PILLAR 3: AVAILABILITY AND AFFORDABILITY

REVIEW OF DRUG PRICING POLICY IN THE PHILIPPINES

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Outline:

- Objectives
- Methodology
- Relevant Literatures
- Findings
- Recommendations

Objectives:

To review the current pharmaceutical pricing policies of the DOH

To give recommendations on legislative and governance reforms

To determine the formula for price mark-ups of medicines

Methodologies:

1. Desk review of existing policies and laws on drug pricing, taxation, procurement and registration
2. Key Informant Interviews and FGDs to capture the different unwritten policies and procedures and the behavioral dimension that affects the implementation of pricing and procurement
3. Site visits, document reviews and workshop to draw or encapsulate the viewpoints of the stakeholders and increase the credibility of data collection and confirming the actual implementation of policies

Relevant Literatures:

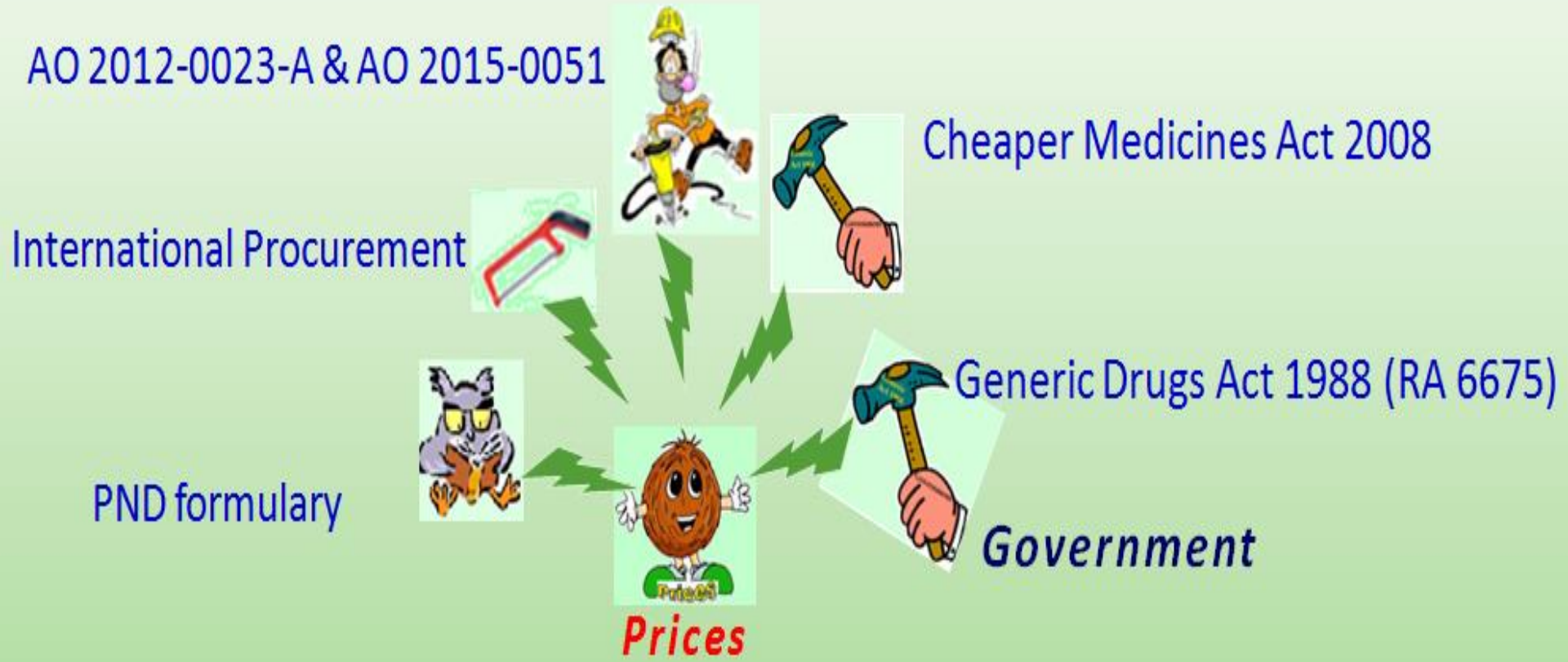
- WHO Equitable access to essential medicines: A framework for collective action
- WHO, The World Medicines Situation 2011
- Cameron A, Ewen M, Ross-Degnan D,etal. Medicine prices, availability, and affordability in36developing and middle-income countries: a secondary analysis.Lancet2009;373:240–9
- MDG GapTask Force Report 2009
- Yip W, Hsiao W. Non-evidence-based policy: How effective is China's new cooperative medical scheme in reducing medical impoverishment? SocSciMed 2009;68:201–9. ed.). Geneva, Switzerland: WHO and HAI, 2008.
- VanDoorslaer E, O'Donnell O, Rannan-ElyiaR, etal. Catastrophic payments for health care in Asia. Health Econ 2007;16:1159–84

