

PHARMAC

Pharmaceutical Management Agency

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PHARMAC still working to find flexibility in brand changes

PHARMAC will keep working to find a practicable mechanism to provide some flexibility in its sole supply tender, says Manager Funding and Procurement Steffan Crausaz.

The Government drug-funder asked for feedback on a proposal to introduce a mechanism, called the Alternative Brand Allowance (ABA) to its tender for off-patent medicines. The mechanism would enable some people to remain on their existing medicine if there was a brand change and they found medical difficulties in changing brands.

Steffan Crausaz says responses to the consultation raised some concerns about the ABA that mean it can't yet be put in place.

"The tender is an important way in which PHARMAC 'frees up' medicines funding, so it can be used to purchase other pharmaceuticals or healthcare. In this way, the tender is central to PHARMAC's role of getting the best health outcomes from the pharmaceutical budget," says Steffan Crausaz.

"We do recognise that some people have genuine medical difficulties in changing brands of their medicine, and we'd ideally like to have some more flexibility in the sole supply tendering process."

"We asked for feedback on our proposal and have been told that the ABA as proposed won't work effectively. This shows the benefits of asking the sector for its views in consultation. We need to take notice of these views and work through the valid concerns that were raised, which means we won't be progressing the proposal at this time.

"We remain committed to seeking a way to give people some flexibility while maintaining the benefits that the tender provides."

When it is considering changing medicines through the tender, PHARMAC already takes advice from an expert committee on clinical issues for people changing brands. Differences such as size or shape of tablets, colour, flavour, or whether a pill is coated or not, are all taken into account.

"The vast majority of people have no medical difficulty when the funded brand of a medicine changes. The solution we are seeking will respond to the needs of those people

who might experience medical difficulty with changing brands as a result of the tender,” says Steffan Crausaz.

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PHARMAC has run a tender for off-patent (older) medicines since 1997, and in this time it has generated savings of over \$300 million. The 2008 tender, which is released this week, will be the first time PHARMAC runs an electronic tendering system. The electronic web-based system will make it easier to make and receive bids, and speed the process of assessing them.

This year the tender includes 724 products, and PHARMAC estimates savings of \$20 million over three years to result from it.

Developing a mechanism for people who experience genuine medical difficulties changing brands was identified in the list of actions arising from *Medicines New Zealand*, which was released this month. Steffan Crausaz says PHARMAC will continue work to seek a solution in time for the 2008-09 tender. This work is a high priority for PHARMAC.

In the meantime, PHARMAC will continue to carefully consider what brand changes might mean for people taking each medicine.

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For more information contact Simon England, phone (021) 863 342

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Background Q and A

What is the PHARMAC tender?

The tender is a competitive process for purchasing older (off-patent) medicines. First run in 1997, the tender is now used to purchase nearly half the medicines listed on the Pharmaceutical Schedule. It is an important mechanism in securing medicines and producing savings on older products, savings that can then be used to purchase other, newer medicines.

Tendering is commonly used in many commercial settings, for example in residential real estate. The difference is that as a buyer, PHARMAC uses competition among pharmaceutical companies to achieve low prices for medicines that are of good quality, safety and efficacy.

Why sole supply?

New Zealand is a small pharmaceutical market. In order to offer the maximum incentive for suppliers to offer the best price possible, PHARMAC rewards successful bidders by giving them the full market for their product for a fixed duration, usually three years. This is an effective way of achieving low prices at the point of purchase and maximising the health gains from pharmaceutical funding.

Are there risks with sole supply medicines going out of stock?

Stock supply issues are a fact of life with many goods, including pharmaceuticals. PHARMAC works to minimise the risks of tendered medicines going out of stock through its contracts with suppliers, which include incentives for the companies to maintain adequate stocks, and to inform PHARMAC if a potential stock shortage might occur. All products sourced through the tender are subject to a contract.

Out of stocks can occur with any medicines. The contracts negotiated through the tender provide a mechanism for PHARMAC to monitor and respond to any potential stock supply issues that may occur.

How does the tender work?

Each year, PHARMAC produces a list of medicines for tender, and sets a deadline for bids. Once received, PHARMAC assesses the bids, and takes advice from an expert Subcommittee of PTAC (the Tender Medical Subcommittee) on the appropriateness of people changing brands. The Subcommittee takes into account differences between the

new medicine and the existing brand – for example, if it has a different colour, taste, size, or if it is coated or uncoated – and their advice is then used to inform choices.

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Sometimes trade-offs are required. For example, a new brand may have a slightly different feature, such as a different taste or texture, but the same clinical effect at a lower price. The question for PHARMAC is, is the potential patient reaction to the change justified by the saving achieved?

What issues have been identified?

With some medicines, a small number of people report problems changing brands. This has recently been highlighted around the antidepressant paroxetine, and the ADHD treatment methylphenidate. Patients and doctors have asked PHARMAC to develop a system that introduces some flexibility in sole supply, to make allowance for those people who experience genuine medical difficulties in changing brands.

What is Alternative Brand Allowance?

Alternative Brand Allowance (ABA) is a mechanism PHARMAC proposed to introduce some flexibility into the tendering system. PHARMAC suggested a limit of up to 1% of people on a medicine, who might be able to stay on their old brand if they experienced clinical difficulties in changing brands. Applications would be assessed by a panel of doctors, and funded through a mechanism similar to the existing Special Authority structure.

What was the response to consultation?

Most submissions welcomed the concept of introducing flexibility into the tender. However some submissions, particularly those from the pharmaceutical industry, raised concerns about companies needing to maintain very low and unpredictable stocks of medicines. This would be a difficult process for companies to manage.

Where to from here?

PHARMAC remains committed to finding a mechanism that will provide flexibility in tendering, while maintaining the benefits tendering offers. This is one of the actions in the *Medicines New Zealand* action plan, released by Associate Health Minister Peter Dunne last week.

PHARMAC will continue to closely consider the implications of tendering each medicine so that the impact on people taking the medicine is minimised.

Work will be aiming to have an acceptable solution in place in time for the 2009 tender.

