

18 December 2008

Consultation on proposal to re-invest a portion of savings back into pharmacy sector

PHARMAC, on behalf of District Health Boards, is seeking feedback on a proposal to put in place a system to mitigate the financial impact resulting from changes in subsidised brands occurring in early 2009, in high volume pharmaceuticals, some of which currently have rebates. DHBs and PHARMAC have committed to reinvest a portion of the forecasted savings back into pharmacies. It is proposed that from 1 February 2009, an estimated \$3 million in forecasted savings resulting from the changes in subsidised brands would be reinvested back into pharmacies. Savings would be distributed to pharmacies by way of a 'wholesaler uplift fee' that would be paid on a subset of the pharmaceuticals affected by brand changes in early 2009 over eight months from 1 February 2009 to 30 September 2009.

PHARMAC has been working with District Health Boards, the Pharmacy Guild and pharmacy wholesalers on this proposal.

This consultation document provides:

1. an overview of the proposed mechanism and how it is proposed to be implemented; and
2. an overview of other proposed activities aimed to support health professionals with subsidised brand switches.

Feedback sought

We welcome your feedback on this proposal. To provide feedback on this proposal please submit it by **5 pm, Monday 12 January 2009** to:

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We also invite any person or group to contact PHARMAC should you wish to have a meeting to give your feedback on this proposal.

We understand the consultation timeframe is tight, especially given the time of year. However PHARMAC, DHBs and the Pharmacy Guild have only recently agreed on the proposed solution. All parties wish to implement the proposed mechanism as soon as possible, the earliest practicable time being from 1 February 2009. We can extend the consultation period, however this would result in a delay in implementation until 1 March 2009. If the implementation is delayed the proposal would still be to reinvest the same estimated portion of the forecasted savings; however it would need to be determined whether this would happen over a 7 month period from 1 March 09 – 30 Sept 09 or an 8 month period from 1 March 09 – 31 October 09. We welcome your feedback on both the consultation timeframe and option to extend it. Given the tight timeframes we would welcome your feedback at the earliest opportunity.

What will happen then?

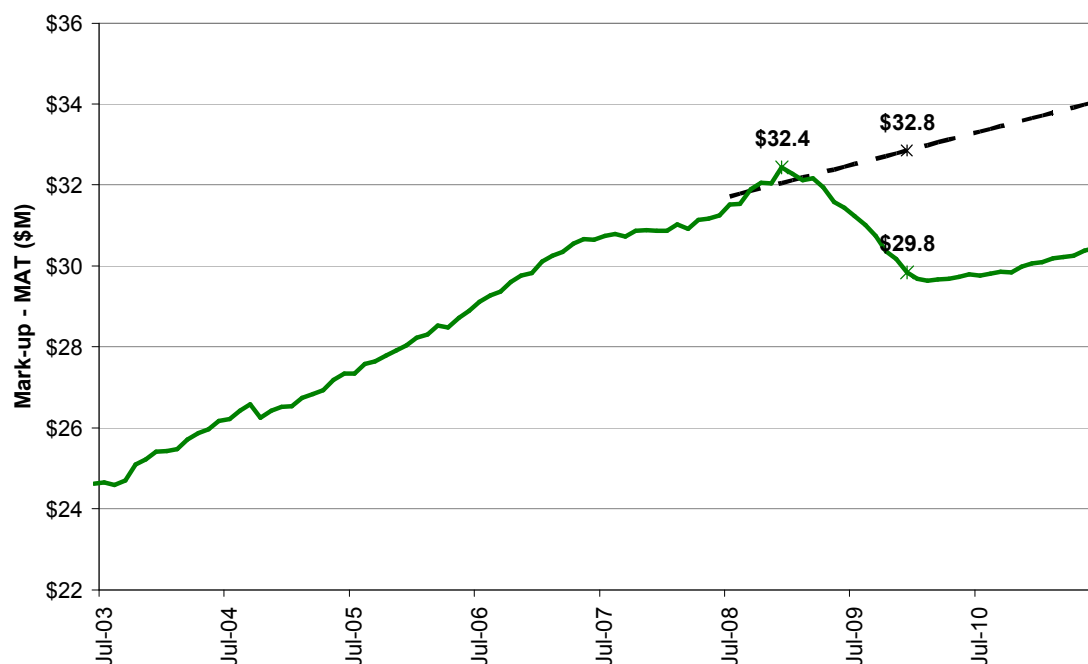
All of the submissions we receive on or before the deadline will be considered by PHARMAC's Board (or Chief Executive, acting under delegated authority) when making a decision on whether to implement this proposal. If the proposal is approved, it is anticipated that the proposed changes would take effect from 1 February 2009.

