



PHARMAC's updated guidelines for cost-effectiveness analyses, with new discount rate

Further to inviting feedback in the *Journal* last year,¹ PHARMAC has now released its revised Prescription for Pharmacoeconomic Analysis (PFPA).² We are very grateful for the interest expressed in the document across the health sector (and more widely), and the quality of input we received. This input has helped us finalise revised guidelines that we believe both reflects and can enhance international best practice and will help generate significant benefits for the Health Sector in New Zealand over the coming years.

The PFPA describes the approach that PHARMAC takes when undertaking cost-utility analysis (CUA), and also guides pharmaceutical suppliers when undertaking their own economic analyses to support new funding applications. This type of analysis provides information on which pharmaceuticals offer the most health gains from a limited budget (i.e. the relative cost-effectiveness of a pharmaceutical). Cost-effectiveness is clearly an important decision factor, although but one of the nine Decision Criteria that the PHARMAC Board considers when making funding decisions.³ Knowledge of PHARMAC's approach helps understanding of decisions made and provides comfort that a robust framework is being applied—including that different funding applications are assessed in a fair and consistent way.

Following the publication of the first version of the PFPA in 1999, the revised guidelines for CUA (PFPA version 2) have followed an extensive review that has included expert advice from New Zealand and overseas and wide consultation. This process has generated considerable interest both nationally and internationally in the revised document.

Consultation responses were received from a range of organisations and individuals including clinicians, District Health Boards, health economists, pharmaceutical suppliers, and other government agencies. Consultation responses were broadly supportive overall of PHARMAC's revised CUA methodology, including the risk-free discount rate¹ and direct patient healthcare costs.¹ Responses were wide-ranging, and commented on the perspective of analyses, treatment comparators, statistically non-significant events, measuring quality of life, indirect patient costs, and generic pharmaceutical prices.

All consultation responses were considered by PHARMAC staff and the PHARMAC Board, and a number of changes to the document were subsequently made. Key amendments to the PFPA from the first version include:

- Lowering the discount rate PHARMAC uses to assess the future value of funding decisions to 3.5%;^{1,4-6}
- The inclusion of direct patient healthcare costs;*
- The use of statistically and/or clinically significant treatment effects;

- The use of the Graphic Appraisal Tool for Epidemiology (GATE) to critically appraise clinical trials (www.epiq.co.nz);⁷ and
- The inclusion of future generic pharmaceutical prices.

In addition, version 2 of the PFPA contains substantially more information on appropriate data sources for deriving relative clinical efficacy and recommendations for obtaining and assessing clinical data.

The new risk-free discount rate of 3.5% is the most significant change in the revised PFPA. Compared with the previous risk-adjusted rate of 8%, the reduced rate in effect means that medicines with high up-front costs but enduring benefits will be more cost effective than with the higher discount rate.† The overall impact of the change is likely to be relatively small, but may affect the relative cost-effectiveness ranking of new funding proposals. We reiterate that PHARMAC however also takes into account other factors (including patient need, total cost and government health priorities) when making funding decisions (i.e. not just cost-effectiveness).³

Further details of the key amendments to the PFPA, the content and discussion of the consultation responses, and the revised PFPA itself (version 2),² can be found on the PHARMAC website at http://pharmac.govt.nz/pharmo_economic.asp

The PFPA provides important insights into the detailed structure that PHARMAC uses for its economic analyses of pharmaceuticals. We think that such transparency is important and benefits everyone interested in the detail on how PHARMAC performs these analyses.^{4-6,8-25}

While not everyone will agree with PHARMAC's funding decisions every time, we hope it is apparent that PHARMAC has an established and rigorous approach to making the necessary difficult trade-offs,^{8,26-38} helped by well-researched and well-documented policies in the PFPA.

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Footnotes:

* The revised PFPA states that direct patient healthcare costs in CUAs should be restricted to healthcare costs that government partially subsidises, and should be based on the cost to government plus the additional cost to the patient. These costs include general practitioner visits, pharmaceutical co-payments, and home or continuing care.

† PHARMAC's new risk-free (3.5%) discount rate applies solely to the measurement of costs and benefits in CUAs. It does not apply to budget impact analyses, which still use the risk-adjusted discount rate (currently 8%).

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