Medicines Benefits in Korea

International Expert Meeting on
Medicines as a Key Component of Universal Health Coverage
Singapore - Oct 2, 2013

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I. Health Insurance System in Korea

Cost sharing for patients (with exemptions and ceilings)

- 20% for the inpatient care
- 30-60% for the outpatient care, depending on clinics, hospitals, general hospitals, tertiary hospitals
- 30% for outpatient medicines: for 52 minor conditions, 40% for general hospitals, 50% for tertiary hospitals

About 90% of hospitals are private, Fee-for-service payment

Pharm expenditure accounts for about 25% of total H exp

Insurance Organization

- National Health Insurance Service (NHIS)
- Health Insurance Review and Assessment (HIRA)

II. Medicines Pricing and Reimbursement in Health Insurance

1. Reimbursement to Providers

Reimbursement of (real) cost of purchase

(No margin on medicines)

- No incentive for providers to purchase medicines at a cost lower than reimbursement price
- Pharmaceutical manufacturers and distributors provide informal pay-back to hospitals

Changes in 2011

- Allow providers to keep a given portion of the difference between the cost of purchase and reimbursement price

2. Medicines Pricing

Pricing of Originator Medicines: external reference pricing

Average of manufacturing prices (65% of list price) in 7 countries (USA, UK, Germany, France, Italy, Swiss, Japan) plus VAT and distributors' margin

Pricing of Generic Medicines

With patent expiration, 20% reduction in the price of originator

1st-5th generic medicine: 85% of the reduced price of originator drug (68% of the price of originator before patent expiration)

6th- : 90% of the lowest price of the existing generic

3. Reform in Benefit Decisions and Pricing

1) Economic Evaluation

Introduction of **positive listing** (included in the benefit package) based on cost effectiveness, starting in 2006

-> HIRA (Health Insurance Review and Assessment) reviews the data submitted by pharmaceutical manufacturers

2) Negotiated Pricing of Originator Medicine

Instead of formula-based external reference pricing (average price in 7 countries)

-> Introduce *price negotiation* between NHIS (National Health Insurance Service) and pharmaceutical manufacturers with *price-volume* consideration

3) Changes in Generic Pricing (from March 2012)

- First year after patent expiration: 30% reduction in the price of originator, 85% of which (59.5%) is set for the price of generics
- From the second year after patent expiration: 53.5% of originator price (10% reduction from the year 1) for all generic medicines, regardless of the order of entry

Sujin Kim, Soonman Kwon, Youn Jung, Jaeheon Heo, "International Comparison of Generic Medicine Prices," *Korean Journal of Health Economics and Policy* (16:3), 2010, 41-62 (in Korean).

4) Independent Review Process (IRP)

- Started in 2012, as a result of Korea-USA FTA
- Manufactures (of medicines and device) can request the review of benefits decisions

III. Benefits Decision Process

Technical review by a committee in HIRA

Proposed to Health Insurance Policy Committee

Health Insurance Policy Committee

- Major decision making (by voting) on premium contribution, reimbursement pricing (medical care, pharmaceuticals, technology), benefit packages
- 25 members, Vice Minister of HW as the chair:

8 from payers (labor unions, employer ass., civic groups...),

8 from providers (medical, dental, hospital, nurse..),

8 from the public interests (MoHW, MoPF, NHIS, HIRA, 4 experts)

III. Benefits Decision Process (continued)

Recent experiment

- Citizen participation (discussion and deliberation for 2 days) for value judgment in benefit decisions
- Fairness in process or procedural justice
- Need evidence generation by experts, but also need to add value of lay person/payer/citizen

- Soonman Kwon, J. Oh, Y. Jung, and J. Heo, "Citizen council for health insurance policy-making," *Korean Journal of Health Economics and Policy* (18:3), 2012, 103-119 (in Korean)
- Soonman Kwon, M. You, J. Oh, S. Kim, and B. Jeon, "Public Participation in Healthcare Decision Making: Experience of Citizen Council for Health Insurance," *Korean Journal of Health Policy and Administration* (22:4), 2012, 673-702 (in Korean)

IV. Challenges

Pharmaceutical expenditure keeps rising in spite of various policy interventions

Strong oppositions to price regulation by both global and domestic pharmaceutical industry

Potential impact of the new Independent Review Process on benefit package and pricing?

IV. Challenges (continued)

Why pharmaceutical expenditure is so high in Korea?:

Not only price but also (or more driven by) quantity (absolute quantity and the mix of originator and generic medicines)

How to change the quantity of drugs or prescribing behavior?

-> need payment system reform for physicians

(e.g., capitation for primary care doctors, outpatient pharmaceutical budget for hospitals)

Decomposition of Pharmaceutical Expenditure (Laspeyres Index)

	2008.10-2009.9	2009.10-2010.9	2010.10-2011.9 (No Margin for Providers)	2012.4-2013.3 (Price Cut)
Pharm Expenditure	1.110	1.191	1.237	1.082
Quantity Change	1.056	1.102	1.131	1.171
Price Change	0.970	0.954	0.930	0.754
Mixed effects (substitution)	1.083	1.133	1.177	1.226

Reference period: 2007.10-2008.9

Source: Soonman Kwon, et al., *Impact Evaluation of the "No Margin Policy" and Price Cut*, HIRA, 2013.