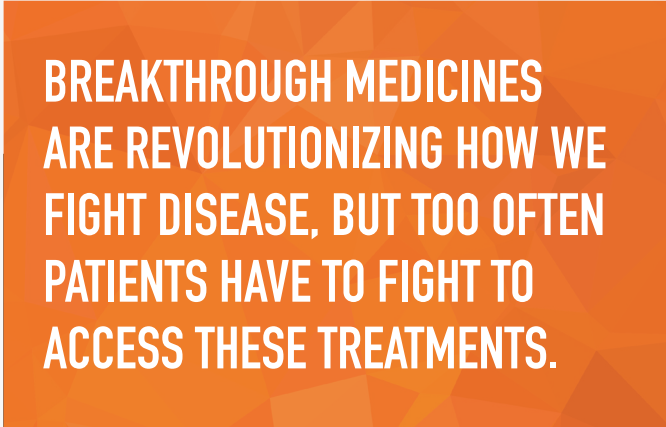
## BARRIERS TO VALUE-BASED CONTRACTS

Government regulations should not prevent the private sector from developing new and better ways to pay for medicines. Advancing common sense policy solutions will help ensure we get the right medicine to the right patient the first time. In surveys, payers and PhRMA members identified a range of barriers that limit the scale and scope of value-based contracts in the market.<sup>IV</sup> In 2018, 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 standing in the way of these contracts. Companies cited their inability to measure and/or track real-world outcomes as a leading barrier to implementing these 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.



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<sup>I</sup> Avalere Health. Payer Perspectives on Outcomes Contracting. May 22, 2017

<sup>II</sup> 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>

<sup>III</sup> Ibid.

<sup>IV</sup> 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](https://www.statnews.com/wp-content/uploads/2017/03/PhRMA_ValueBased_MemberService_R23.pdf)

<sup>V</sup> 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/>