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## **Two Medicare payment strategies to improve price competition and value for Part B drugs: Reference pricing and binding arbitration**

**ISSUE:** Spending for drugs covered under Part B has increased about 9.6 percent per year on average since 2009. Price growth accounts for the majority of spending growth, reflecting price inflation among existing products and shifts in the mix of drugs, including the launch of new high-priced products. The Commission has recommended several improvements to payment for Part B drugs including an average sales price (ASP) inflation rebate, consolidated billing codes for biosimilars and reference biologics, and a voluntary alternative to the ASP payment system that would use vendors to negotiate prices for Part B drugs. These policies, which aim to spur competition, address price growth, and lower prices, would be important steps forward; nonetheless, several additional issues remain. Under the ASP payment system, a new drug receives its own payment rate based on its own ASP. The payment system is not designed to spur price competition among single source drugs with similar health effects. Furthermore, a drug's payment rate may not have any relationship to its clinical effectiveness.

**KEY POINTS:** Reference pricing and binding arbitration are two potential tools that could be considered to incorporate price competition and value into Medicare payment for Part B drugs. Reference pricing focuses on products with similar health effects and binding arbitration focuses on expensive products with limited competition.

**ACTION:** At the March 2019 meeting, we seek Commissioners' guidance about each policy option.