Pharmaceutical Pricing: The South African Experience

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Overview

Healthcare challenges facing South Africa in 1994

Interventions to reduce medicine prices

Impact of pricing regulations

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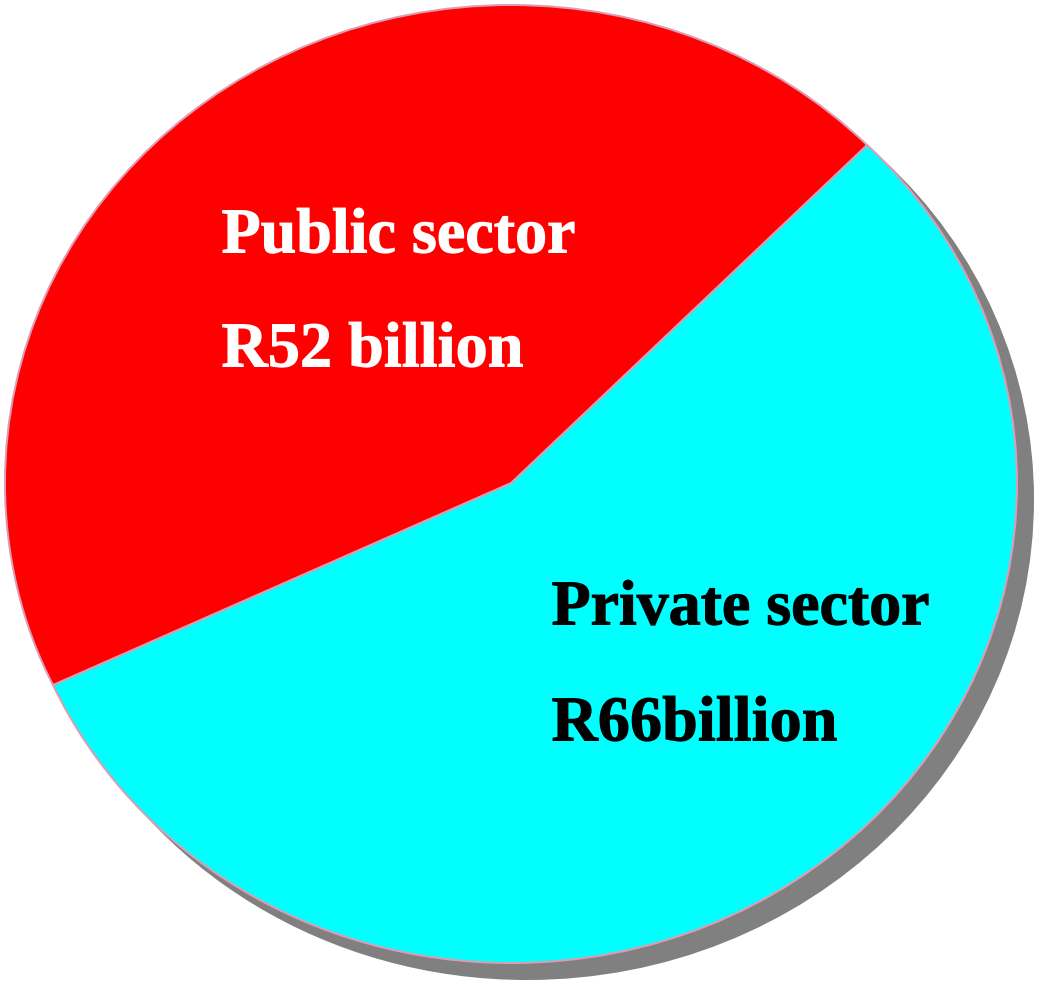
Pharmaceutical Sector in 1994

Public Sector	Private Sector
• Serves 38 million people	• Essentially insured population – 7million
• Mainly essential drugs supplied	• All registered drugs available
• 70% (volume) of medicine sales	• 30% (volume) of medicine sales
• Medicine budget – R3billion	• Medicine budget – R13billion
• Income based user fees – free to special groups	• High premiums – unaffordable
• < 50% of pharmacists work in the public sector serving 80% of population	• Most pharmacists work in the private sector serving 20% of population

