

Teva's Essential Tips on the Tariff

It can be a great challenge to understand the specific working of the Drug Tariff; how products are listed and reimbursement prices are calculated. As part of Teva's Pharmacy and Dispensing Doctor Support programmes the following guide aims to demystify various key aspects of the Drug Tariff, giving pharmacists and dispensing doctors a clear and practical explanation of how drug reimbursement works in practice.



UK

Teva UK Limited

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What is Drug Tariff?

Drug Tariff details the main mechanism by which dispensing contractors are paid by the NHS for providing dispensing services and certain drugs against NHS prescription forms.

It is produced monthly for England and Wales by the Pharmaceutical Directorate of the National Health Service Business Services Authority (NHSBSA) for the Department of Health (DH) and is supplied primarily to pharmacies and doctors surgeries and available online at http://www.ppa.org.uk/ppa/edt_intro.html (The prices used are also reflected in the Scottish and Northern Ireland Drug Tariffs active in these nations). It tells you the rules you should follow when dispensing, the value of the fees and allowances you will be paid, the drug and appliance prices you will be paid and what is allowed and what is not.

Reimbursement against prescriptions dispensed for certain drugs is detailed in Part VIII of Drug Tariff and informs pharmacies, doctors and Primary Care Organisations (PCOs) of the reimbursement price of commonly used drugs, helping pharmacists and doctors to understand what they will be paid for dispensing; and helping doctors and PCOs to plan and control their NHS budgets.

Part VIII Drug Tariff consists of 3 categories:

Category A

Drugs which are readily available as a generic and where the reimbursement price is calculated from a weighted average of the list price of products submitted to the Department of Health by specific suppliers. Drug Tariff for drugs in category A can fluctuate monthly.

Category C

Drugs which are not readily available as a generic and where the price is based on the list price of a particular brand, manufacturer or supplier. Drug Tariff for drugs in category C can fluctuate monthly.

Category M

Drugs which are readily available as a generic where the reimbursement price is calculated by the Department of Health based on nett pricing information submitted by manufacturers. Drug Tariff for drugs in category M usually changes quarterly.

Exceptions to the rule – No Cheaper Stock Obtainable, NCSO

If a drug is included in Part VIII the price shown will be used for reimbursement regardless of what a pharmacist or dispensing doctor has dispensed to meet the order. The only exception to this rule is when a shortage of a Part VIII generic drug has been identified by the DH and a 'no cheaper stock obtainable' (NCSO) status has been granted in which case NCSO rules apply to community pharmacies. Dispensing Doctors should prescribe an alternative brand. Further details can be found on the NHSBSA website at <http://www.nhsbsa.nhs.uk/PrescriptionServices.aspx>.

What is reimbursement worth to Pharmacy in England and Wales?

The DH has agreed total funding for 2011/12 at £2,526m (Source – PSNC) of which £500m (Source – PSNC) is buying profit for community pharmacies.

The £500m buying profit represents a fixed sum for branded and generic drugs with the DH using changes in the Drug Tariff for individual drugs to reflect market conditions and maintain the overall level of buying profit at £500m.

The DH has a different method of calculating reimbursement depending on the category that the drug falls into. To fully understand how this works it is useful to have the following definitions of pricing:

List Prices

When a drug enters the market the manufacturer sets a list price for that drug which is approved by the DH as part of the registration. For branded products this is what the DH will pay as reimbursement for this drug and for generics this is the reimbursement price that will be paid if a drug becomes listed as NCSO.

Retail Prices

This is the price that a product is sold for before any discounts.

Nett Prices

This is the price that a product is sold for after discounts.

Category A

Reimbursement is derived from the list price submissions for products in category A made by AAH, Alliance Healthcare (Distribution) Ltd, Teva UK and Actavis with AAH and Alliance Healthcare (Distribution) Ltd having a weighting of 2:1 meaning Teva UK and Actavis have a 1/6th weighting each and AAH and Alliance Healthcare (Distribution) Ltd a weighting of 2/6th each. List prices are submitted monthly to the DH hence category A Drug Tariff can change monthly.

Category C

Reimbursement is derived from the list price of a proprietary brand, manufacturer or supplier. This can change monthly though in practice tends to change less frequently.

Category M

Reimbursement is derived from the quarterly submissions of manufacturers of their average nett selling prices after rebates and discounts. Data collected for the latest quarter is analysed over the following quarter and is used to determine individual drug reimbursement for the quarter after that *i.e.* data collected for Q1 is assessed during Q2 and forms category M Drug Tariff for Q3 hence the occasional disparity between category M Drug Tariff and market prices as the data used to determine reimbursement can be up to 6 months behind the market and market conditions can change during the period of data collection and analysis. Drug Tariff for drugs in category M usually changes quarterly.

