Reference Pricing – Background information and IMSA position.

Definition

Reference pricing of medicines is a cost-control mechanism used by health care funders, both public and private. A reference price is an arbitrary price which the funder/medical aid decides to pay (or reimburse) for a specific medicine or group of medicines. If the actual manufacturer's price of the medicine is higher than the reference price, the excess is paid by the patient.

There are various methods for calculating a reference price which include:

- International Reference Pricing
- Generic-Equivalence Reference Pricing
- Therapeutic-Equivalence Reference Pricing

International Reference Pricing

International Reference Pricing (IRP) compares the prices for the *same medicine in different countries* and the reference price for that medicine is determined by an arbitrary statistical calculation (i.e., average of all, average of lowest 3 countries, etc).

Generic-Equivalence Reference Pricing

Generic-Equivalence Reference Pricing (GRP) compares the prices for the *same medicine* in one country (the off-patent original and its same generic equivalents) and the reference price is determined by an arbitrary statistical calculation (i.e., average, average of lowest 3 prices, etc).

Therapeutic-Equivalence Reference Pricing

Therapeutic-Equivalence Reference Pricing (TRP) compares the prices for a *range of different medicines in a country* which are *deemed by the funder to be similar,* but are not actually the same medicine. The reference price for the group is determined by an arbitrary statistical calculation (i.e., average, average of lowest 3 prices, etc).

Impact:

Spending – Although short-term, once-off cost savings can be generated, reference pricing does not contain healthcare expenditure over the longer term. Reference pricing only focuses on one element of health care expenditure, medicines. Furthermore, it only addresses one aspect, price. However, reference pricing does not impact the major drivers of health expenditure, which are volume and kinds of health care services and medicines used.

Moreover, reference pricing prevents natural price erosion because it actually creates a price floor. There is no incentive for new entrants to sell their medicine at a price lower than the reference price which results in artificially inflated prices.

Lastly, specifically with IRP, international prices will eventually come to a uniform level of high income country prices if all countries reference each other's prices. This will be to the detriment of poorer countries because there will be no incentive for companies to lower prices in resource-constrained environments because the low price could potentially be used as a reference price for a higher income country.

Patients – Patients are at a distinct disadvantage with reference pricing because the system does not effectively take into account individual needs, and exceptions that may be available are administratively difficult and often not transparent.

Furthermore, with TRP the arbitrary groups of medicines deemed to be similar by the funder are not always interchangeable. This can lead to poor patient health outcomes, compliance problems, and new side-effects.

Doctors – Although doctors are able to prescribe what is best for the patient based on their clinical judgment, in reality their decision can be overruled by the funders' administrative system. Therefore, the doctors' clinical prescribing freedom is eroded and reference pricing encourages doctors to prescribe the cheapest medicine, not the one best for the patient. Furthermore, it is an excessive administrative burden for the doctors to monitor which funder pays for which medicine at what level.

Innovation – Reference pricing undermines incentives for new medicines which are needed to address today's unmet medical needs. When a new medicine can only be introduced at the old medicine's price level, there is no incentive for a company to invest millions of Rand, time and human resources to discover and develop a new medicine. Reference pricing also erodes intellectual property rights because inventors are not able to be rewarded at a premium for their creation.

Technical issues:

Therapeutic interchangeability – This is a significant concern with TRP when funders arbitrarily deem medicines to be similar and group them together with a single reference price. Not all medicines are similar, nor are they interchangeable. If medicines were similar, the South Africa Medicines Control Council (MCC) would not spend up to three years reviewing the clinical safety, quality and effectiveness of each medicine.

Transparency – The groupings and mechanisms for setting reference prices are not always transparent, nor clearly based on evidence-based medicine. Therefore, economic considerations can override the decision-making process as opposed to what is in the patient's best clinical interest. Furthermore, the lack of transparency makes it difficult for manufacturers to participate in the process which actually reduces patient access to medicines, and it is a problem for doctors to keep up to date with changes to reference prices when they are not communicated in a timely manner.

IMSA's Position:

It is recognised that overall health care expenditures are on the increase and funders, both public and private, need viable ways to reduce this growing burden. Drivers of health care expenditures in South Africa are a combination of demographic and disease pattern changes, new innovations in patient care, and rising expectations of patients. However, cost-containment mechanisms, such as reference pricing, which are focused solely on drug expenditure are not an effective nor sustainable way to contain overall healthcare costs.

Although reference pricing was designed to control costs and improve access to medicines, studies show that it fails both these objectives. Moreover, reference pricing can have unintended, negative consequences on funders, patients, doctors and innovation.

We are particularly opposed to therapeutic reference pricing because its negative impact on patient health, erosion of doctors' clinical freedom, erosion of incentives for new medicines, and prevention of price competition.

The way forward for both the public and private health care industry is to focus on providing quality care while encouraging reasonable costs.

Quality care can be achieved by setting health targets, focusing on priority needs, improving access to new technologies, implementing disease management programmes, and providing and funding health services based on ethical and evidence-based medicine standards.

Reasonable costs can be encouraged by fostering price competition for off-patent medicines, establishing global health care budgets as opposed to managing individual cost drivers, setting appropriate medicine distribution and retail margins, creating and communicating fair and transparent reimbursement criteria, and promoting rational prescribing and patient responsibility.

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