



# Mediscor PBM

*Reference Pricing Models*

# ▶ Reference Pricing

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# ▶ What is Reference Pricing?

## The Layman's version

4 x 410gram cans of peas



## What dictates choice ...

- Brand loyalty
- Habit
- Advertising
- Price
- Status

If **Reference pricing** was applied, then the maximum price reimbursed would be **R3.49** Why pay R7.49 if you can pay R3.49? For the **same ingredients**

▶ But is it that simple

If only it was!

Peas are not medicine and medicine is not peas!

## ▶ But is it that simple?

Medicine is a highly emotional commodity where:

- Payers/medical schemes decide what is covered
- Prescribers, penning the product
- Dispensers, acting on scheme rules, own network arrangements and buying deals
- Drug manufacturers, setting the price

AND .....

## ▶ But is it that simple?

- The end user/the patient, who is often uninformed, and also responsible for any co-payments/levies, and having very little input in the purchase choice, that is;
- Not deciding which can of peas appears on the till slip

## ▶ Reference Pricing: The Definitions

### Reference Pricing:

A pricing system that groups products which are generically(1) or therapeutically(2) equivalent or similar, into a reference-pricing group, and then sets a **maximum reimbursable price** for such a group of products

**Important to note that:**

This is a financial rule and not a clinical one

# ▶ Reference Pricing: The Definitions

## 1. Generic reference pricing

Narrowest form of reference pricing

- clustering of products with the same active ingredient/s and then setting a maximum price for the group
- Requires the drug of original research's patent to have expired - generic/s to be made
- Generic/s have to meet **bio equivalence and availability levels**
- Medicines Control Council being the watchdog

Distinguish between two types:



## ▶ Reference Pricing: The Definitions

**Generically equivalent** - medicines that contain the same ingredients in the same formulation, at an identical dose

e.g. Amoxil™ 250mg and Maxcil™ 250mg - Amoxicillin 250mg Capsules

## ▶ Reference Pricing: The Definitions

**Generically similar** - medicines that contain the same ingredients at the same dosage, but the formulation or packsize differs e.g. Panado™ tablets vs Capsules - Ventolin™ 300 dose vs 200 dose.

Manufacturers have successfully 'side-stepped' reference pricing in the past by using this tactic.

## ▶ Reference Pricing: The Definitions

**2. Therapeutic reference pricing** - broader base referencing - different compounds are assigned to a single reference group if they have the same mode of action, treat the same indication or have a similar therapeutic effect.

Example: Lipitor™ 10 mg referenced to Simvastatin 20mg

## ▶ Reference Pricing: The Definitions

3. **A cost per condition** - broadest form and often confused with therapeutic reference pricing, but here multiple therapeutic classes come into play to treat the condition and the cost to treat the condition is capped.

**Cost Per Condition and Therapeutic Reference Pricing** both need to be carefully considered as they are questioned by providers and manufacturers as to how was the price determined.

## ▶ Why did Reference Pricing evolve

Competition between drugs is weak because providers and members are uniformed and /or insensitive to prices, due to medical scheme cover

### Aim:

- To make providers and members price sensitive to pharmaceuticals
- To create competition amongst manufacturers that market the same generic/therapeutic entity - reimbursement is set at a competitive price level

## ▶ Characteristics of Reference Pricing models

- Products are categorised into groups - generic or therapeutic
- All products within a grouping are referenced at the same maximum reimbursement price
- Manufacturers are free to set their prices
- If a manufacturer's price exceeds the reference price and this product is opted for, then the member of the medical scheme pays the difference

## ▶ What is needed for success

- Mandatory generic substitution
- Reimbursement fee model that does not encourage expensive products from being dispensed - The previous Cost + 50% vs proposed 'new' pricing model.
- The reference price list has to be **built into the provider's software** to prompt or guide towards alternatives at the point of service

## ▶ What is needed for success

- **Provider, Broker and Member education** - to address the image and the perception that generics are inferior, cause allergies, etc.
- **Buy-in from the member** - informed by medical scheme option documentation - chosen option has a reference price where applicable = no surprises

## ▶ What models exist in SA

- **MMAP™** = Maximum Medical Aid Price
- **MPL** = Medicine Price List
- **MRP** = Mediscor Reference price
- **MHR** = Momentum Health Rate
- **Hybrid in-house versions**

### On the horizon -

Department of Health is aiming to create a **centrally maintained** generic and therapeutic reference pricing model that will become the South African standard. The advantage of this will be that it is centrally maintained & scales of economy would apply.

