

EXPLANATION: REFERENCE PRICING

Introduction

Reference pricing is a pricing model that groups together products that are generically or therapeutically equivalent into reference-pricing groups and sets a maximum reimbursement price for such a group of products.

Generic equivalents

New medicines are under patent protection for a number of years after they are launched. During this period, only the inventing company is allowed to manufacture and sell the product allowing them with the opportunity to recover their research and development costs. Once the patent period has expired, other companies start to manufacture generic equivalents of the product at a lower cost. These products contain exactly the same strength of active ingredients in the same dosage form as the patent product and are referred to as 'generic equivalents'.

Therapeutic equivalents

These are branded products, still under patent protection that are grouped together in the same therapeutic class since they have the same action and therapeutic effect in the body. For example, two cholesterol-lowering medicines will be classified as therapeutic equivalents if both of them lower cholesterol by the same value (e.g. 30%), even though their active ingredients are not chemically identical.

Generic reference pricing

With generic reference pricing, all medicines containing the same active ingredient at the same strength and in the same dosage form are grouped into a generic class. The generic reference price sets a maximum reimbursement price for such a group of products.

Generic equivalents that cost the same as or less than the generic reference price will be reimbursed at 100% of applicable scheme rate.

Branded products and other equivalents that cost more than the generic reference price will be reimbursed at the generic reference price. You will be liable to pay the difference between the cost of the medicine and the generic reference price.

The following example illustrates generic reference pricing:

Active ingredient	Trade name	Cost	Co-payment
Simvastatin 10mg	A	R100	None
Simvastatin 10mg	B	R150	None
Simvastatin 10mg	C	R200	R50
Generic reference		R150	

Formulary reference pricing

With formulary reference pricing, all medicines that are still under patent protection (e.g. they do not have generic equivalents available), but have the same action and therapeutic effect in the body, are

grouped together in a therapeutic class. A maximum reimbursement price (known as therapeutic reference price) has been determined for each therapeutic class.

Therapeutic equivalents that cost the same as or less than the generic reference price will be reimbursed at 100% of applicable scheme rate.

Therapeutic equivalents that cost more than the generic reference price will be reimbursed at the generic reference price. You will be liable to pay the difference between the cost of the medicine and the generic reference price.

How are you affected by reference pricing?

Reference pricing assists Transmed to manage the cost of high-cost medicines to ensure that the Fund can continue to provide its members with an excellent chronic medicine benefit. At the same time, reference pricing will, in certain situations, allow you access to chronic medicines if you do not meet all the reimbursement criteria applicable to the more expensive product, but are willing to pay the difference between the cost of the medicine and that of its therapeutic alternatives.

Transmed encourages you to discuss alternative medicines that will not attract a co-payment with your treating healthcare provider. Should exceptional clinical reasons exist why your treatment should not be changed, your healthcare provider can contact the Chronic Medicine Department.

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