

## Information relating to the 3<sup>rd</sup> pharmacy payment

### *What if I have not received my payment?*

Cheques were posted on Wednesday 30 September. If you have not received your cheque within 5 working days you can call PHARMAC's help line on 0800 66 00 50 between 9am and 5pm weekdays.

### *Why is the 3<sup>rd</sup> payment for \$340,000, not \$1 million?*

Earlier in the year, the DHBs committed to reinvest mark-up savings over the 2009 calendar year up to the value of \$3 million (excluding GST). Mark-up savings are now more certain and are expected to be only \$2.34 million (excluding GST). The reason savings to DHBs have been lower than expected is due to two major factors:

1. additional rebate income this year (meaning a higher gross price for some medicines, and therefore, higher mark-ups than expected); and
2. delays to some key savings decisions.

To date the DHBs have reinvested \$2 million (excluding GST) back into pharmacy from the savings generated through reduced mark-ups over the first half of 2009. The 3<sup>rd</sup> payment covers the period from 1 July 2009 – 31 December 2009 and should ensure the full amount saved through reduced mark-ups have been reinvested back into pharmacy.

The following table shows a breakdown of what has been paid to date against DHB mark-up savings (all figures are in millions and exclusive of GST).

<b>Period</b>	<b>Jan - Mar (Actual)</b>	<b>Apr - Jun (Actual)</b>	<b>Jul - Dec (Forecast)</b>	<b>Total 2009 Calendar Year</b>
Mark-up actual/forecast	\$7.38	\$6.86	\$15.18	<b>\$29.41</b>
Expected mark-up (2.5% growth)	\$7.87	\$7.91	\$15.97	<b>\$31.76</b>
Mark-up savings to DHBs	\$0.49	\$1.06	\$0.80	<b>\$2.34</b>
<b>Payments to pharmacy</b>	<b>\$1.00</b>	<b>\$1.00</b>	<b>\$0.34</b>	<b>\$2.34</b>
<i>Original estimate of mark-up savings to DHBs</i>	<i>-\$0.89</i>	<i>-\$0.90</i>	<i>-\$1.22</i>	<i>-\$3.01</i>

PHARMAC and DHBs will be inviting pharmacy wholesalers and representatives of the sector to review the reinvestment totals in October/November. A possible fourth payment will be discussed as part of the current consultation process on the pharmacy contract.

### *How was the payment calculated?*

The total payment pool for the 3<sup>rd</sup> payment is \$340,000 excluding GST. The total payment pool is based on the forecast mark-up savings over the 2009 calendar year (estimated to be \$2.34 million) less what has already been paid back to pharmacy (\$2 million).

Each pharmacy's portion of the pool has been calculated based on its total number subsidised prescriptions as a proportion of all subsidised prescriptions.

PHARMAC has used the latest data available to calculate each pharmacy's portion of the total pool. For this payment, PHARMAC has used subsidised prescriptions over the period 1-Mar-09 to 30-Jun-09. Note that the data is by date dispensed, not date claimed.

Prescriptions used to apportion the payment by pharmacy are defined as:

- subsidised prescriptions where a successful reimbursement claim has been made by the pharmacy to the Ministry of Health – Sector Services;
- excluding nicotine and PHARMAC panel medicines including glatiramer acetate, growth hormone, imatinib mesylate, interferon beta-1-alpha, and interferon beta-1-beta; and
- a count of the first dispensing of a prescription, so do not include repeats dispensed from the same prescription.

### ***Is GST included?***

GST is included in the payments. The cheques will be accompanied or followed by a buyer created tax invoice. This means that pharmacies **cannot** raise GST invoices (as this documentation will come from PHARMAC).

## **General background information**

### ***Why are pharmacy payments needed?***

It has been recognised that changes in subsidised brands of a number of high volume pharmaceuticals over the early part of 2009 will financially impact community pharmacy. A number of these pharmaceuticals have significant rebates paid to the Funder. As pharmacy mark-up is paid on ex manufacturer (pre-rebate) prices, the reduction in payments is largely attributable to the cessation of these rebates. The loss in revenue to pharmacy through reduced mark-ups was initially calculated by PHARMAC to be \$3 million in the 2009 calendar year. We understand that a number of wholesalers have increased the fees they charge community pharmacies on some lines to maintain their level of income.

### ***Why has PHARMAC made these changes to subsidised brands?***

These changes relate to brand changes to generic medications such as omeprazole and simvastatin. These changes in subsidised brands occurring in 2009 will contribute a forecasted \$70 million savings to the pharmaceutical budget. These savings are reinvested in areas such as new pharmaceutical treatments.

### ***Why not based the payment on omeprazole prescriptions only?***

Pharmacy has faced cost increases on all prescription items through recent wholesaler fee changes. Basing the payment on *all* prescription items rather than just omeprazole more clearly reflects this.

We have modelled different options, and using total prescription items provides the fairest split by pharmacy.

***What is the long term solution?***

These pharmacy payments are a temporary solution to address the issue of reductions in mark-ups. This process was selected as it was able to be implemented quickly.

PHARMAC and DHBs will be inviting pharmacy wholesalers and representatives of the sector to review the reinvestment totals in October/November. A possible fourth payment will be discussed as part of the current consultation process on the pharmacy contract.

For further information on the current Pharmacy Contract negotiations can be found on the DHBNZ website at:

<http://www.dhbnz.org.nz/Site/Current-Issues/Pharmacy-Agreement-Consulation.aspx>