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PHARMAC seeks clinical feedback on its cost-utility analysis methodology

Most will be familiar with the term 'cost-effectiveness'. It is a term that is frequently seen in national and international medical journals, health reports, health technology assessments, and media releases from health funding agencies. In fact, a number of recent articles in the *Journal* have discussed PHARMAC's processes, including how PHARMAC assesses whether a treatment is 'cost-effective'.[1-7]

PHARMAC uses cost-utility analysis (CUA) to assess whether a treatment is likely to be cost-effective compared with the next best alternative. CUA is a form of cost-effectiveness analysis that considers the impact of treatment on patients' quality of life as well as length of life. This type of analysis is important, as cost-effectiveness is one of nine decision criteria used by the PHARMAC Board when making funding decisions.[8]

PHARMAC has undertaken CUA since 1996. The methods PHARMAC uses when doing this analysis are outlined in PHARMAC's Prescription for Pharmacoeconomic Analysis (PFPA), which was published in 1999.

In October 2004 PHARMAC staff initiated a review of this document. This review has resulted in several proposed changes to PHARMAC's CUA methodology. The PFPA has also been completely restructured, with more information included on clinical evidence and other CUA inputs. This revised document has been reviewed by four prominent national and international economists, the Pharmacology and Therapeutic Advisory Committee (PTAC), and Consumer Advisory Committee (CAC).

PHARMAC is now consulting on this document, and specifically the methods it uses when doing cost-utility analysis. This document is available to download from the PHARMAC website: http://www.pharmac.govt.nz/pharmo_economic.asp

In view of the recent debate in the *Journal*, this may be a good opportunity for clinicians to provide feedback to PHARMAC on the methods we are proposing to use when doing cost-utility analysis. We are seeking feedback from all interested individuals and organisations, including clinicians and medical groups.

Consultation responses are requested by **Monday 18 September 2006**.

Key proposed amendments to cost-utility analysis methodology

Key proposed methodological amendments to the PFPA include the discount rate used when undertaking CUA and the range of costs included in CUAs:

Discount rate

> PHARMAC's use of the 8–10% discount rate in CUAs has been the source of considerable debate amongst the health sector.[1,9,10] As a result of the review of the PFPA, it is proposed that the discount rates used in CUA be based on the 5-year average real risk-free long term government bond rate (3.5%).

Using a lower discount rate is likely to affect the cost-effectiveness ranking of pharmaceutical treatments and impose less of a disadvantage on treatments that confer long-term benefits (i.e. pharmaceuticals that have high up-front costs and long-term benefits are likely to appear more cost-effective). Note, however, that it is only the ranking of treatment that is changed (i.e. a 're-shuffling' of the priority list).

Direct patient healthcare costs

PHARMAC staff have considered in detail whether direct patient healthcare costs (e.g. cost to the patient of a General Practitioner visit, prescription co-payments, cost of home and continuing care) should be included in CUAs, and also obtained expert advice on this issue. It is proposed that direct patient healthcare costs be included in CUAs.

While the exact impact on funding decisions of including direct patient healthcare costs in CUAs is not known, it is likely that pharmaceuticals that reduce the number of GP visits required or reduce the need for home care would rank higher (in terms of cost-effectiveness) on the priority list than in the past.

Note that all amendments to PFPA will be subject to the outcome of consultation and PHARMAC Board approval.

If you would like to comment on these proposed amendments, or any of the information in the PFPA, please send a response by Monday 18 September 2006 to Rachel Grocott by email to rachel.grocott@pharmac.govt.nz, fax to (04) 460 4995, or post to PHARMAC c/o Rachel Grocott, PO Box 10-254, Wellington 6143.

All consultation responses will be considered and discussed by PHARMAC staff, necessary amendments made, and a final version will be drafted for consideration by the PHARMAC Board in late 2006. We look forward to hearing your views.

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