PHARMAC MANAGES GOVERNMENT FUNDING

Many countries have a national agency to manage Government funding for medicines or medical devices. In New Zealand that’s PHARMAC.

Although you may hear people talking about PHARMAC as a national pharmaceutical ‘bulk-buyer’ we do not actually buy products, nor do we stock or distribute pharmaceuticals (rare exceptions). This is done by other organisations. PHARMAC’s role is to make decisions about which medicines or medical devices are funded by the Government. This includes community, cancer, and hospital pharmaceuticals, vaccines and medical devices.

In New Zealand the Government has decided to have a fixed pharmaceutical budget for pharmaceuticals used in the community as well as hospital cancer medicines, and to work towards a fixed budget for medicines and medical devices used in public hospitals. Because of that, we need to make decisions between competing priorities to achieve the best health outcomes that are reasonably achievable for New Zealanders. To get the best health outcomes, we use a range of commercial strategies.

Since we began, we have consistently kept pharmaceutical spending within budget, while increasing the range of medicines available to New Zealanders. We have also made medicines available to more New Zealanders.

At this stage PHARMAC is managing expenditure on hospital medicines based on savings achieved, and we are working towards management of new technology and investments in hospital medical devices over the next few years.

OUR STRATEGIES

Promoting competition is a central philosophy to PHARMAC’s activity. Where there is competition between suppliers of a product or service, consumers can expect lower prices and improved products and services. It is no different for medicines and medical devices.

Making the most of competition between pharmaceutical companies is the main way PHARMAC improves the amount of pharmaceuticals New Zealand can subsidise.

Some of the commercial strategies we use are:

NEGOTIATION

PHARMAC often negotiates with suppliers on price and supply of patented medicines. As suppliers are competing for funding from a fixed budget, and our focus is on prioritising investments, there is an increased degree of competition between suppliers. Negotiation in this context is a way that PHARMAC can balance the monopoly held by companies that supply patented products. Negotiating can also involve reaching deals that involve more than one product at a time.

See ‘multi-product agreements’ overleaf

TENDERING

When medicines are no longer under patent, other suppliers are able to sell generic versions. These are expert copies of the patented product. This allows for competition, often between a number of suppliers, which can lead to significant price reductions (in some cases greater than 90 percent). This competition can take place in a tender.

When PHARMAC runs a tender, the winning company gets to be the sole supplier of the subsidised medicine or medical device, for a fixed term (usually three years). This gives them the maximum incentive to offer us the best price. The contract with the supplier includes the requirement that they secure and maintain the supply of the medicine or medical device(s).

THERE ARE CONSEQUENCES FOR THE SUPPLIER IF THEY RUN OUT OF STOCK, BECAUSE IT IS IMPORTANT THAT PATIENTS ARE ABLE TO RECEIVE THEIR TREATMENTS.

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 and contracted for through an annual multi-product tender, representing around 20 percent of the Combined Pharmaceutical Budget. Savings achieved through the tender process are used by PHARMAC to reduce the demand for increased expenditure by DHBs, 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.

PHARMAC has tendered for hospital medicines since 2002. In 2014/15 the first hospital medical device, empty intravenous infusion bags, was included in the annual tender.
ALTERNATIVE COMMERCIAL PROPOSALS (ACPS)

When we consult with pharmaceutical suppliers on the list of products that we are thinking about including in the annual multi-product tender, we invite them to submit ACPs for the supply of those products. PHARMAC then decides whether an ACP offered by a supplier provides a better outcome than the likely outcome that might be achieved from tendering the product. 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 and multi-product agreements below).

REQUESTS FOR PROPOSALS (RFPS)

An RFP is an invitation for suppliers to submit a proposal to supply a specific medicine or medicines, or medical device(s). RFPs are often used to generate competition between suppliers for the subsidy of certain medicines, when tendering is not appropriate – for example, where special access criteria need to be met in order to get a subsidy for a medicine.

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 selling price higher than the reference price subsidy. However, if it does this the medicine will be partly-subsidised, which means the patient will have to pay the difference (a manufacturer’s surcharge). We aim to have at least one fully subsidised medicine in each therapeutic subgroup. This means that if there is a manufacturer’s surcharge on a medicine, people can choose to move to the fully subsidised option. 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 and we always consider whether we should publicly consult before we make these kinds of decisions.

NATIONAL CONTRACTS FOR MEDICAL DEVICES

PHARMAC is working towards management of hospital medical devices and has developed national contracts with suppliers for items across six categories (wound care, sutures, disposable laparoscopic equipment, orthopaedic implants (spine and trauma), interventional cardiology, and sterile wraps and associated consumables). The contracts offer DHBs savings should they order these products or increase their mix of better value brands.

REBATES

Contracts with pharmaceutical companies may also include a rebate on the cost of the medicine or device. Rebates are paid by the pharmaceutical company back to District Health Boards (via PHARMAC). Rebates mean the price published in the Pharmaceutical Schedule is higher than the actual net price paid by DHBs. Accepting a rebate arrangement means that DHBs can subsidise a pharmaceutical for an affordable cost and the supplier is able to shield its net selling price in New Zealand from exposure to international markets.

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 product. 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 by getting volume-related discounts.

MULTI-PRODUCT AGREEMENTS

This is also known as ‘bundling’. Many pharmaceutical companies have groups of related products and can offer price reductions on older medicines in return for a new product being subsidised. Bundling products together in this way allows us to subsidise those that wouldn’t otherwise be affordable. At times bundling leads to PHARMAC listing products that have been given a lower priority by its advisory committees although the health outcome of the bundle overall is favourable.