

POLICY AND PRACTICE UPDATES

An Evaluation of Beijing's Medical Insurance Payment Reforms

Source: 21st Century Economic Report 2011-8-19

<http://www.21cbh.com/HTML/2011-8-19/wMMDY5XzM1ODQwMQ.html>

The Diagnosis-Related Groups (DRGs)-based payment system has long been proposed as a solution to high medical costs. This prospective payment system allocates payments according to related diagnosis groups that are established according to similar patient age, disease diagnosis, disease comorbidities, disease severity, treatment methods, and other factors.

After years of research and testing, Beijing will lead the way by piloting this new system in six hospitals beginning Aug 1st, with 650 locally identified DRGs. Under the new system, if hospitals charge more than the set price for a certain disease, they will be responsible for the difference. This new reality will exert outside pressure for hospitals to reform their organization and management systems.

There have been high expectations for DRGs-based payment system to reduce ever increasing medical costs. As early as 1993, hospital management research in Beijing had shown feasibility of DRGs system, but nothing came from the research due to infrastructure limitations, such as lack of a reliable computer information system. Since then, DGRs-based payment system has been widely adopted in many countries with success. Currently in China, there is still reluctance to implement the system, partly due to worries about resistance from medical professionals.

"Implementation of DRG will not affect doctors' day-to-day work," said Mu Hu, director of the DRG Beijing project technical team, "because this is just a new hospital management system with little impact on how doctors diagnose or treat their patients. They only need to get use to a new management system."

As to the worry that DRG system might reduce hospital service quality, Mu Hu also disagrees. "By using this system, all medical services could be clearly viewed and compared across hospitals. It will be obvious who provides better or worse services."

For DRGs-based payment system to reach its full potential in cost reduction, other supporting systems and policies need to be in place, and Beijing's foray into payment system reform is complemented with three supporting policies. First, medical insurance foundation will establish a pre-pay system to distribute funds to the six pilot hospitals. Distribution for the first month will be based on the case load in these hospitals during same time period in 2010. Subsequent distributions will be based on hospital performance in the previous months. Second, pilot hospitals will be able to independently purchase medicine and medical supplies, but they must do so at a price lower than or comparable to their previous records. Third, attending doctors will be responsible for their own cases, in direct contrast to the existing system where departments are responsible for everything.

Piloting Urban-Rural Medical Insurance Integration: The New Rural Cooperative Medical Scheme to Be Administered by Ministry of Labor and Social Security

Source: 21st Century Economic Report 2011-9-14

<http://www.21cbh.com/HTML/2011-9-14/5OMDY5XzM2NDQ5OA.html>

In August 2011, the city of Kunming in Yunnan Province transitioned management of the New Rural Cooperative Medical Scheme to the Ministry of Labor and Social Security, achieving unified management of insurances for residents and workers in either rural or urban settings. Together with other regions that implemented the same measure, such as Ningxia, Chengdu and Wenzhou, unified rural and urban medical insurance management is becoming reality at local level.

According to Social Insurance Law implemented in July 2011, State Council will issue detailed blueprints for how to integrate urban-rural medical insurances. However, no document has been produced to date, and reform has been carried out at localities under their own initiative. Currently, the Ministry of Health still manages the New Rural Cooperative Medical Insurance Plan, while the Ministry of Labor and Social Security is managing urban residents and worker insurances. This dual management presents an obstacle to human resource movement between rural and urban areas, also urbanization. To truly integrate urban and rural insurances, all related agencies need to be combined and form a single responsible agency, to streamline human and material resources management and distribution.

The “Obsolete” Essential Drug Policy: Some Provinces Reauthorize Non-listed Drugs

Source: 21st Century Economic Report 2011-9-15

<http://www.21cbh.com/HTML/2011-9-15/1NMDY5XzM2NDg1NA.html>

While the central government continues to optimize the Essential Drug System, some provinces provide tacit approval for non-listed drugs to reenter the primary medical care system.

Anhui, the first province to adopt the Essential Drug System, recently allowed health care system to add drugs from New Rural Cooperative Medical Care and Medical Insurance catalogue, but not exceeding 15% of total expenditure. Shandong, Zhejiang and Jiangsu have already added non-listed drugs to their health care systems.