Context: Healthcare Financing, 2006

Serves 39 m

R1330pp



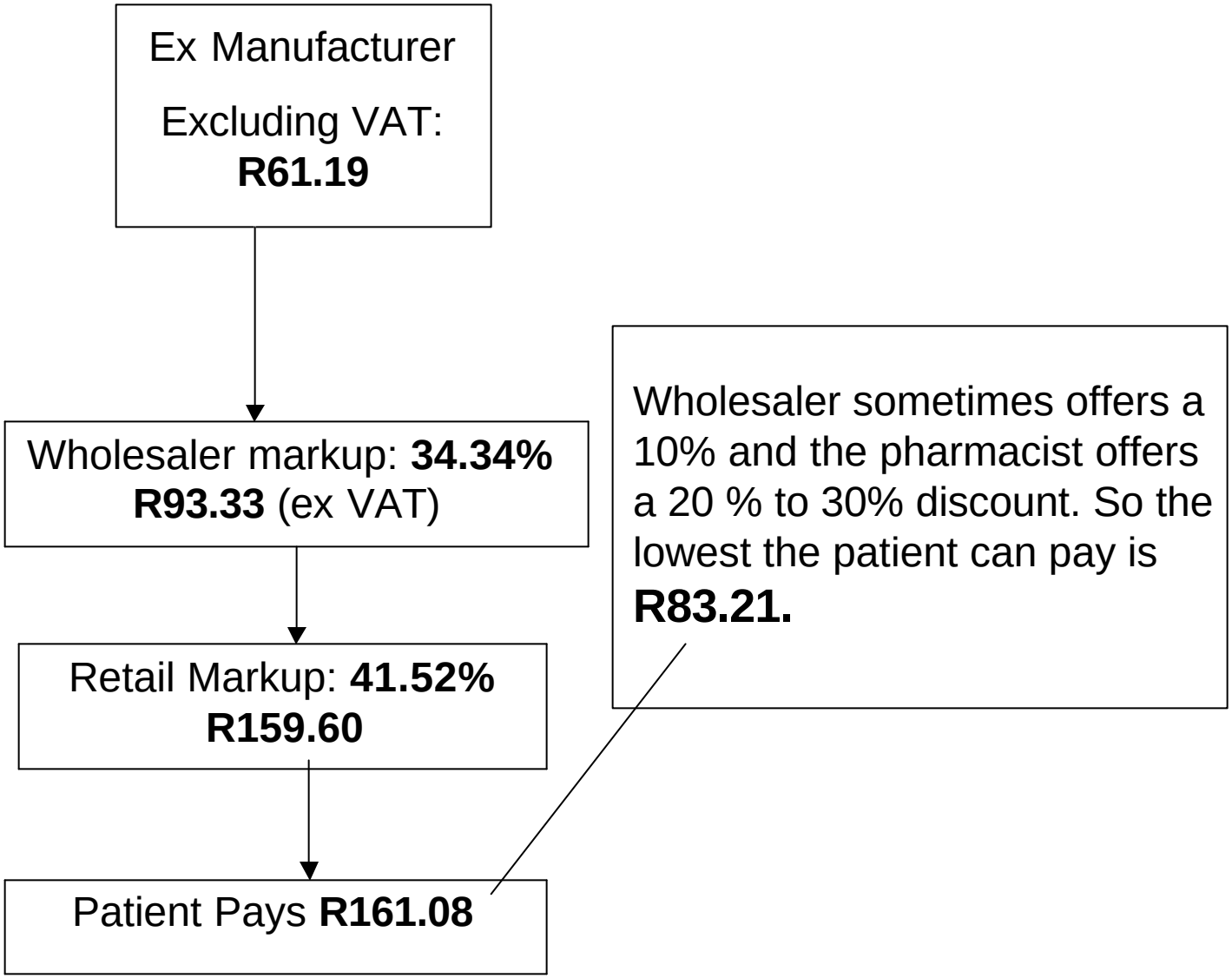
Serves 7 m

= R9428pp

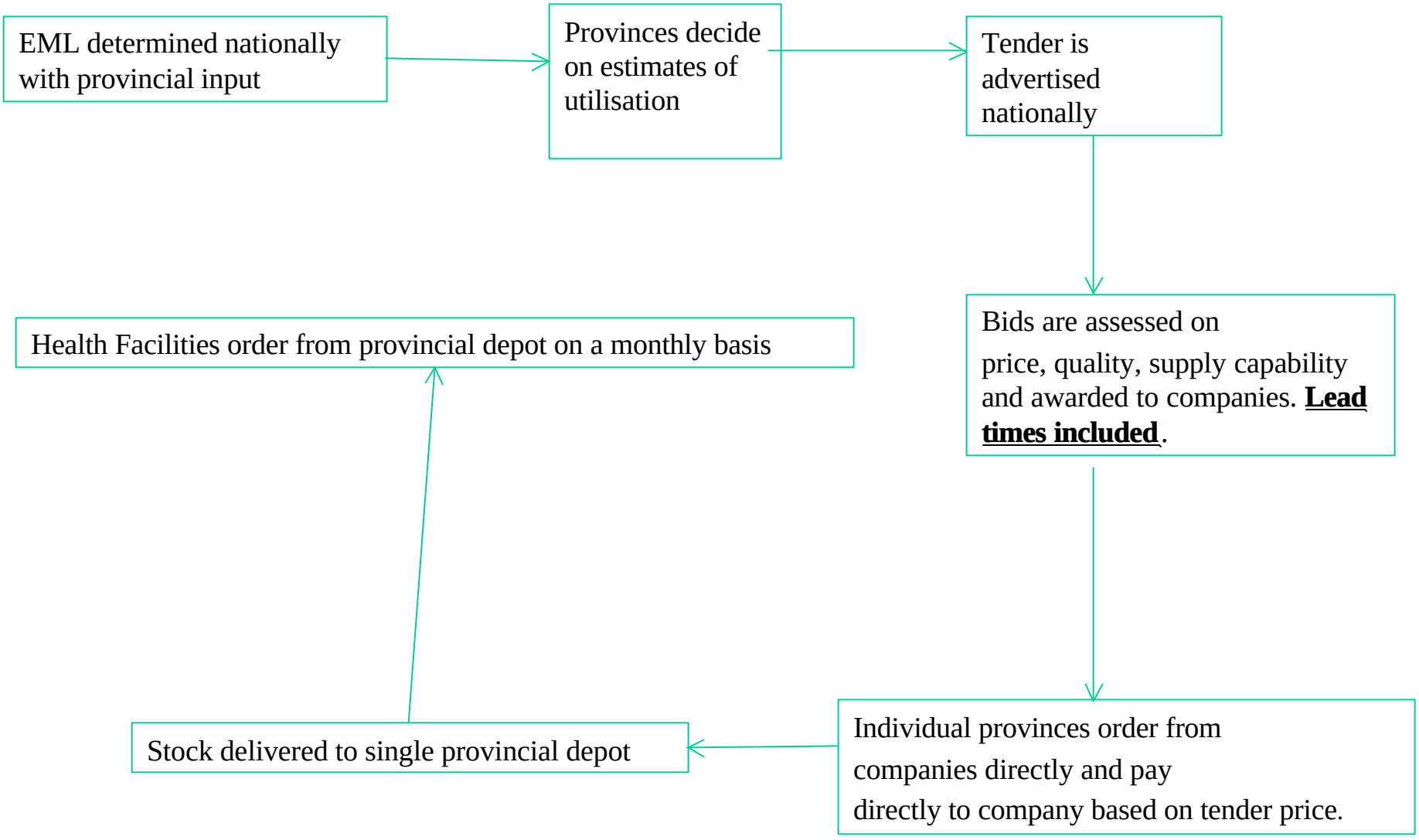
Source: CMS and Treasury

Pricing Survey- (WHO/HAI)

Amoxycillin 250mg 500's



State Tender System



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Development of a National Drug Policy in 1996

