

# PHARMAC

Pharmaceutical Management Agency

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## Updated guide promotes better understanding of PHARMAC drug assessments

Publishing an updated guide to PHARMAC's economic analysis framework will help people better understand its drug assessment processes, the Government drug-funding agency says.

The Prescription for Pharmacoeconomic Analysis is PHARMAC's roadmap for guiding the way it analyses new drugs for funding.

The 2007 edition has been published after an extensive review that included seeking expert advice from New Zealand and internationally. This included consultation with economists, the pharmaceutical industry, doctors and consumers, and a number of changes have been made as a result.

PHARMAC's Acting Chief Executive Matthew Brougham says making the document open and available has benefits for the pharmaceutical industry, economists and the wider public.

"If there is to be public confidence in the decisions we make, then the process we use to make those decisions needs to be understood," says Matthew Brougham. "The *Prescription* outlines the approach we take to economic analysis, which is a key part of our work."

"In addition, the document will help pharmaceutical companies by providing guidance for them on making their own economic analyses to support new funding applications."

"Publishing this paper is an important insight into the detailed structure we use for our economic analyses of pharmaceuticals. This transparency is important and beneficial for everyone interested in the detail on how PHARMAC does these analyses."

The *Prescription* was first published in 1999, and the review began after it had been used for five years.

PHARMAC uses nine decision criteria to make its funding decisions, including cost-effectiveness. To assess cost effectiveness, PHARMAC uses a framework called cost-utility analysis and the *Prescription* details what is taken into account in those analyses, and how they are done. The results of such analyses in conjunction with analysis under the other criteria help PHARMAC decide which medicines provide the best value for money.

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“Economic analysis is a significant part of PHARMAC’s funding decisions so it is vital that it is done well,” says Matthew Brougham. “We have received a lot of positive feedback about the revised edition that suggests it is a high quality document and ensures PHARMAC is in step with the best in the world.”

The most significant change in the updated document is a reduction in the discount rate PHARMAC uses to assess the future value of funding decisions. Under the revised document, a discount rate of 3.5% will be used, compared with the previous rate of 8%. In effect, this means that medicines with a high cost but enduring benefits will receive a better cost-benefit ratio than they would if a higher discount rate was used.

Matthew Brougham says the overall impact of the change is likely to be relatively small, but will affect the ranking PHARMAC gives to new funding opportunities. PHARMAC will still take into account other factors (including patient need, total cost and government health priorities) when it makes funding decisions.

As well as using a lower discount rate, PHARMAC’s analyses will now also factor in the lower cost of generic medicines and direct patient healthcare costs.

“This is the document that will guide our assessments of new pharmaceuticals for the foreseeable future, so it is heartening that people outside PHARMAC have commented that it is in line with international best practice.”

“While we don’t expect everyone to always agree with our funding decisions, we hope that they understand the fair and rigorous approach we use. Publishing this document will help with that improved understanding.”

The Prescription for Pharmacoeconomic Analysis is available from the PHARMAC website [www.pharmac.govt.nz](http://www.pharmac.govt.nz).

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