The Essential Drug List was introduced in August 2009 and instructed primary health care systems to equip and utilize all 307 types of essential drugs listed. Ideally, only the listed drugs should be used. However, since its introduction, there has been continued feedback that the list could not meet local demands. According to a hospital administrator in Jiangsu Province, one secondary hospital utilizes 600 to 1000 types of medicine daily. If they strictly follow the Essential Drug System, some specialty departments could not continue their functions.

Even with the added drugs, the demands of primary health care system still could not be met, resulting in loss of patients and thus revenue. Many field experts suggest that local health care systems should be allowed to add non-listed drugs as their financial situations permit.

The Conundrum of “Zero Markup”

Source: Finance 2011-9-13

<http://magazine.caijing.com.cn/2011-09-13/110857233.html>

During a recent conference organized by the Ministry of Public Health, the “Zero Markup” policy was called into question. Several provincial and city health departments requested modifications to the existing essential drug policy, including stopping “Zero Markup” practice.

The essential drug policy is a systematic approach that regulates production, wholesale bidding, distribution, sales, and patient use. Other than wholesale bidding, the “Zero Markup” sales strategy is the most essential component and could highly impact implementation of the entire policy. However, without an effective government reimbursement system, many primary care facilities sustained significant financial losses.

In Anhui, some primary care facilities separated their services into essential and specialized. On the essential service side, only drugs on the Essential Drug List are utilized with zero markup, while on the specialized side, additional drugs are used with markup, to increase revenue. In Beijing, “Zero Markup” was only strictly implemented for half a year. Facing significant patient and revenue loss, the policy was relaxed to include non-listed drugs with markup. If current policy is continued without modification, local primary care systems would be forced to implement their own changes.

Hengpeng Zhu, a researcher from the Chinese Academy of Social Sciences, Institute of Economics, suggested that the markup regulation could be relaxed to allow further price negotiations between local health care system and drug companies. A price ceiling could be set using provincial negotiations as standard, but allow primary health care systems to generate revenue from drug sales. He pointed out that "internationally, countries that implemented zero markup policy do not have comprehensive medical insurance. Since we already have medical insurance, there is no need to establish an essential drug policy. Based on past international experience, medical expense reduction could be achieved through reforming insurance payment system." Competitions between public hospitals, drug stores, and private hospitals will help ensure lower drug prices.

Ministry of Health Plans to Adjust the Essential Drug List: Expanding the Regular Used Drug List

Source: Economic Observer 2011-10-31

<http://epaper.xplus.com/papers/jjgcb/20111031/n17.shtml>

The Ministry of Health will start evaluating implementation of the Essential Drug List by end of 2011, in preparation for its modification in early 2012.

The Essential Drug List was released in August 2009 for primary care setting, with the intention of continued modification and eventual implementation for all public medical facilities. The list contained 307 drugs, and if patients utilize only these drugs, they could receive 100% reimbursement from medical insurance. However, as coverage of the policy increased, problems also surfaced.

The main issue is that the Essential Drug List could not satisfy patient demand. In many regions of China, especially regions with higher levels of income, additional drugs were added to the list to meet the demand. In order to remedy the situation, the list needs to be updated. . According to Zheng Hong, an official from the Ministry of Health, the new list will better accommodate clinical needs, and put more emphasis on treatment and prevention of major diseases and chronic diseases.

Foreign Pharmaceuticals "Got Lost" in China's Health Reforms: Norvatis Admits Reduced Profit

Source: 21st Century Economic Report 2011-11-2

<http://www.21cbh.com/HTML/2011-11-2/wNMDcyXzM3NjMwNA.html>

2011 marks the third year of China's Health Reform, and foreign pharmaceutical companies started to see their profitability being eroded. On October 31, 2011, Lars Rebien Sorensen, CEO of Norvatis, revealed that even though their company would maintain a 15% growth rate for the entire year, their profit was reduced in the third quarter, due to influence of China's Health Reform and the medicine pricing policy. Norvatis is the leading manufacturer of insulin, occupying over 60% of world market and 63% of Chinese market.

The China's Health Reform is a double-edged sword for Norvatis. The new bidding system on essential drugs helped Norvatis expanding its market share; however, the reform also decreased drug retail price, and the latter outweighs the former. A good example is the company's main product, insulin. Since September 1 2011, every province in China adjusted price of insulin, bringing the price of this brand medicine close to generic ones, nearly canceling any profitability. Additionally, it has become increasingly difficult to obtain approval for newly developed medicine. Reduced profitability on older drugs, coupled with limited approval for new drugs, is slowly eroding foreign pharmaceutical companies' market share in China.