- Generic substitution policy
- Establishment of pricing committee
- Single exit price for medicines
- Fixed fee for wholesalers
- Fixed fee for pharmacists
- Transparent pricing system
- No volume discounts, rebates or bonuses (18A)
- International benchmarking
- Reference pricing
- Pharmacoeconomics

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Generic Substitution Policy

- Quality – assessed by medicine registration authority
- COMPETITIVE local manufacturing sector CRUCIAL
- Generic prices – 20-70% lower than patented drug price. Fast Track registration for essential medicines.
- Generic substitution – “mechanism important”
  - SA, Canada – mandatory
  - Sweden, Germany – prescriber authorisation

Establishment of a Pricing Committee

- Minister appoints members
- Membership – DTI, Finance, Competition Commission, Pharmacists, Law, Consumer, Academics. No industry representation.
- Recommendations to Minister
- Secretariat - Pricing Unit in the Department of Health

Single exit price for medicines

- ***Removal of rebates and discounts***
- Manufacturers sell at a single price irrespective of volumes
- No rebates, discounts or any other perversity
- Maximum price valid for a year
- Logistics fees must be transparent

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Fee for Wholesalers

- Definition of logistics services
- Contracts between logistics providers and manufacturers
- Establishment of buying groups-CLAW BACK
- Differences between wholesalers and distributors

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Fee for Pharmacists

- 26%/R26 – challenged by the retail pharmacy sector.
- Con. Court – review of the fee but upheld right to regulate.
- Request for information from retailers and other parties.
- Four tier fee structure – open for comment
- Review of comments
- Finalisation of recommendations for ministers consideration
- Gazetting of the fee

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Transparent Pricing System

- Printing of price on package
- Invoice to differentiate between SEP and price paid by patient
- Establishment of a website to access medicine prices
- Predictable price of a medicine throughout supply chain

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International benchmarking (Originator)

- Basket of five countries
- Lowest price in the basket
- Average exchange rate in basket of countries
- Draft methodology published for comment.

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Reference Pricing

Limits the price of an individual drug by comparison with the price of other drugs.

Basis for comparison:

- Same active ingredient
- Drugs in a pharmacological class
- Drugs with similar therapeutic effect

Most effective when there is a strong generics industry.

New drugs in the same pharmacological class/therapeutic class will be referenced using pharmacoeconomics.

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Pharmacoeconomic Analyses

Pharmacoeconomics/ cost effectiveness analysis

Evidence based approach

- Comparative effectiveness
- Comparative safety

Direct and indirect costs

This method rewards true innovation – widely used in many countries.