Impact of RA 9502 on Drug Prices

- Jesus Sarol Study:
  - Significant reduction in prices of MDRP/GMAP targeted drugs; greater reduction was observed among innovators
  - Marked reduction in the mean and median prices of the selected drugs at least 10% reduction among GMAP drugs and innovator drugs (as expected)
  - Prices of competitor drugs settled near the GMAP levels however having a GMAP listed drug did not automatically result to price red uction for all drugs in its class.
- De Guzman and Fausto Study:
  - The GMAP does not seem to have resulted in significant financial burden reduction of medicine costs
  - Noticed price reductions in branded medicines because of GMAP

Oscar Picazo Study

- "High retailer markups – For generic products, markups ranged from 5 – 355 percent at the retailer level, and 18 – 117 percent at the distributor level. For originator brand products, markups were relatively lower (5-8 percent) at private retail pharmacies. However, a large chain pharmacy had markups that ranged from 2 – 60 percent. "
- "Cost-increasing value-added tax (VAT) - The original VAT is incurred at the first stage of the supply chain, and distributors and retailers often charge their markup based on the VAT inclusive price rather than on the cost excluding VAT. "
- "Adverse effect of senior citizens' discounts and other pharma discounts
- Generic drugs still sell very high compared to international reference prices



EXISTING LAWS AND POLICIES

Existing Laws and Policies

- Generics Act of 1988 (RA 6675) –" to ensure the adequate supply of drugs with generic names at the **lowest possible cost**…"
- The Generics Law ensures availability of generics drug in the market and em powers the consumer to choose
- BUT:
  - It has not fully controlled the irrational prescribing behavior of providers
  - Tailored procurement that will improve the supply chain system as ambitioned was partially implemented
  - Self-reliance was not realized
  - Capacity of FDA to ensure quality of drugs still being questioned and challenged

National Health Insurance Act (RA7875) – IRR Sec. 48

"the Board shall provide for a process to determine the price index of drugs and medicines included in the PNDF and reimbursable by the Corporation. Based on the indices, the Board may from time to time set the allowable percentage mark-up in the prices of drugs and medicines….Reimbursement shall only be made for drugs and medicines within the allowable mark-up price"

NATIONAL HEALTH INSURANCE ACT AS AMENDED (RA 10606)
NATIONAL HEALTH INSURANCE ACT OF 2013

Sec 10. Powers and Functions

– “xxx

“(j) To negotiate and enter into contracts with health care institutions, professionals, and other persons, juridical or natural, regarding the pricing, payment mechanisms, design and implementation of administrative and operating systems and procedures, financing and delivery of health services in behalf or its members

Universally Accessible Cheaper and Quality Medicines Act of 2008 (RA 9502)

Provides “additional power to the President of the Philippines to impose, upon recommendation of the Secretary of Health, maximum retail prices over medicines that include, among others, the ‘drugs and medicines that are included in the Philippine National Drug Formulary Essential Drug List. “

Supported by Joint DOH-DTI-IPO-BFAD AO 2008-01 – IRR of RA 9502

Universally Accessible Cheaper and Quality Medicines Act of 2008

- Chapter IV Powers of the Secretary of Health
  - "Rule 18…The SOH may order the inclusion of drugs and medicines to the list subject of price regulation under Section 23 of the Act.."
  - "Rule 19… The SOH shall have the power to determine the MRP of drugs and medicines which shall be recommended to the President of the Philippines for approval"
  - "Rule 20…The SOH shall have the power to implement the fair price of drugs and medicines for purposes of public health insurance and government procurement based on the order of the President of the Philippines imposing MRP"
  - "Rule 23… Deputation of Government Entities …the SOH shall have the power to call upon and deputize any official, agent, employee, agency, or instrumentality of the national and local government…..to carry out the purposes of the rules on drugs and medicines price regulation

Universally Accessible Cheaper and Quality Medicines Act of 2008

- Chapter V – Price monitoring and Regulation System and the c reation of advisory bodies and consultative councils
  - "The SOH shall establish and initiate an electronic price monitoring and regulation system for drugs and medicines".
  - "Rule 27…Creation of Institutional Office to Implement the Price Regulation"
    - **Who, What, Where is the Institutional Office???**
    - **Do we need a new law to create the Institutional Office??**

- Chapter VI - Maximum Retail Price (MRP)
  - "Rule 30, Section 5…drugs and medicines subject to price regulation sh all include, interalia:
    - 1) Drugs and Medicines that are in the current edition of the PND F and Essential Drugs List
    - 2) All Drugs and Medicines indicated for treatment of chronic illnesses and life threatening condition
    - 3) Drugs and Medicines for prevention of diseases
    - 4) Drugs and Medicines for prevention of pregnancy
    - 5) Other Drugs and Medicines the SOH determines
- Chapter VII Cost Containment Measures
  - Rule 34. PhilHealth Actions

    6. Reimbursement of drug products and services related to rational, qual ity drug access including but not limited to,

    setting fixed reimbursement prices, drug price reference index to selected drugs and medicines

- AO 2012-0023-A – addressed the need to establish a **system for price negotiation through the creation of the Medicine Price Board that is tasked to negotiate for the most cost-effective price for government, and health technology and economic evaluation.**

- AO 2015-0051 –Guidelines in the Implementation of the Philippine Drug Price Reference Index (DPRI) to all Public. Hospitals and Health Facilities – provides technical guidelines in implementing **DPRI as the unified pricing system for the procurement of medicines in the public sector**

The Secretary of Health empowered by the RA 9502 ordered the establishment of the Drug Price and Access Advisory Committee (DPAAC) on 05 June 2017 (DPO 2017-2769).

