

## PBS Amendments 2012 – Pricing

### Proposal

- To allow the full implementation of the MOU as agreed in 2010 minor technical amendments to the *National Health Act 1953* (the Act) and the *National Health (Pharmaceutical Benefits) Regulations 1960* (the Regulations) and associated legislative instruments are required as follows.
- One approved PBS price would be agreed or determined for a specified quantity of each pharmaceutical item. The same approved price would apply for all brands of the item.
- PBS prices would be agreed or determined at the ex-manufacturer level. Where appropriate to the method for supply, the wholesaler mark-up would be added to the ex-manufacturer price using the same scales as now to arrive at a price to pharmacists.
- All pricing mechanisms, statutory price reductions, and price disclosure calculations and reductions would operate at ex-manufacturer level using the one approved price.
- Prices for other quantities or pack sizes of the same item would be derived directly and proportionally from the one agreed or determined price.

### Why Amend?

- Price disclosure calculations and reductions set out in the Act and the Regulations operate on the basis of one price for a specific quantity of a pharmaceutical item, with prices for other quantities of the item being directly proportional.
- There are currently a number of pharmaceutical items that do not have a single price for a brand, or all brands, of the pharmaceutical item.
- PBS pricing at the ex-manufacturer level will be a clear ‘base’ from which PBS prices for different supply situations can be calculated (rather than agreeing prices including a wholesale mark-up that is not relevant in a number of supply situations).
- The changes are consistent with the undertakings in the 2010 MOU about pricing policy because they are intended to ensure the price disclosure requirements in the MOU can be implemented correctly. They will give pricing consistency and fair application of pricing provisions.
- The legislative changes will include transitional provisions to convert current approved prices to pharmacists to ex-manufacturer prices. That is, the wholesale mark-up portion of the current price would be removed. Where appropriate for the method of supply the wholesale mark-up will be added to the ex-manufacturer price using the same scales as now to arrive at a price to pharmacists.
- Where a pharmaceutical item currently has more than one price (eg: non proportional pack sizes), the legislation will also require a change to one price that will apply to all brands of a pharmaceutical item for all methods of supply. The legislation will provide that price changes for current medicines may be negotiated / re-agreed. Where appropriate this would be a weighted price across existing prices, using script volume data available from both Medicare and the Drug Utilisation Sub-Committee (DUSC) data extrapolated from the Pharmacy Guild Survey. The data would be shared with companies if required during negotiations. The DUSC data extrapolated from the Pharmacy Guild Survey includes under co-pay and private script data. A detailed explanation of the DUSC Survey data is available in the introduction to the Australian Statistics on Medicines publication from the PBS website.

- Weighted pricing will not be the appropriate mechanism for all price changes (eg: where the price for one brand is significantly lower because broken pack fees will be applied). As a result, and to ensure continuity of PBS prices for all medicines, the legislation will provide a fall-back price at the lowest current price for the specified quantity.
- The changes to the legislation are not intended to deliver additional savings. Some lower, and some higher, pack size prices will occur, impacting some companies differently.
- After the price changes are implemented, price disclosure provisions will operate as intended for all brands of pharmaceutical items, including items that already have brands with a single ex-manufacturer price.
- New prices will mean that the price disclosure calculations can be performed across all brands of pharmaceutical items that contain a particular drug / manner of administration.

### Example of Multiple / non-proportional prices

Price disclosure calculations require adjustment of prices to one quantity (eg: quantity of 50 in the example below), and assume there is one price applicable for that quantity across all brands of the pharmaceutical item. Price disclosure assumes that prices for any other quantity of the medicine will be proportional.

In the example below, there are multiple prices for different pack sizes, and those prices are non-proportional (ie: when converted to a price for a set quantity the prices are not the same).

For example:

Pharmaceutical Item A (ex-man prices)

<b>Pack Size</b>	<b>Approved Price For Pack Size</b>	<b>Pricing Quantity</b>	<b>Price for Quantity of 50</b>
25	\$26.68	50	<b>\$53.36</b>
50	\$53.37	50	<b>\$53.37</b>
90	\$97.64	50	<b>\$54.24</b>

A formula would be applied, based on available script volume data, to arrive at a single weighted price for the quantity of 50. That new ex-manufacturer level price for the quantity of 50 would become the PBS approved price for all brands of the medicine. For example the final weighted ex-manufacturer price for a quantity of 50 might be entirely different to any of the current prices converted to a price for the quantity of 50, say \$53.60.

The approved price of \$53.60 for a quantity of 50 will then result in the following proportional prices:

<b>Pack Size</b>	<b>Price For Pack Size</b>	<b>Pricing Quantity</b>	<b>Price for Quantity of 50</b>
25	\$26.80	50	<b>\$53.60</b>
50	\$53.60	50	<b>\$53.60</b>
90	\$96.48	50	<b>\$53.60</b>