

Purchasing medicines

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PHARMAC and medicines purchasing

Many countries have a national agency to manage government funding for medicines. In New Zealand, the list of funded (subsidised) medicines and the rules applying to funding, are contained in the Pharmaceutical Schedule. PHARMAC decides what medicines to include in the Schedule and under what rules.

Although we might talk about PHARMAC as a national medicine-buyer and refer to purchasing strategies, PHARMAC does not actually purchase medicines, nor does it stock or distribute them (with rare exceptions). These functions are undertaken by other organisations. PHARMAC's role is to manage the funding that District Health Boards set aside for spending on community, cancer and, eventually, hospital pharmaceuticals. However, our activity has many of the same features and consequences as purchasing.

New Zealand has decided to operate within a fixed medicines budget. Because of that, we need to make decisions between competing priorities to achieve the best health outcomes for New Zealanders (as outlined in PHARMAC's governing legislation). To get the best value from our budget, we use a range of commercial purchasing strategies.

Since we began, we have consistently kept pharmaceutical spending within budget, while growing the range of, and access to, medicines available to New Zealanders.

Our purchasing methods

Promoting competition is a central philosophy to PHARMAC's activity. Where there is competition between suppliers of a product or service, consumers expect lower prices and improved products and services. Funding medicines is no exception.

Making the most of competition between pharmaceutical companies is the main way PHARMAC improves the amount of medicines New Zealand can subsidise. It can be difficult to talk about economic concepts alongside people's health, which can't just be measured in monetary terms, but economic concepts are vital to making the best possible decisions.

Some of the commercial strategies we use are:

Negotiation

We negotiate with funding applicants, normally for supply of patented medicines. As funding applicants are competing for funding from a fixed budget, and our focus is on prioritising investments, negotiation increases the degree of competition between suppliers.

Patented medicines are those where companies have a legal protection to be the only supplier (accepting the wider benefits of rewarding and protecting innovation). Like any monopoly, however, this gives significant market power to the supplier. PHARMAC seeks to balance this power through negotiation. Negotiating can also involve more than one product at a time (see 'multi-product agreements' below).

Tendering

When medicines are no longer under patent, other suppliers are able to sell generic versions. These are expert copies of the originator product. This allows for competition, often between a number of suppliers, and leads to significant price reductions (in some cases greater than 90%).

Under PHARMAC's tendering policy, the winning company gets sole subsidised supply of the medicine for a fixed term (usually three years), and this security gives them the maximum incentive to offer us the best price. As well as saving public money through lower prices, tenders also secure the supply of medicines through a contract.

Tendering for medicines has been a very successful strategy. We have run a tender every year since 1997, when one product was tendered. Now nearly half of all subsidised medicines (by volume) are purchased through the tender, representing around 20 percent of the budget and each annual tender generates around \$30 million in savings each year. These savings are used to make other medicines available and to widen access to medicines that are already subsidised.

We think carefully about which medicines to tender for and take advice from a committee of doctors and pharmacists to assess bids before finalising tenders.

Requests for Proposals (RFPs)

An RFP is an invitation for suppliers to submit a proposal to supply a specific medicine or medicines. RFPs are often used to generate competition between suppliers for subsidy of certain medicines, when tendering is not appropriate – for example, offering preferable access criteria to a medicine for a period of time.

Alternative Commercial Proposals (ACPs)

When we consult with pharmaceutical suppliers on proposed tender product lists, we invite them to submit ACPs if they want us to exempt their products from tendering. PHARMAC then decides whether the ACP provides a better outcome than the likely outcome from tendering. There are a number of reasons why a pharmaceutical company might be able to offer a better option through an ACP than the tender (e.g. see rebates below).

Reference pricing

Reference pricing is where we pay the same subsidy for medicines that have the same or similar therapeutic effect. For example, oral contraceptives are reference priced. A supplier can set its price higher than the 'reference price' subsidy. However, if it does the medicine becomes partly-subsidised and the patient pays the difference (a part-charge). Usually when this happens, people choose to move to the fully subsidised option because it is cheaper. We aim to have at least one fully subsidised medicine in each therapeutic subgroup.

We think carefully about which medicines can be reference priced because we know it can be difficult for people to change their medicine. We ask our committees of expert doctors for advice when we're thinking about reference pricing.

Rebates

Contracts with pharmaceutical companies may also include a rebate on the cost of the medicine. Rebates are paid by the pharmaceutical company back to District Health Boards (via PHARMAC) on subsidised medicines. This is an effective way to obtain lower net prices. Rebates mean the price published in the Pharmaceutical Schedule is higher than the actual net price paid by DHBs. If a lower price was published, this could encourage re-export of our medicines to other countries paying higher prices, and rebates can help reduce that risk.

Expenditure caps

Expenditure caps are an effective way of sharing risk and are particularly useful when we know there is uncertainty and potential risk around the likely uptake of the medicine. If annual spending exceeds the limit agreed between PHARMAC and pharmaceutical suppliers, the balance (or a portion of it) is refunded to DHBs. This can help manage spending within budget by reducing or taking away uncertainty over what the budget impact may be, or of getting volume-related discounts.

Multi-product agreements

Also known as 'bundling'. Many pharmaceutical companies have portfolios of products and can offer price reductions on older medicines in return for a new medicine being subsidised. Bundling products together in this way allows us to make available new medicines that wouldn't otherwise be affordable. At times bundling leads to PHARMAC listing products with a lower priority, although in such instances the overall value of the multi-product agreement in terms of health gains is higher.

Contacting Us

Call us on **0800 66 00 50** (between 9am and 5pm, Monday to Friday),
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Information Sheets on various PHARMAC topics are available from our website: **www.pharmac.govt.nz/patients/infosheets**
If you have specific areas of interest (such as consultations, committees or vacancies), visit our website and subscribe to news feeds in the area(s) of interest to you: **http://pharmac.govt.nz/feeds**