

PharmacoEconomics

Guide Chart

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Glossary of Terms used in Health Economics, Pharmacoeconomic and Quality-of-Life Analyses

Term	Definition/Description
Health Economics	
Allocative efficiency (Pareto optimality/efficiency)	An allocation of resources such that no change in spending priorities could improve the welfare of one person without reducing the welfare of another
Cap	The maximum level of expenditure reimbursable by a plan in a specified time period (e.g. 1 month)
Capitation	A prospective payment to a healthcare provider based on actuarial projection of expected drug or medical service utilization rates for a pre-determined patient population
Coinsurance	A percentage payment made by the patient, generally in the 10 to 20% range. Coinsurance, usually coupled with deductibles, is commonly found in indemnity insurance plans and PPOs but not in HMOs
Conflict of interest	This can arise for a physician when: (i) too few physicians share financial risk in a managed care organization (each may put the other at greater individual risk for incurring patient expenses); (ii) financial penalties are greater than withhold amounts; (iii) the physician's income is totally dependent on capitation, and the physician is at risk for ancillary or consultation expenses or services not covered by the managed care organization
Copayment (copay; user charge; part charge)	A fixed dollar payment made by the patient to the provider at the time of service
Deductible (excess)	A fixed dollar amount that the patient must pay before reimbursement begins; in most indemnity plans there is no separate deductible for drugs.
Equity	Fairness in the allocation of resources or treatments among different individuals or groups
Gross Domestic Product (GDP)	Total market value of all final goods and services produced in an economy during some time period (usually a year)
Gross National Product (GNP)	The market value of all final goods and services produced in a given time period (usually one year) by the nationals of a country residing either in the country or abroad
Health maintenance organization (HMO)	Managed care plan that offers prepaid comprehensive healthcare coverage, minimal copay and coinsurance, and usually case management to those enrolled in the plan
HMO: independent practice association (IPA) model	HMO that contracts directly with physicians in independent practices or with one or several multispecialty group medical practices
HMO: non-IPA model	A staff model or group model HMO that hires salaried physicians to provide healthcare services; physicians see only HMO patients
Managed care	An organized system of healthcare delivery designed to control costs and quality, by such means as mandatory drug formulary lists, preadmission screening, case management, etc. Participating providers (physicians, dentists, pharmacists, etc.) generally agree to accept discounted payment and to abide by the plan's cost and quality control measures

Term	Definition/Description
Monopsony	A market situation when there is a single buyer (e.g. government purchase of drugs)
Oligopsony	A market situation in which there are a relatively small number of large buyers that account for an important share of total purchases
Organisation of Economic Cooperation And Development (OECD)	An international organization of developed countries, which produces international statistics on healthcare systems in member countries and provides a forum for research and discussion about economic issues.
Pharmacy benefit managers (PBMs)	Companies that broker deals between managed care organisations (MCOs) and pharmacies or pharmaceutical companies, or between MCOs and employers
Point of service option (POS)	A plan option whereby members of a managed care organisation (MCO) can receive care from a provider outside the MCO. This option is associated with a higher premium, higher copayments and, possibly, a fee reimbursement ceiling
Price elasticity of demand	The percentage change in quantity demanded for an item or service in response to a 1% change in its price
Prior approval	A process by which access to a product or service, or reimbursement for a product or service, is determined before the product is supplied or the service is rendered
Purchasing power parities (PPP)	Rates of currency conversion that equalize the same basket of goods and services in all countries, reflecting only differences in the volume of goods and services purchased, and eliminating the differences in price levels among countries
Preferred Provider Organisation (PPO)	A managed care organization that limits coverage payments to predefined ('in-panel') providers. subscribers who go to non-PPO providers receive less coverage. PPOs are organized by groups of hospitals, physicians, independent brokers, self-insured employers, commercial insurance companies, or by a health service corporation. Providers become 'preferred in panel' members by offering discounts on their services
Reference pricing	Reimbursement of a class of pharmacologically or therapeutically equivalent drugs according to the price of a single (reference) drug in the group (often the least expensive)
Reimbursement	Amount paid by government or a third party for a prescription of a given size
Technical efficiency	Production of the greatest amount or quality of patient outcomes for each unit of expenditure
Transfer payment	A payment (transfer of money) from one group to another without consumption of any physical resource; not recognized as a cost to society (e.g. taxation)
Vertical integration	A process where by one company increases its control over all stages of production and distribution of a product (e.g. the degree of mutual ownership among manufacturers, wholesalers and retailers)

