

Pharmaceutical Price Policy

Country: Austria

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Health Policy Issues: Pharmaceutical Policy

Current Process Stages



Featured in half-yearly report: Health Policy Developments Issue 2

1. Abstract

The two main reasons for a future cost increase in the pharmaceutical sector in Austria are the demographic development and medical progress. In order to contain cost increases the policy purses two objectives: Introduction of a new price formation procedure and increased generic consumption to 20% of all prescribed drugs by 2006.

2. Purpose of health policy or idea

The objective of the policy is to reduce the average cost increase of public pharmaceutical expenditure from 7-9% in the 90ies to 3-4% annully by 2006.

As in many developed countries, the two main reasons for a future cost increase in the pharmaceutical sector in Austria are the demographic development and medical progress. The highest pharmaceutical costs (indication groups 1-52) were reported in agegroup 70-79 (23% of total costs) and in the agegroup 60-69 (21% of total costs). The costs per covered person are highest in agegroup 80+ with € 902.

In addition, Austria faces some "homemade" problems in the current health system. First, in 2002 63,8% of the cost increase in the pharmaceutical sector is accounted for pharmaceuticals which are authorized by a chief physician (about 1800 pharmaceuticals, corresponding Mio. 5 prescriptions annually). In 2002 the costs per prescription of pharmaceuticals with "chief physician control" reached € 80, compared with costs of € 17 for free prescribed pharmaceuticals.

- A chief physician is a person who as an employee of the sickness funds authorizes expensive products and/or services which are not automatically reimbursed and/or which are not included in the benefit package.

Second, compared with other European countries the Austrian share of generics (8.1% of all licensed pharmaceuticals 1999) and generic prescriptions (9.2% of all prescriptions 1999) is low. This is due to the fact that brand name products have a reduced price after generics enter the market.

In the 90ies the annual growth rates of public pharmaceutical expenditure vary in Austria between 3.7 (1997) and 13.4 (1998) percent. If public pharmaceutical expenditure increase at the same pace in the future than it rose in the past, estimates suggests that expenditures will reach nearly billion € 3 in 2006 (in 2002 the expenditures reached billion € 2.2).

Main objectives

In order to contain cost increases the policy purses two objectives:

Introduction of a new price formation procedure

The new price formation procedure works with **three boxes**:

The **Red Box** contains all new pharmaceuticals until an average EU price is available. For prescribing physicians, these pharmaceuticals are subject to medical authorization and quantity controls by the Austrian Social Insurance. By the end of 2003, a procedure for determination of an average EU-price should be established. As of January 1st 2004 the price for pharmaceuticals which presently are authorized by a chief physician will be reduced to an average EU-level and in case that a price of a drug is above the EU-average, the producer has to pay back the difference to the Social health insurance.

The **Yellow Box** contains all pharmaceuticals with an essential additionaltherapeutic benefit for certain medical indicatons and groups of patients. For prescribing physicians, these pharmaceuticals are subject to medical authorization and quantity controls by the Austrian Social Insurance like in the Red Box.

The quantity control in the Red- and Yellow-Box refers to medical requirements of various patient groups, special stages of diseases and incidence and prevalence of diseases.

The **Green Box** contains all pharmaceuticals with free prescription for allcontracted physicians. The price regulation will be made by following criteria:

- The price of the brand name pharmaceutical decreases about 30%.
- The price of the first generic drug is 25% lower than the price of the brand name pharmaceutical.
- Further generics will have a further reduced price.
- If there is no generic drug on the market, the Federation of Austrian Social Security Institutions is allowed to announce the active agent of the product.

This new reimbursement code is expected to solve 6 key-problems:

1. There will be no more "chief physician control" for patients.
2. There will be a reduced prescription charge for generics.
3. The Red Box reduces the price level for pharmaceuticals with "chief physician control" to an average EU-price.
4. There is a time limited and transparent procedure for pharmaceuticals to move to the Yellow- and the Green Box.
5. The Yellow Box assures for patients a regulated supply with essential therapeutic innovations on regulated price conditions for the Social Insurance.
6. The price regulation denotes a market opening for generics.

In 2002 80.6% of all prescriptions had an unrestricted reimbursement status. The expenditure for those pharmaceuticals reached in 2002 58% of total expenditure. In 2002, only 5% of all prescriptions, but 18% of total expenditure could be attributed to pharmaceuticals requiring prior approval.

Increasing generic consumption to 20% of all prescribed drugs by 2006

The arrangements to encourage the use of generics are:

- to allow a higher price difference between brand name pharmaceuticals and generics
- a lower prescription charge for generics (€ 2.82 instead of € 4.25 per package)
- hospital discharge letter shall only contain the name of the active agent
- prescription of generics within the quantity control
- joint information measures and quick admission of generics.

Type of incentives

The measures taken are likely to stimulate price reductions via the new price formation procedure and rational prescriptions via reduced user charges for generics. In addition, quantity controls are targeted to doctors and the social health insurance, thus saving time costs and administrative burdens for patients, i.e patients need not seek prior approval any more.

Groups affected

patients, health insurance funds, pharmaceutical industry

3. Characteristics of this policy

| | | | |
|--------------------------------------|---------------------------|---|----------------------|
| Degree of Innovation | traditional | <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | innovative |
| Degree of Controversy | consensual | <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | highly controversial |
| Structural or Systemic Impact | marginal | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> | fundamental |
| Public Visibility | very low | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> | very high |
| Transferability | strongly system-dependent | <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> | system-neutral |

We believe that the advancement of the "chief physician control" is useful. Patients are spared for burden of having to obtain prior approval and prescribing doctors are monitored directly by chief physicians which seems reasonable and important.

The reduced prescription charge for generics is reasonable too and it may stimulate the consumption of generics which is in Austria far below the EU-average.

