An UPDATE on Pricing Legislation

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Director: Pharmaceutical Economic Evaluations
National Department of Health
11 August 2010
Pricing Legislation

Section 22 G :
- Transparency
- Pricing Committee
- Single Exit Price
- Wholesale Fee
- Dispensing Fees

Pricing Regulations :
- International Benchmarking
- Annual Price Increase
- Pharmacoeconomic Evaluation
- Logistics Fee
- SEP on the medicine container

Other Related Issues
SEP < R75  
Fee: R6 + 46% x SEP

Where the single exit price of a medicine or scheduled substance is less than seventy five rand, the dispensing fee shall not exceed R6 plus 46% of the single exit price in respect of that medicine or scheduled substance;

SEP > R75 and < R200  
Fee: R15 + 33% x SEP

Where the single exit price of a medicine or scheduled substance is greater than or equal to seventy five rand but less than two hundred rand, the dispensing fee shall not exceed R15 plus 33% of the single exit price in respect of that medicine or scheduled substance;

SEP > 200 and < 700  
Fee: R51 + 15% x SEP

Where the single exit price of a medicine or scheduled substance is greater than or equal to two hundred rand but less than seven hundred rand, the dispensing fee shall not exceed R51 plus 15% of the single exit price in respect of that medicine or scheduled substance;

SEP > 700  
Fee: R121 + 5% x SEP

Where the single exit price of a medicine or scheduled substance is greater than or equal to seven hundred rand, the dispensing fee shall not exceed R121 plus 5% of the single exit price in respect of that medicine or scheduled substance.
The dispensing fee shall be reviewed after all registered pharmacies supply the following information in accordance with guidelines outlined by the Director-General:

- Audited financial statements (income and expenditure statements and balance sheets);
- Number of medicines dispensed in the pharmacy and the single exit price for such medicines;
- Structure of the dispensary relative to the pharmacy size;
- The turnover of the pharmacy;
- The location of the pharmacy in relation to other pharmacies in the area;
- The services that are offered by the pharmacy;
- and notice displayed clearly in the dispensary, inform patients of the dispensing fee structure to be charged.
International Benchmarking

- Canada, New Zealand, Spain, Australia and South Africa

- Lowest in basket

- Other options suggested
  - Average of the bottom three
  - Average of all prices in the basket
Dispensing Fee for Other dispensers

- The Fee is inflation based: CPI
- Dispensed items (SEPs) inflated
- Cap increased to R75 based on dispensed items.
- Fee: 30% up to R22.50
Annual Price Increase

- Factors that influence the price increase:
  - The average Consumer Price Index excluding interest rates on mortgage bonds (CPIx) for the preceding year;
  - The average Producer Price Index (PPI) for the preceding year;
  - Changes in the rates of foreign exchange (forex) and Purchasing Power Parity (PPP);
  - Comments received from interested persons; and
  - The need to ensure the availability, affordability and quality of medicines and scheduled substances in the Republic.
Annual Price Increase

- **API Formula**
  - 70% CPI (historical) + 15% (Rand/Dollar variance) + 15% (Rand/Euro variance).

- **Data source** – OANDA / Reserve Bank
Annual Price Increase (2)

- 7.4% (2009/2010)

- Duration: January 2010 – 30 September 2010
- Applications Closing Date - August 2010
- Accurate Price Communication - PEE
Future increases and suggestions

SEP increase should not exceed the CPIX

CPIX is no longer published by Statistics South Africa (StatsSA) and consequently only the CPI is used when calculating the domestic component.

It's appropriate to replace CPI and exchange rate adjustment with the PPI in future. This is because the PPI truly reflects the input cost price changes, including human resource costs, reflected by producers in South Africa.

Producer Price Index (PPI) - the basket of pharmaceutical goods currently used in calculating the PPI is inadequate (a fact acknowledged by Stats SA).

Purchasing Power Parity (PPP) - the percentage change in the exchange rate in a year would offset the difference in inflation rates in the two countries in that year.
Logistics Fees (Wholesale Fee)

- Capping of the Fee – 2010
- Increased Vertical Integration
- Increased number of wholesalers
- Increased logistics fees
- Shifting of ex- manufacturer price vs logistics fee
- High SEPs
## Logistics Fee

<table>
<thead>
<tr>
<th>Logistics Fee range %</th>
<th>Number of Items</th>
<th>CUMMULATIVE %</th>
<th>Average SEP</th>
<th>Average SEP (%)</th>
<th>Total No of Items</th>
<th>Volume of Items (%)</th>
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<tr>
<td>&lt; 0</td>
<td>3301</td>
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Logistics Fee

- Majority of items have logistics fees of between 4% - 6% of ex manufacturer price: (Single Exit Price)

- More than 70% of items have logistics fees of less than 10%

- The SEP is not related to the % logistics fee it attract. – Indication of possible perversities.
Pharmacoeconomic Evaluation

- Focus is on Submissions
- New vs existing items
- Cost effectiveness
- Criteria and required information
- Principles and methods of assessment
- Role of funders
SEP Related Analysis

- Temporary decreases
- Permanent decreases
- Regulation Nine applications
- 100% increase applications
- Generic prices vs generic availability
- Extent of applications by industry
- Generic prices versus originator prices
- New product registration
Other DOH developments

- Council for medical schemes
- National Publication
- National Health Insurance
- Collaboration of procurement processes