A recent update to Drug Tariff from 1st July 2012 relates to single pack size reimbursement. Previously disparities in reimbursement between pack sizes of drugs listed in part VIII could lead to a specific pack size being favoured by contractors for financial gain *e.g.* 2 x 28 packs of a drug being dispensed against a 56 script as reimbursement for 2 x 28 packs was greater than that for a 56 pack. From the 1st July 2012 specific pack sizes are listed in part VIII with alternate pack sizes pro rated against the pack size listed unless otherwise stated in part VIII of the drug tariff.

The new rules cover tablets and capsules up to and including 120 unit doses and liquids and some creams up to and including 500ml / 500g. If a pack size for a product listed in part VIII exceeds the quantities stated above, the listed pack size is the only pack size considered when calculating the level of reimbursement (Source: part VIII Drug Tariff).

How do retail selling prices affect Drug Tariff?

There is no direct link between retail prices of drugs and their level of reimbursement. A movement in retail price does not necessarily result in a change in Drug Tariff and *vice versa*.

Category A and C drugs have their level of reimbursement determined based on list prices as described earlier. A change in retail price for a drug does not necessarily drive a change in the level of reimbursement for that drug.

Category M drugs have their levels of reimbursement determined by quarterly submissions of pricing data by manufacturers detailing their average nett selling prices after all rebates and discounts for all drugs listed in category M have been taken into consideration. For category M it is therefore the nett average selling price which reflects market conditions for the period of submission that determines Drug Tariff and not the retail price.

As stated earlier category M submissions cover a quarter with the data being analysed the following quarter and determining reimbursement for the subsequent quarter.

This timing delay of up to 6 months is key in understanding why the reimbursement level of a drug in category M for the current period does not always reflect the current market conditions for that particular drug if current market conditions are different from those that prevailed 2 quarters previous when the pricing data making up the current quarter's Drug Tariff was collated.

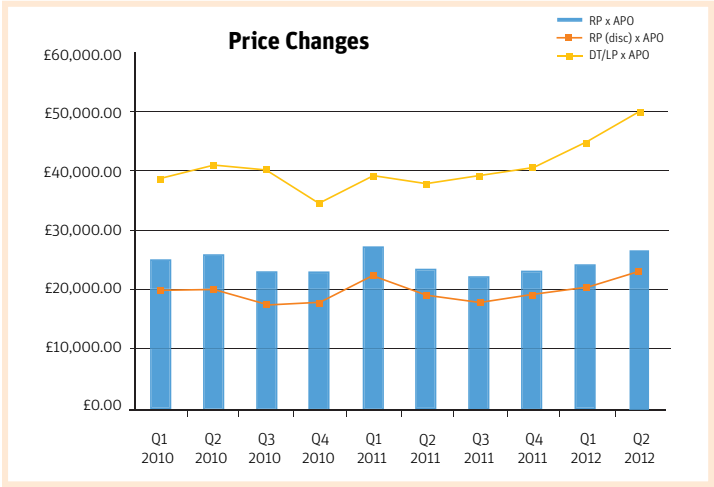
If market conditions are currently more turbulent for that product the Drug Tariff can seem relatively low though if previously erratic market conditions have calmed Drug Tariff may appear relatively high.

The overall £500m of dispensing profit allowed per year for community pharmacies does not change however and these ups and downs will be reflected in movements in reimbursement for individual products across Drug Tariff whilst maintaining the total level of dispensing profit.

Any profits in excess of the £500m per year can be recovered by the DH adjusting Drug Tariff in future periods. This means that the overall level of buying profit remains static regardless of price movements on individual drugs.

Teva Portfolio

This can be illustrated by observing part VIII Drug Tariff products in the Teva portfolio and movements in Drug Tariff, pricing and pharmacy profit quarterly based on average pharmacy orders (Source IMS data) from 2010 onwards.



The graph above shows for a Teva scheme customer achieving full discount, what the average pharmacy position was per quarter since the start of 2010 with the various dynamics described above in action.

Retail prices, nett selling prices after discounts and Drug Tariff can be seen to fluctuate over the period as changing prices drive a continuous recalibration of Drug Tariff and the Department of Health continuously collects and analyses pricing data as it strives to maintain the overall annual level of reimbursement profit for pharmacy at £500m.

For Teva scheme customers achieving full threshold and loyalty discounts, the average profit from dispensing average pharmacy volumes across the period on the Teva range is 50%-55%.

A Final word

In summary there are a number of drivers behind the reimbursement prices of individual drugs contained within Drug Tariff. Reimbursement prices can be driven by manufacturer and supplier list prices and average nett selling prices after discounts depending on the reimbursement category of the drug concerned.

Retail prices before discounts do not necessarily influence Drug Tariff and, by adjusting the reimbursement prices of individual drugs, the DH strives to maintain the overall level of dispensing profit, which for community pharmacies is currently set at £500m per annum.

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