4. Political and economic background

Roughly based on the objectives first formulated by the European Commission 1999, the Ministry of health and women defined three health objectives for 2010:

- best quality of medical care
- efficient structures (health agencies, health insurances, child health plan, hospice program)
- financial sustainability (sickness fund expenditures linked to revenues).

Based on these objectives, the Austrian health reform 2003/2004 will include five strategies:

- health promotion
- quality assurance
- innovations
- structures of care provision and
- financing.

The pharmaceutical policy belongs to the financing strategy.

Complies with

EU regulations -

WTO/GATS -

Change based on an overall national health policy statement

Austrian Health Sector Reform 2003/2004

5. Purpose and process analysis



Origins of health policy idea

The negotiations for the pharmaceutical policy started on June 16th 2003 with discussions between the pharmaceutical industry, wholesalers, pharmacists and dispensing doctors.

On August 19th the price commission decided to reduce the whole sale mark-up for indexed pharmaceuticals by 2 percentage points for products in the Positive List.

At the end of October, the drug-tax-commission decided a mark-up reduction of 1% for drugs, which are accounted by the Social Insurances and they decided a special allowance of 3.6% for the health insurance turnover.

On 6th November 2003 the pharmaceutical industry and the Federation of Austrian Social Security Institutions agreed

to the industry-rebate, the price reduction for pharmaceuticals which are authorized by a chief physician and to a new price formation procedure.

On November 10th the pharmaceutical policy paper was presented by the health minister Maria Rauch-Kallat at the National health conference.

In the following weeks, the policy will pass the Council of Ministers and it will be finalized in the Parliament with at least votes of the governmental parties.

Approach of idea

The approach of the idea is described as: new:

Stakeholder positions

The pharmaceutical policy is an agreement between the Ministry of health and women, the Federation of Austrian Social Security Institutions, economic association, pharmacy association and wholesalers.

The medical association agreed to adjust the regulation for rational prescribing and to an efficient control of the prescription practice. They also wellcomed the abolition of the "chief physician control".

The Austrian Generic-Association generally wellcomed the pharmaceutical policy, but the representatives criticize that there are too few measures to promote generics. They say that an increase of the generic rate to 20% is impossible only by an introduction of a lower prescription charge for new generics. The association fears that the market for generic providers will become more difficult. To compensate the burden (price reduction and contributions via industry allowance) the Austrian Generic-Association requires an increase of generic prescriptions. They further criticize that the measures of the pharmaceutical policy (reducing margins and price reduction) only work in the short-run. They expect that in the long-run saving in the pharmaceutical market could only be achieved by an increased competition in generic drug supply.

Representatives of the Federation of Austrian Social Security Institutions as other stakeholders (chamber of pharmacists) require a reduction of the value-added tax for pharmaceuticals (presently 20%).

To our knowledge the opposition parties did not give any official statements with respect of the content of the policy.

Influences in policy making and legislation

see Health Policy Process: Origin of Idea.

Legislative outcome

pending

Adoption and implementation

In the adoption process towards implementation following actors have been involved:

- Government (health minister Maria Rauch-Kallat)
- pharmaceutical industry
- wholesalers
- pharmacists
- dispensing doctors

- Social Health Insurance Institutions
- economic association
- pharmacy association

Monitoring and evaluation

The Pharmaceutical evaluation commission at the Federation of Austrian Social Security Institutions replaces the "Fachbeirat". Since October 2002 there only works one "Fachbeirat". The members of the "Fachbeirat" are health insurance representatives, pharmacists, physicians, representatives of the social partners and scientists.

The Pharmaceutical evaluation commission has 20 members including representatives of social insurance, science and association.

The commission gives advise to the management of the Federation of Austrian Social Security Institutions, in which box a pharmaceutical is classified and which active agent (active agent group) can be announced after the end of a patent.

By March 31th 2004 the new rules of procedure for the pharmaceutical evaluation commission should be issued.

6. Expected outcome

If the cost containment policy is successful (3 to 4 percent annual cost growth), public pharmaceutical expenditure are predicted to be in the order **Mio. € 2,541** in 2006. In particular, it is expected that the amount to contain is **Mio. € 120**.

Components of the cost curb 2004:

- Sales tax (Mio. € 20,1)
- decrease of the whole sale margin (Mio. € 20,0)
- decrease of the pharmacy purchase price (Mio. € 8,0)
- decrease of the pharmacy mark-up (Mio. € 21,0)
- dispensing doctors (Mio. € 4,0)
- industry rebate and fee (Mio. € 24,0)
- price reduction of pharmaceuticals which are authorized by a chief physician (Mio. € 16,0)
- cost increase 2003 (Mio. € 7,4)

Potential cost curb 2004-2006: price formation and quantity increase for generics: **Mio. € 174** excl. sales tax and trade margin

Increase the Austrian rates of generic prescriptions for 2006 to at least **20%** (which is especially required by the industry).

Quality of Health Care Services

marginal  fundamental

Level of Equity

system less equitable  system more equitable

Cost Efficiency

very low  very high

This policy seems balanced and sensible as efforts have been successfully made to achieve a broadly based consensus with all involved stakeholders. However, we believe that there is still need to think about the pharmacy market which currently - as other branches - is overregulated. In addition, about half of public pharmacies are run by prescribing doctors, generating perhaps inefficiencies which are in this reform are not all dealt with.

7. References

Sources of Information

Ministry of health and women: <http://www.bmgf.gv.at/cms/site/>

- Federation of Austrian Social Security Institutions: <http://www.sozialversicherung.at/>

- Rosian I et al.: Generika, Österreichisches Bundesinstitut für Gesundheitswesen (ÖBIG), 2000.

Austrian Generic-Association

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