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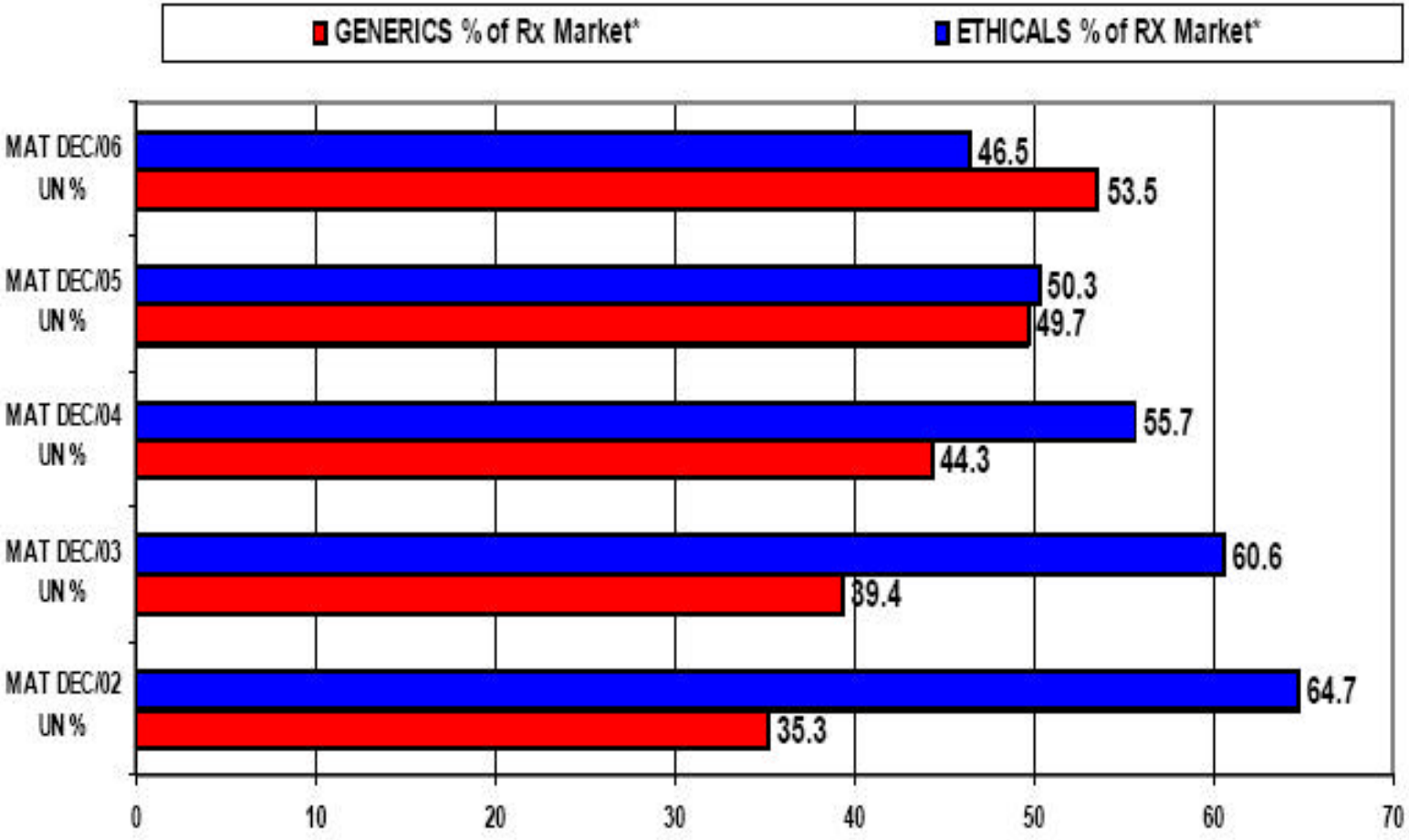
Split between Generics vs Original medicines units – 5 Year trend



IMS SANDS TPM data as at Jan 2007 (SANDS: South African National Database

Impact of pricing regulations

Generic substitution policy

- increased generic substitution – in excess of 30% utilisation
- greater incentive to introduce generics
- transfer of perversity from “Dr’s pen” to “pharmacist”

Pricing committee

- Attacks on the committee – media, lobbying etc
- Court challenges – technical and procedural
- appoint independent committee – technically competent
- no “stakeholder” representation
- technically competent secretariat
- Role of DTI, National Treasury

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Impact of pricing regulations

Single exit price/ no rebates, discounts or bonuses

- No price discrimination between rural and urban
- Chain groups will not be able to access bulk discounts
- Reduction of medicine prices – average 19%
- Generics reduced by 25-30%
- Originators reduced by 12%
- Same unit price for different pack sizes – prevent risk transfer

Transparent pricing system

- Greater focus on price – more informed consumer – website, price on pack
- Price competition between manufacturers especially generics
- Pressure on supply chain margins – wholesaler/pharmacy

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Impact of pricing regulations

Fixed fee for wholesalers

- Introduced logistics fee – “gaming” in absence of new fixed fee
- Wholesalers – buy drug and on sell – higher cost
- Distributors – no ownership – logistics services
- Wholesalers – generic distribution – efficiency??