## MMAP™

- 1ST Reference Pricing model developed in the early 80's by the Pharmaceutical Society of South Africa(PSSA)
- When Medikredit was sold in 1995 by the PSSA, MMAP™ became Medikredit property but can be used by 3rd parties
- Generic model - +/-100 Generically equivalent molecules
- Updated bi-annually April / October
- Practice management software has this integrated to guide dispensers
- Manufacturers pay a listing fee to appear on the MMAP list, therefore not all entities are listed

# MPL

- Medscheme custodian
- Made up of Generically equivalent and generically similar molecules - 115
- Updated monthly
- Front end enabled to guide providers
- Medical schemes administered by Medscheme must pay to use the MPL

## ▶ Mediscor Reference Price List

- As the name implies 'reference model' with no emphasis on generic or therapeutic
- Made up of generically equivalent and generically similar molecules
- 130 molecules at present with the aim to continually expand
- 130 molecules references 2356 NAPPI codes

## ▶ Mediscor Reference Price List

- Maintained by two pharmacists
- Mediscor's Pharmaceutical & Therapeutics committee provides guidance and input
- Updated monthly on the 25th sent to software houses so that all sites are updated by the 1st of each month when the new release takes effect
- Four files are sent : price changes, product additions, product deletions & the full MRP file
- Mediscor also publishes a downloadable MRP file - current and historical on the Mediscor website [www.mediscor.net](http://www.mediscor.net)

## ▶ Mediscor Reference Price List cont.

- Mediscor does not calculate an average for the range as this does not create competition but rather a target to shoot at by the manufacturers
- In most instances the 2nd lowest priced product is chosen
- Resulted in manufacturers sharpening their pencils to make the MRP price cut
- Next focus will be 'non substitutable' entities and therapeutic listings but you the client will be informed and made part of the process

## ▶ Mediscor Reference Price List

### Advantages of using the MRP:

- No listing fee is charged to manufacturers so all products are listed
- No usage fee is charged to Medical scheme clients
- All pharmacy and doctor software has the MRP list integrated to guide at the provider
- The MRP is dynamic - changes can be made immediately to address out of stock scenarios

## ▶ Mediscor Reference Price List

### Advantages continued:

- All MRP prices are date range driven to cater for resubmissions and advanced loading onto the Mediscor PBM
- Mediscor PBM has the ability to override reference pricing for an individual scheme member if the medical scheme instructs this

## ▶ Manufacturers Response

**Three Clear Strategies** to Preserve Profits in a World of Increased Reference Pricing and Diminished Patent Protection:

1. **New approach to screening their research pipelines**
  - the tried and tested path was to focus on incremental improvements to existing products, however new and improved is **no longer good enough**
  - the pressure is on to demonstrate rigorous and dramatic differences

So we are seeing the **demise of - the so called “me too” innovations** - different salt & dosage form.

## ▶ Manufacturers Response

### Strategies Continued.

2. Drugs far along in the development process and show real promise to deliver return on investment - Some Pharmaceutical companies are considering additional investments to show clear differentiation to avoid their product being referenced

## ▶ Manufacturers Response cont.

Eli Lilly - developing Prasugrel - reduces the risk blood clots

- Spending 400 Million US \$ to run trials against Bristol-Meyers Squibb's Plavix™
- Prasugrel if approved, markets in 2008, 3 years before Plavix™ comes off patent and generics kick in
- Lilly is however confident that its drug will distance itself far enough from Plavix™ in the trial to survive

Source:

[www.forbes.com/columnists/2006/04/13/pharma-reference-pricing-cx\\_cf\\_0414pharma.html](http://www.forbes.com/columnists/2006/04/13/pharma-reference-pricing-cx_cf_0414pharma.html)

## ▶ Manufacturers Response cont.

- The last strategy is to play in markets where needs have not as yet been met - Alzheimer's Disease, MS, Oncology, etc - new entities never seen are being developed - bio drugs

### Importance therefore:

- Monitoring the pharmaceutical companies drug pipelines will be a crucial task to prepare strategies for future products to be released that will command premium prices, Herceptin™ is a good case in point

## ▶ Benefits of Reference Pricing

- Creates an awareness to the commodity price of medication
- Stretches the healthcare rand - “more bang for your buck”
- Allows formularies to be expanded as the payers financial exposure is capped at reference ceiling price
- Payers set the price and not the manufacturer

## ▶ Reference Pricing and its place in Managed Care

- It is only one of the parts, in the sum of many parts
- Must be used with other managed care tools such as formularies and utilisation edits - quantity limitations, refill limits, etc.
- Year on year we are seeing an increase in the use of generics - reference pricing has played a major role in changing prescribing and dispensing habits
- Success is improved by making all the role players part of the process to achieve buy in:  
Members, Providers and Brokers
- Financial decision and not a clinical one



▶ For more information on the design and implementation of Reference Pricing Models contact Wayne Perel our General Manager: Clinical Platforms on +27 12 674-8009