DPAAC therefore recommends the need to **increase the Reference Price by reviewing how it is calculated perhaps even formulating a regional pricing system,** pooled procurement, and strengthening the Philippine Pharma Procurement Inc. among others.

Is the DPAAC the Institutional Office mentioned in RA 9502?

- If YES, there is a need to amend – to make DPAAC an office with the responsibilities and authorities stipulated in Rule 27 Chapter 5 of the IRR of RA 9502. An EO may be warranted.
- If NO, the SOH has to create the said Institutional Office from an existing office ie FDA or a new office and/or deputize from DOH, FDA or other Gov't Agencies

Governance framework – Executive Order or Amendment to RA9502

Findings:

Hospital Pricing:

- Follows DOH DPRI for drug bidding purpose
- Mark-up varies - universally: 5-30%. Based on room rates (30%-65%); item oriented mark-up or prescription oriented mark-up
- Drug Consignment with 30% profit; consignor set their price; most drugs are cheaper than those being sold in the retail drug stores
- Market price as basis of pricing for drug procurement and selling, Some hospitals request from suppliers their current market price
- Very few hospitals conduct drug quantification method, often based on historical data
- Some Government Hospitals sell branded together with generic drugs that lead to two category of drug price

- Different procurement method: Bidding, Consignment, Emergency + 30%
- Consignment method – same price as the bidding or lower than the market price +30%
- Emergency method – often from chain drug store or another government or private hospital + 5-30% mark-up. Some received special discount from the chain drug store
- Some hospitals charge the price difference from the supplier
- Very expensive drugs i.e. biologicals mark-up is 5%
- Government discounts affect the mark-up
- The procurement process at the DoH is limited to procuring drugs for various programs only, while hospitals are doing their procurement exercise individually with the result of losing bulk purchase advantage as one of the good procurement practices.

Supplier/Distributor:

- Factors that affect the pricing calculation:
  - importation cost, cost of money (bank charges) + LC interest, Duties/Tariffs (0-7%), storage/logistics/warehousing, cost of goods (FOB/CIF), packaging cost, shipping charges/air freight charges, municipal tax + VAT + gov't discounts, discounts to drugstores (20-35% of SRP) + Distributor, Brokerage charges (holding fees + howling fees + logistics)
- Cost varies from product to product:
  - Goods of Profit Margin – Government – 9%, Highly specialist products – 50-55%, Biologicals – low 30%

Summary of Findings:

- PROCUREMENT FAILURE:
- Inability of the supplier to deliver leading to EMERGENCY purchase
- Most drug identification is based on historical procurement
- Several procurement methods

- SUPPLY CHAIN:
- Many players
- Increase number of mark-ups due to increase length of supply chain

- QUALITY OF DRUGS:
- People's belief that generic drugs are poor quality still exists

Recommendations:

- Framework contracting may be a good solution to bring down price of drugs but will be difficult with the present procurement law
- Mark-ups are not of the same level (10%-65%) and needs to be regulated at all levels in the supply chain,
- Quality of drugs, supply chain, rational use of drugs must be assured to support price control
- Supplier selling price for same item must be the same for all gov't hospitals

- The Mandatory Drug Price Reduction to cover the expenses in the logistics cost
- DOH and government hospitals must have good forecasting
- Need better supply chain management (national and local)
- Need a strong central office to bid best price based on reference price index
- Strengthen FDA to ensure quality of generic drugs
- Favor Price Negotiation

Governance Framework:

1. Development of the Institutional framework for the Drug Price Regulatory and Monitoring system by the SoH as per the provisions of RA 950 - Initiate and establish a price monitoring and regulation system for drugs and medicines prices

2. SoH calls upon and Deputizes the FDA or any agency or instrumentality of the national and local government to become the working arm of Drug Pricing Technical Working Group (EDP-TWG) with adequate technically trained staff to:

Calculate landed costs of drugs and medicines and suitable precise mark-ups f or the distributers/wholesalers and retailers at the point of entry to the market. and set the retail price of a drug using clear formula.

Strict uniform implementation and monitoring of the markets' implementation of the set retail price of drugs set by the Board.

3.SoH to demand back-up support from the Bureau of Customs (BoC), Bur eau of Internal Revenue (BIR), DoH/PD, Department of Trade and Industry (DTI) to the EDP-TWG in data gathering and taxation analysis.

"Good governance never depends upon the law, it is not fire-fighting or crisis-management. Instead of opting for ad-hoc solutions the need of the hour is to tackle the root cause of the problems. Good governance is a political process, it has to be pro-active. "

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