Pharmacy Reimbursement I – Overview European Systems

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Agenda

1. Introduction / Background information
2. Typology of pharmacy remuneration
3. Pharmacy remuneration
4. Discussion / Conclusion
Introduction / Background Information

Organisation of the pharmaceutical supply chain

- **Public sector supply chain**
  - Manufacturer
  - Central medical store
  - Regional medical store
  - Health facility
  - Patient

- **Private sector supply chain**
  - Example: Vaccines
  - Different modifications in various countries due to prevailing market conditions, pharmaceutical regulation and marketing strategies
    - Full-line or short-line wholesalers
    - Direct-to-pharmacy (DTP) models
  - Pharmacy reimbursement is rather relevant in this setting

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There are different price types to express medicine prices in the private sector supply chain:

- **WHO/HAI taxonomy**
- **MWPP Taxonomy**

- **Ex-factory price** (manufacturer price, ex-manufacturer price, manufacturer’s selling price)
- **Wholesale price** (synonyms: pharmacy purchase price, pharmacy purchasing price)
- **Net pharmacy retail price** (synonyms: consumer price, public price)
- **Pharmacy retail price** (and synonyms) gross:

**Actors involved**

- Manufacturer
- Wholesaler
- Pharmacist
- Patient
Introduction / Background information

» Distribution and supply of medicines have direct impact on the quality of the health care system

» At each stage of the pharmaceutical distribution costs related to the chain management and further services emerge.

» **Rationale for regulation** → distribution remuneration constitutes an important price component which affects the affordability of medicines

» In a regulated environment, pharmaceutical distribution has to strike the balance between appropriate compensation for costs, while ensuring sustainability of public funding

  » Regulation of pharmaceutical distribution could incentivise certain behaviour of actors

» In an unregulated environment – where private entities decide on the size of mark-ups – the size of mark-ups may be determined by different considerations than the sustainability of public funding

  » Non-regulation of pharmaceutical distribution could incentivise certain behaviour of actors
Typology of pharmacy remuneration

» Classification of pharmacy remuneration (based on Ball 2011)

Regulation of pharmacy remuneration

Product–oriented approaches

Patient–oriented approaches

» Classification of pharmacy remuneration with regard to their basis

» Service–based remuneration ➔ remuneration of a service provider depends on the kind of service which is delivered ("fee–for–service“)

» Price–based remuneration ➔ remuneration depends on the price of the medicine ("mark–ups“ or “margins“)

» Mark–ups and margins are often used as synonyms, but they are not

\[
Mark - up = \frac{(\text{Net Retail Price} - \text{Wholesale Price})}{\text{Wholesale Price}}
\]

\[
Margin = \frac{(\text{Net Retail Price} - \text{Wholesale price})}{\text{Net Retail Price}}
\]
In those countries national pharmacists associations negotiate contracts with public payers on the remuneration of pharmacy services.
Two interesting cases to display the variety of regulation within the EU

Netherlands: As of 2012, pharmacy is more liberalised and is negotiated by pharmacies and health insurers, with pharmacies typically organising into groups to maximise their negotiating power with insurers.

Luxembourg: pharmaceutical prices on all price types are used from the country of origin.
Pharmacy remuneration | Type of remuneration

Example for combination:
Pharmacy Purchasing Price + 8.4% pharmacy mark-up + 6.46 DKK fixed fee = (Net) Pharmacy Retail Price + 25% VAT + 10.00 DKK dispensing fee = (Gros) Pharmacy Retail Price

Example for service-based:
For reimbursed products no pharmacy markup exists (0%), however a dispensing fee will be applied by the pharmacy.

Example for price-based:
RON 0,00 – 25,00 → 24%
RON 25,01 – 50,00 → 20%
RON 50,01 – 100,00 → 16%
RON 100,01 – 300,00 → 12%
> RON 300,00 → 35%
Example regressive price-based + service-based remun.: 100 €
0.00 – 1.91 = 10% → € 0.19
1.92 – 22.90 = 21.4% → € 4.49
22.91 – 150.00 = 8.5% → € 6.55
Price-based remun.: € 11.23
+ service-based remun.: € 0.82
= Total remuneration: €12.05

Example linear price-based + service-based remun.: 100 €
0.00 – ... = 3% → € 3.00
Price-based remun.: € 3.00
+ service-based remun: € 8.51
= Total remuneration: €11.51
Discussion / Conclusion

» The majority of EU member states have – in one way or the other – regulated distribution remuneration at the pharmacy level

» There are different remuneration schemes for reimbursable and non-reimbursable medicines

» Regressive schemes – either of price-based schemes alone or in combination with service-based schemes – are very common

» Service-based remuneration highlights the role of pharmacists in delivering health services, but comparing services is even more difficult than comparing prices

» Elements which can determine the regulation of pharmacy remuneration
  » Organisation of the Pharmacy market
  » Tasks and services of pharmacy
  » Budget impact and affordability
Discussion / Conclusion

» Implications of different remuneration system ➔ It is difficult to compare pharmacy retail prices
  » What constitutes the retail price? Out-of-pocket payments (OOP)
  » Study on the calculation of Purchasing Power Parities (PPPs) for pharmaceutical products
Discussion / Conclusion

» Implications of pharmaceutical remuneration → It has a major impact of retail prices and regulation of pharmacy remuneration can contribute to keep prices affordable

» Interplay with further pharmaceutical policies
Discussion / Conclusion

» Pharmacy remuneration is one instrument of medicine price regulation
   » It can contribute to lower / higher retail price levels
   » It can be used by policy-makers to create incentives (e.g. dispensing of generics)
   » It may also have unintended effects

» Decision on the scope and design of the pharmacy remuneration is strongly linked to the role of the pharmacists in the health care system
   » Pharmacists as “pill sellers” OR
   » Pharmacists as health professionals integrated in the health service delivery system (pharmaceutical care – current and future task of pharmacists?)

» Thus, pharmacy remuneration regulation is not only an issue of cost-containment / financial sustainability considerations but also of health services and their quality.
Literature / References

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