International Standards for the Setting of Ceiling Prices

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Topics

- What are ceiling prices?
- What are international standards for setting them?
- What might they be based on?



Ceiling Prices

• What are they?

- Maximum amount insurer will pay for a product
- Companies may choose to price below ceiling
 - avoid price negotiations and delays
 - ◆gain market share
- Why use them?
 - Because market mechanisms not operating
 - Exercise "buyer power" in purchasing
- What should they reflect?
 - How much the insured are willing to pay for the (additional) benefit provided by an intervention. CR Institute



- Arbitrary
 - Across the board price cuts
- Price controls
 - Reference pricing
- Profit controls
 - Set maximum (and minimum) levels of profits that companies can earn
 - Repay if exceed
 - Increase price if shortfall.



Problems with Profit Controls

- Profit hard to measure accurately
 - Can game the system, use transfer pricing
 - Difficult to establish appropriate costs
 - Hard to verify costs
 - Long lag between investment and return
 - High rate of unsuccessful investment
- Undermines incentive to reduce costs
- Companies treated equally regardless of innovativeness
 - No incentive for innovation
 - Not efficient use of resources
- Does not reward benefits to patients.





- Arbitrary
 - Across the board price cuts
- Price controls
 - Reference pricing
- Profit controls
 - Set maximum (and minimum) levels of profits that companies can earn
 - Repay if exceed
 - Increase price if shortfall
- "Value"-based pricing.



Value-Based Pricing

Post-launch

- Free to set price at launch
- Ceiling price determined via economic evaluation after some time on market
- Pre-launch
 - Set ceiling price prior to launch via economic evaluation

Or agree to "risk-sharing" arrangement if evidence insufficient

- Agree on initial price
- Agree on evidence to be collected
- Reconcile via repayments, other.



Problems With Value-Based

- Fix budget limit
 - Price thresholds deduced afterward
 - Requires payments to/from companies
- Fix WTP
 - Establishing "value"
 - Establishing WTP threshold
- Choice of comparators
 - Generics.





























utility			
	A	В	С
Durability	++	+	+++
Comfort	++	++	+
Impermeable	++	+++	++







UTIIITY			
J	Α	В	С
Durability	++	+	+++
Comfort	++	++	+
Impermeable	++	+++	++

Comfortable Lasts for entire time in military Waterproof

Military supply officer



Heavy and uncomfortable Wears out quickly Permeable

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Proposed Solution



Proposed Solution



Proposed Solution



Utilities



Individual utilities u_i



Utilities

i





Utilities

i







Proposed Solution (1)



Individual utilities u_i



Proposed Solution (1)



Individual utilities u_i



Proposed Solution (1)



Individual utilities u_i

Societal utility

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But, ...





























No consensus about how individual utilities should be combined to form a social utility function (impossible to select universal weighting scheme)

NB Once you use a weighting scheme, the aggregate is no longer a utility **CR Institute**

Proposed Solution (2)



Individual utilities u_i

Dictator's utility

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Proposed Solution (2)



Individual utilities u_i

Dictator's utility

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Proposed Solution (3)

- QALY is not a utility, not a measure of value
- Societal value is proportional to amount of health produced
 - QOL & duration of benefit
 - Number of people helped



Proposed Solution (3)

Conceptualize consequence as having 2 dimensions: •Duration of life •Quality

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- Societal value is proportional to amount of health produced
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Valid? (Does it capture value?)



Source: Nord 1993

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Meaningful?

- Misleading to report a change in QOL in units of length of life; i.e., adjusted life years
- Reliable?
 - Even when same investigators use same methods, the repeatability of individual quality estimates, both within and between studies, is poor

Relevant?

- Quality estimates vary according to who estimates
- No consensus as to whose viewpoint should be used when making societal policy decisions.

Source: McGregor 2003

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IQWiGitis



IQWiGitis



Cost

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Cost

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Summary

- There are no international standards for setting a ceiling price
- Profit controls are problematic
- Value-based approach is preferable
 - But no standard for establishing value
 - QALY is not a value measure
 - Maximizing QALYs is not consistent with societal preferences
- An new approach focused on individual therapeutic areas may be more tractable