Proposal Summary

Background

In early 2009 there will be changes in subsidised brands on a number of high volume pharmaceuticals, some of which have rebates. Pharmacy wholesaler and community pharmacy mark-ups are paid on the pre-rebate ex-manufacturer price of a pharmaceutical.

At the end of the 2009 calendar year, community pharmacy mark-ups are expected to reach \$29.8 million dollars. This is \$3 million less than what community pharmacists and wholesalers would have expected given historical growth of approximately 2.5% per annum (as shown in the following chart).



The reduction in price and cessation of rebates will result in an estimated 9% (\$3 million) reduction in pharmacy mark-up revenue in the 2009 calendar year (which covers 2 financial periods 2008/09 and 2009/10)¹. The reduction in 2009/10 will be an estimated 5% (\$1.6 million) as new pharmaceutical investments are proposed to be funded, partially offsetting the reduction.

¹ Based on PHARMAC analysis of national pharmaceutical data and forecast expenditure. Analysis has been shared with DHBs, the Pharmacy Guild & wholesalers.

Pharmacy wholesalers and community pharmacy have indicated these subsidy changes in subsidised brands would have a significant negative impact on their profit margins. This is a highly unusual situation, related in no small part to the rebates that are attached to some of the currently funded brands of medicines.

Pharmacy wholesalers have notified their intention to implement increases to their distribution fee from 1 January 2009 to recoup their anticipated loss. DHBs contract with community pharmacy, but not with pharmacy wholesalers, so it is not possible to deal directly with the pharmacy wholesalers notified distribution fee contractually. Some pharmacy wholesalers are wholly or partially owned by community pharmacy.

Analysis indicates approximately 500,000 patients (1.2 million prescriptions) would require a change in medication brand and we acknowledge the impact such changes have on the pharmacy sector and patients. The changes will generate forecasted savings of \$70M over 3 years (NPV) which will be reinvested in other pharmaceutical expenditure.

DHBs, PHARMAC, community pharmacy and pharmacy wholesaler representatives have been working to develop an implementation plan, which would be acceptable to all parties, to address the issues arising from the changes in subsidised brands in the short term. There are underlying structural issues in the pharmacy contract and distribution process that need to be addressed in the medium-longer term and all parties have agreed that this work will commence early in 2009.

Proposal - DHB and PHARMAC's Commitment to Reinvestment Savings

DHBs and PHARMAC have committed to reinvest a portion of the forecasted savings resulting from the changes in subsidised brands back into community pharmacies.

It is proposed that from 1 February 2009, an estimated \$3 million of the forecasted savings resulting from the changes in subsidised brands would be reinvested back into community pharmacies. Savings would be distributed to pharmacies by way of subsidy increases on several products over eight months from 1 February 2009 to 30 September 2009.

This proposed short term intervention would be implemented through community pharmacy as the contracting party with DHBs.

PHARMAC has provided data to the Pharmacy Guild modelling the impact of the proposal on community pharmacy.

Outlined below are the proposed mechanism and the implementation details:

Mechanism to fund community pharmacy to offset the impact of the wholesaler distribution fee

To counteract the impact of reduced mark-ups and the resulting notified new pharmacy wholesaler distribution fee PHARMAC, on behalf of DHBs, proposes to implement a mechanism whereby a 'wholesaler uplift fee' would be paid on a subset of the pharmaceuticals affected by brand changes in early 2009. It is proposed that the wholesaler uplift fee would be in place for a finite period of time for each subsidised brand to which it is applied. The amount

of the wholesaler uplift fee would differ between pharmaceuticals. The wholesaler uplift fee – which would effectively act as an increased subsidy – would be nominal, for the purposes of pharmacy claiming, and would not affect the ex-manufacturer price or subsidy of the pharmaceutical.

The key feature is that the wholesaler uplift fee aims to reinvest an estimated \$3 million of the forecasted savings resulting from the changes in subsidised brands back to pharmacy wholesalers and community pharmacy during the 2009 calendar year; aiming for the impact of changes in subsidised brands on pharmacy mark-ups to be cost-neutral in the 2009 calendar year.