Fixed fee for pharmacists

- Pharmacists do supply cost data
- Challenge fee in court
- Markups of 35–40% requested
- 4 tier fee structure – higher % markup for generics

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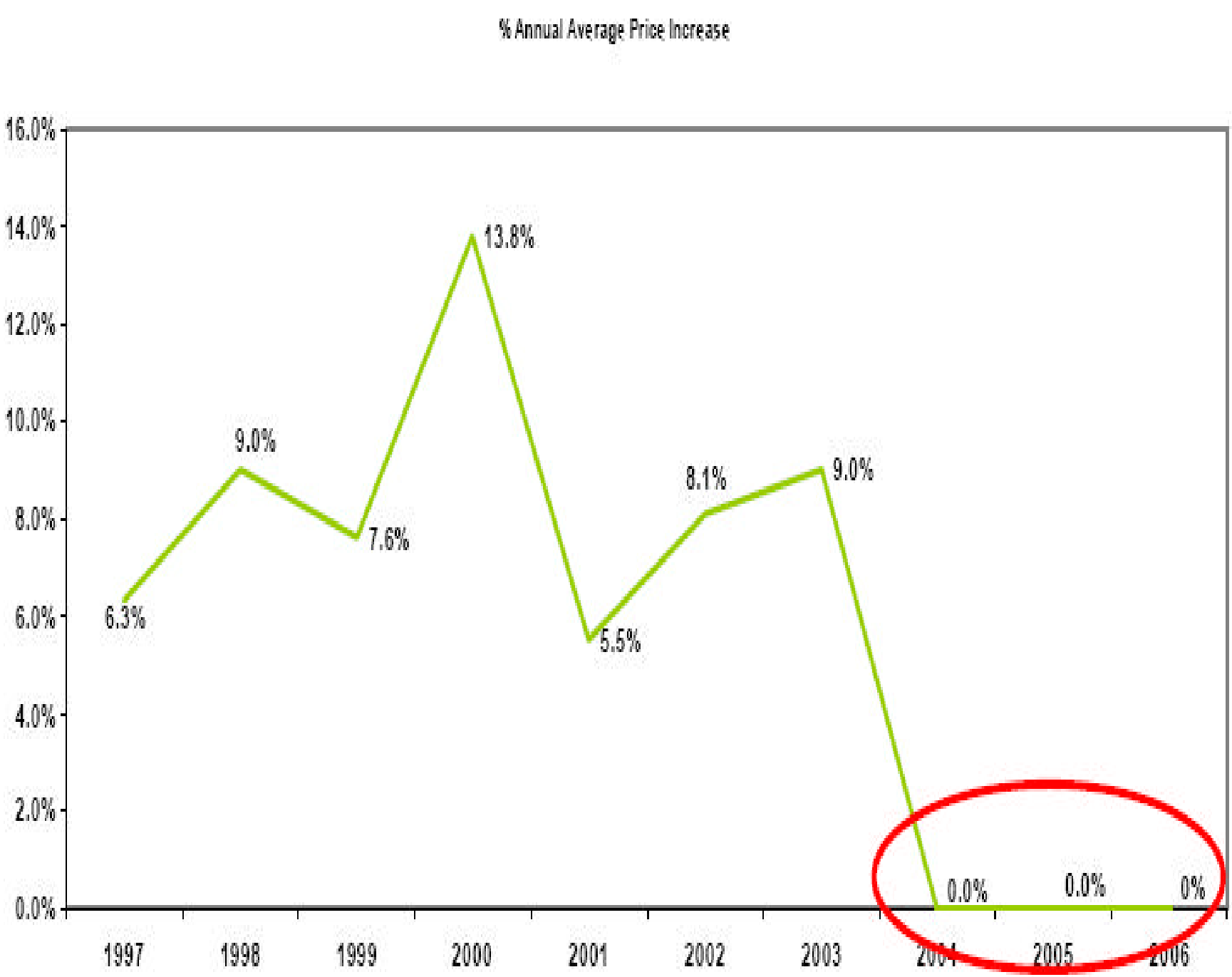
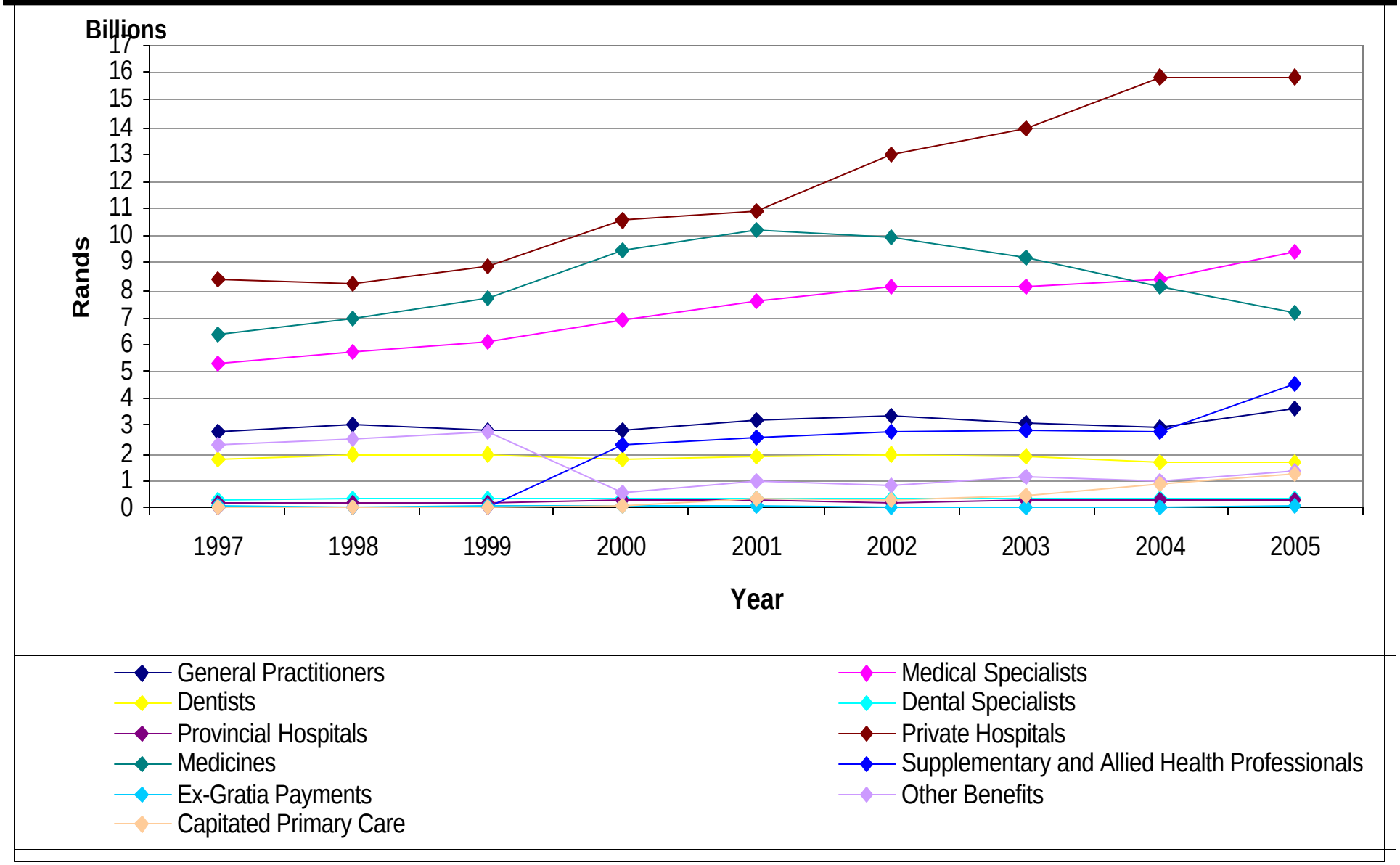

