Does reimbursement affect price decay?

Since April 2005, the prices that pharmacists and dispensing doctors in England and Wales have been reimbursed for many of the generics they dispense have been determined by category M of the Drug Tariff (**Generics *bulletin***, 8 April 2005, page 1).

Category M prices are based on actual volume-weighted average prices taken from sales data supplied quarterly on a voluntary basis by generics players. More recently, the formula used by the UK government to add a dispensing margin to the volume-weighted average price has been refined to increase the margins on lower-priced category M products (**Generics *bulletin***, 19 September 2008, page 9).

Before category M, most reimbursement prices were based on suppliers' list prices rather than actual prices. This is still the case for category A products, whose reimbursement prices are based on the weighted price lists of two manufacturers – Teva and Actavis – plus those of the leading wholesalers AAH and UniChem.

Category A products, perhaps not surprisingly, tend to have a larger gap than category M products between the lowest price at which they are available in the marketplace and the average price at which they are offered to independent pharmacists. However, it is not clear whether a difference in reimbursement category has also played a part in the speed of price decay after generic launch.

WaveData took a basket of products that are now found in category A or category M and compared how their average market prices had fared since their introduction, which in some cases was as early as 2001. Figure 1 shows that in the long-term there has been little difference between the two categories, with products of both types suffering similar price falls over time.

Figure 2 demonstrates why. There appears to be little difference between the number of category M and category A licence holders, despite the fact the products are in different reimbursement categories.

However, looking at price erosion since category M was introduced in April 2005, a different pattern emerges (see Figure 3). According to WaveData's managing director, Charles Joynson, a number of higher-valued category A products have lifted the price-decay line. "The higher prices of ondansetron and sumatriptan in category A stand out in the data and have had the effect of raising the category A graph," he points out. "Nevertheless," he adds, "the category A graph still follows that of the category M products; and after about 32 months from launch, the more expensive products disappear from the data and cease to have a noticeable effect. Overall, there is little difference in the rates at which the different products lose their value."

WaveData also took a closer look at ramipril – now a category M product and for which it has much historical price data – to see whether the companies singled out by category A had a better or worse record for pitching their prices in line with the market. "Teva was close to the average market price in the months following launch," comments Joynson, "but AAH appears to have had difficulty in getting its price right in the early months. UniChem did not suffer quite as badly during this phase, but was still well above the market," he adds, noting that Trident and OTC Direct – the two firms' short-line wholesaling subsidiaries – were both offering much lower prices. G

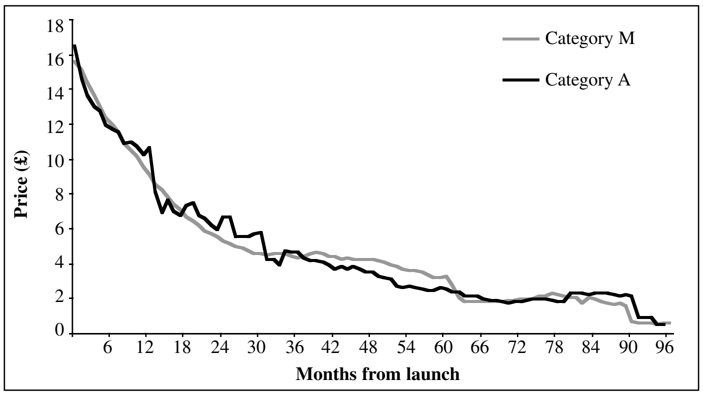

Figure 1: Average price-decay rates since generic launch for products now found in categories A or M of the UK Drug Tariff reimbursement list (Source – WaveData)

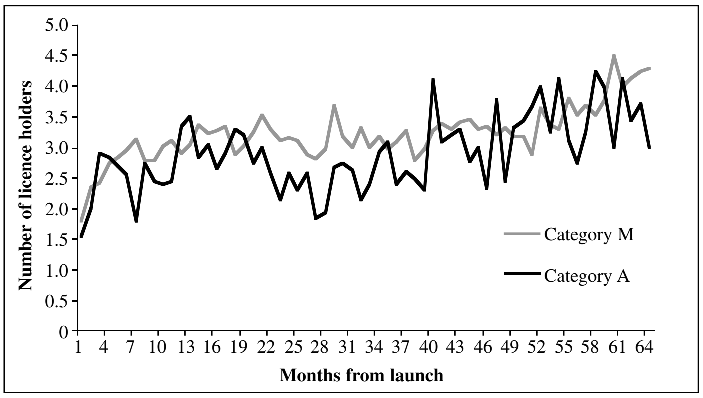

Figure 2: Average number of licence holders offering category A or category M products in the months following generic launch (Source – WaveData)

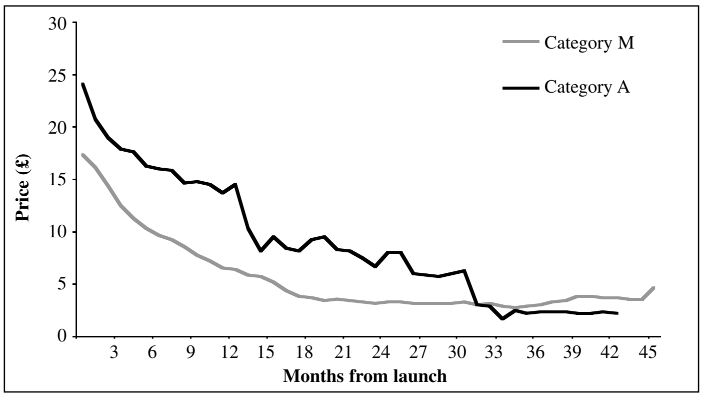

Figure 3: Average price-decay rates for category M products launched since April 2005 compared with category A products (Source – WaveData)

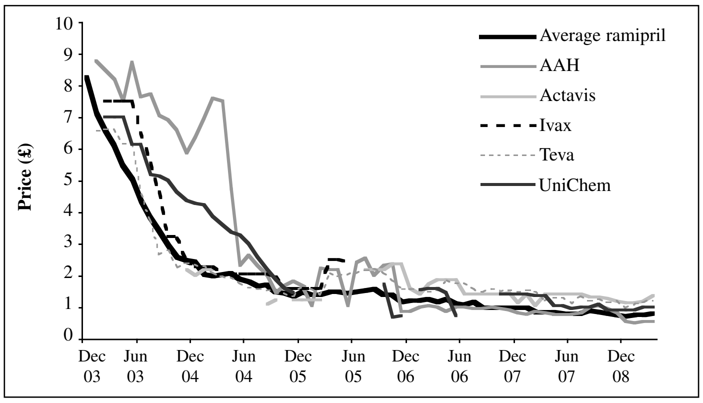

Figure 4: Average monthly prices since generic launch for category M product ramipril compared with those of various suppliers (Source – WaveData)

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