Applying the wholesaler uplift fee to specific subsidised pharmaceuticals is merely the mechanism proposed to be used to enable the total reinvestment package to occur. It may not reflect the actual impact of changes in pharmacy mark-ups on the individual pharmaceuticals to which it is applied.

It is proposed that the implementation would commence on 1 February 2009 and would end on 30 September 2009.

Based on PHARMAC analysis of data we calculate that an estimated \$3 million of the forecasted savings resulting from the changes in subsidised brands would be re-invested in this 8 month period.

It is not possible to implement the proposed wholesaler uplift fee by 1 January 2009, to coincide with the notified introduction of the new pharmacy wholesaler distribution fees, as it is important that we consult on this proposal. It is not practical to consult and meet the publication deadlines of the January Pharmaceutical Schedule Update prior to 1 January 2009. However, as it is proposed to reinvest an estimated \$3 million of the forecasted savings resulting from the changes in subsidised brands, any losses incurred by pharmacists in January (should pharmacy wholesalers proceed with the introduction of increased distribution fees) would be recouped as part of the total package.

Proposed pharmaceuticals and timing

It is proposed to implement a wholesaler uplift fee on paracetamol from 1 February 2009 and on omeprazole from 1 May 2009. Details of how the proposal would work are outlined below. A proposed end date for implementation of a wholesaler uplift fee on these products has been included but may be reviewed depending on how expenditure is tracking against forecast.

Paracetamol – It is proposed that a wholesaler uplift fee of \$18.51 per pack would be applied from 1 February 2009 and that it would be applicable only to the Pharmicare brand of paracetamol 500mg tabs. This would be reflected in the Pharmaceutical Schedule as a total subsidy for the Pharmicare brand of paracetamol 500mg tabs as \$28.11 per pack (which includes the amount of the wholesaler uplift fee). The manufacturers price as displayed in “()” in the Schedule would remain unchanged at \$9.60 per pack (reflecting the total subsidy less the wholesaler uplift fee). We are proposing to add an explanatory note in the Schedule as well. Pharmacists would claim reimbursement via usual processes using the total subsidy amount.

While no losses in pharmacy mark-ups would occur in relation to the Pharmacare brand of paracetamol, adding the wholesaler uplift fee to the Pharmacare brand of paracetamol would enable the total reinvestment package to be implemented from February 2009.

Omeprazole - It is proposed that a wholesaler uplift fee of \$0.98 per pack for the 10mg, \$1.40 per pack for the 20mg, and \$1.65 per pack for the 40mg is applied from 1 May 2009 and thus would be applicable only to Dr Reddy's Omeprazole brand of omeprazole capsules as they would be the sole supply brand of omeprazole at that date. This would be reflected in the Pharmaceutical Schedule as a total subsidy for the Dr Reddy's Omeprazole brand of omeprazole as \$3.12 per pack for the 10mg, \$4.45 per pack for the 20mg, and \$5.24 per pack for the 40mg (all of which includes the wholesaler uplift fee). The manufacturers price as displayed in "()" in the Schedule would remain unchanged at \$2.14 per pack for the 10mg, 3.05 per pack for the 20mg, and 3.59 per pack for the 40mg (each reflecting the total subsidy less the wholesaler uplift fee). We are proposing to add an explanatory note in the Schedule as well. Pharmacists would claim reimbursement via usual processes using the total subsidy amount.

Other pharmaceuticals - PHARMAC is currently working on proposals for other pharmaceuticals to have changes in subsidised brands early in 2009 and we propose to consult with the sector on these proposals at the appropriate time. It is likely that a wholesaler uplift fee would be proposed for implementation in relation to some other potential subsidised brand changes and details of a wholesaler uplift fee would be included within our consultation on proposed changes in subsidised brands.

Other activities

PHARMAC is also proposing to undertake activities to assist community pharmacy and other health professionals with implementing the upcoming brand changes, including:

- contracting for the provision of workshops for community pharmacists (based on the 'paroxetine' model implemented in 2007); and
- supplying resources to health professionals that they can provide to patients explaining the brand changes and generic medicines.

These proposed activities are consistent with feedback received from health professionals in an independent survey undertaken for PHARMAC on what types of resources and support health professionals would like PHARMAC to provide when implementing medication brand changes.²

² Colmar Brunton survey July 2008