% Annual Average Price Increase
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
6.3%
9.0%
7.6%
13.8%
5.5%
8.1%
9.0%
0.0%
0.0%
0%
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006

Trends in Total Benefits Paid, 1997 - 2005



urce: Council for Medical Schemes

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Towards a National Health Insurance

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How we get the uncovered covered?

Policy Objectives

1. The removal of unfair access barriers to health insurance cover for low income groups

2. The achievement of a reasonable and equitable system of cross subsidies across all income groups

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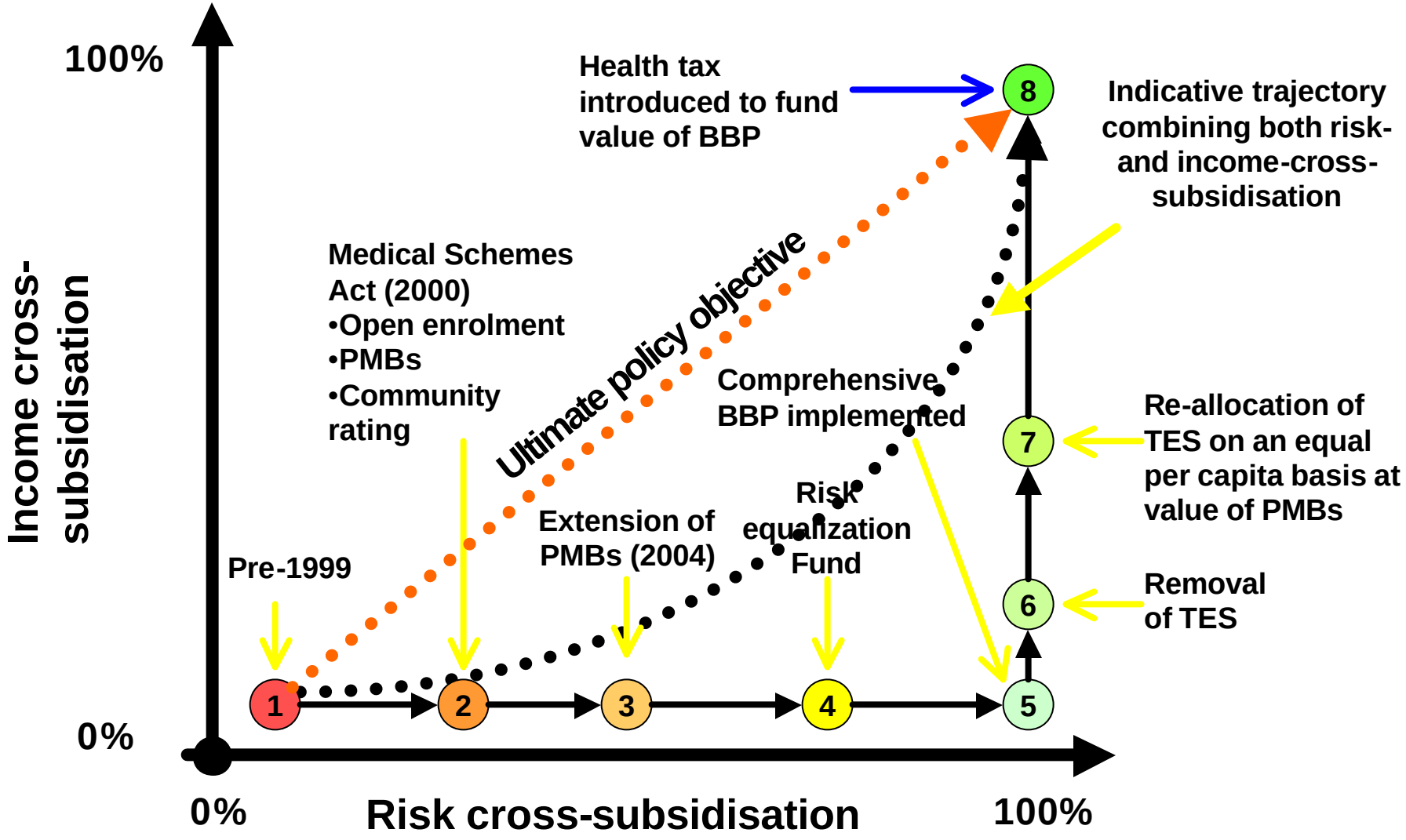

BBP = Basic Benefit Package (i.e. a comprehensive essential package of healthcare benefits)

TES = Tax Expenditure Subsidies (both employer and individual subsidies)

PMBs = Prescribed Minimum Benefits (current legal requirement, which is not fully comprehensive)

Concluding Remarks

- Price regulation is an effective intervention
- One size does not fit all
- Political commitment
- Regulator will always play “catch up”

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Thank You

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