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Drug Deals Tie Prices to How Well Patients Do

By ANDREW POLLACK

Think of it as product guarantees by the drug industry.

Pressed by insurance companies, some drug makers are beginning to adjust what they charge for their drugs, based on how well the medicines improve patients' health.

In a deal expected to be announced Thursday, Merck has agreed to peg what the insurer Cigna pays for the diabetes drugs Januvia and Janumet to how well Type 2 diabetes patients are able to control their blood sugar.

And last week, the two companies that jointly sell the osteoporosis drug Actonel agreed to reimburse the insurer Health Alliance for the costs of treating fractures suffered by patients taking that medicine.

"We're standing behind our product," said Dan Hecht, general manager of the North American pharmaceutical business of Procter & Gamble, which sells Actonel with Sanofi-Aventis. "We're willing to put our money where our mouth is."

Some experts hail such arrangements as a welcome step toward health care that rewards good outcomes for patients.

"We're going to see a growth in outcomes guarantees for pharmaceuticals, and it's very healthy," said Robert Seidman, a consultant who was formerly the chief pharmacy officer for WellPoint, an insurance company.

Traditionally, discounts and rebates that drug companies offer insurers have been based on how much drug is used, not how well patients do. But the emerging, outcomes-based contracts would — in theory — better align the incentives of insurers, drug companies and the employers that provide health coverage toward improving people's health.

Such pay-for-performance contracts started to take hold a few years ago in countries with national health systems, in which the government could effectively block a drug from being used if it was too costly.

Johnson & Johnson set what is considered the prototype deal in 2007 with Britain's national health system, which had tentatively decided not to pay for the cancer drug Velcade. To avert that decision, the company offered essentially a money-back guarantee. If Velcade did not shrink a patient's tumors after a trial treatment, the company would reimburse the health system for the cost of that patient's drug.

In the United States, where insurance companies do not have national monopolies — and where Medicare, by law, is precluded from negotiating drug prices — insurers have less leverage with drug makers. Even so, they can give favorable treatment to certain drugs, by reducing the required co-payments, for example.

Under the Actonel deal, if a patient insured by Health Alliance suffers a nonspinal fracture despite faithfully taking Actonel, the drug makers will help pay for the medical care — spending $30,000 for a hip fracture, for instance, and $6,000 for a wrist fracture.

This clearly lowers the cost of the drug to Health Alliance, a small insurer in Illinois and Iowa. But Procter & Gamble and Sanofi-Aventis might benefit as well. The deal could reduce the pressure on the insurance company to move patients off Actonel, which costs about $100 a month, to less-expensive generic versions of Fosamax. And the insurer has kept Actonel in a tier of its drug list that requires a smaller co-payment than for a competing brand-name drug, Boniva.

The deal between Cigna and Merck is more complex.

Rather than getting paid more for good results, Merck will actually give Cigna bigger discounts on Januvia and Janumet. Some discounts will be granted if more people diligently take the drugs as prescribed. This helps both Cigna, because people who take their pills are likely to have fewer complications from the disease, and Merck, because it sells more pills. The assumption is that Cigna will push for patient-compliance programs that urge people to take their medicine at the right times and in the proper doses.

Moreover, in an unusual move, Merck will offer even greater discounts to Cigna on Januvia and Janumet if patients' blood sugar is better controlled — regardless of whether the improvement comes through Merck's drugs or other medications.

In effect, though, Merck is betting not only that its drugs prove superior but that Cigna's incentives to reap the benefits of the deeper Januvia and Janumet discounts will prompt the insurer to try to keep patients on those drugs.

As part of the agreement, too, Merck will get better placement for Januvia and Janumet on Cigna's formulary, meaning a lower co-payment for patients than for some other branded drugs. The deal was made with the pharmacy benefit management division of Cigna, which manages prescriptions for 7.1 million people.

Merck declined a request for an interview. In a statement the company said it was "committed to finding new approaches to demonstrate the value of our products to patients, physicians and payers."

Januvia, approved in 2006, costs about $150 a month. Janumet, approved a year later, is a combination of Januvia and metformin, a widely used generic drug.

Eric Elliott, the president of Cigna Pharmacy Management, said his company was negotiating similar contracts with other drug makers.

"We wanted a contract that drives performance," he said. "Getting this one out will provide more momentum."