Term	Definition/Description
Pharmacoeconomics	
Acquisition cost	The purchase cost of a drug to an institution, agency or person
Analytic perspective	The viewpoint chosen for the analysis (e.g. societal, government, healthcare system, payer)
Average cost	Total costs of a treatment or programme divided by total quantity of treatment units provided (see also marginal cost)
Contingent valuation	A method for evaluation of benefit or value to individuals of therapy that uses survey methods to establish willingness to pay
Cost/QALY gained	A measure used in CUA to assist in comparisons among programmes; expressed as monetary cost per unit of outcome
Cost-benefit analysis (CBA)	Type of analysis that measures costs and benefits in pecuniary units and computes a net monetary gain/loss or a cost-benefit ratio
Cost-benefit ratio	The ratio of the total monetary cost of a programme divided by the benefits expressed as savings in projected expenditure
Cost-effectiveness analysis (CEA)	Type of analysis that compares drugs or programmes having a common health outcome (e.g. reduction of blood pressure; life-years saved) in a situation where, for a given level of resources, the decision maker wishes to maximize the health benefits conferred to the population of concern
Cost-effectiveness ratio	The ratio of the total cost of a programme divided by the health outcome (e.g. cost per life-year gained); used in CEA to select among programmes
Cost-minimisation analysis (CMA)	Type of analysis that finds the least costly programme among those shown or assumed to be of equal benefit
Cost (burden)-of-illness analysis	Study that identifies and evaluates the direct and sometimes indirect costs of a particular disease or risk factor (e.g. smoking or alcohol consumption)
Cost-utility analysis (CUA)	Type of analysis that measures benefits in utility-weighted life-years (QALYs); computes a cost per utility-measure ratio for comparison between programmes
Decision analysis	An explicit quantitative approach for prescribing decisions under conditions of uncertainty
Decision tree	A framework for representing alternatives for use in decision analysis
Direct medical costs	Fixed and variable costs associated directly with a healthcare intervention (e.g. physician salaries)
Direct nonmedical cost	A nonmedical cost associated with provision of medical services (e.g. transportation of a patient to a hospital)
Discount rate	Rate of discount used to convert future costs and benefits into equivalent present values; typically 2 to 6% p.a.
Effectiveness (of a drug)	The therapeutic outcome in a real world patient population (usually differs from efficacy determined in controlled clinical trials)

Term	Definition/Description
Formulary	A list of drugs reimbursable under a health insurance plan or offered under a capitated or managed care programme, or preferred in a particular clinical setting
Friction costs method	A method of estimating the productivity costs by calculating the value of production losses during the friction period (i.e. between start of absence from work and replacement)
Human capital method	A means of calculating the indirect cost of medical illness, based on the remaining lifetime economic value to society of a healthy individual of that age, measured by market earnings
Incremental cost ^a	Difference between the cost of a programme (treatment) and the cost of the comparison programme
Indirect medical cost	Cost of medical treatment (in life-years) gained through an earlier intervention
Indirect non-medical cost (productivity cost)	Cost associated with reduced productivity due to illness, disability or death
Intangible cost	The cost of pain and suffering occurring as a result of illness or treatment
Marginal cost ^a (see also average cost)	The extra cost of one extra unit of product or service (usually differs from average cost)
Markov model	A statistical representation of recurrent events over time that can be incorporated into decision analysis
Net benefit	Benefit (in pecuniary units) minus total cost (in pecuniary units): a basic decision criterion in CBA
Opportunity cost	The cost of using resources for some purpose, measured as their value in their next best alternative use
Sensitivity analysis	A process through which the robustness of an economic model is assessed by examining the changes in results of the analysis when key variables are varied over a specific range
Utility	A measure of value of an outcome that reflects attitude towards the probability of that outcome occurring
Willingness to pay	The maximum amount of money that an individual is prepared to give up to ensure that a proposed healthcare measure is undertaken

Health-Related Quality of Life (HR-QOL or QOL)

Construct (or discriminant) validity	The degree to which a quality-of-life instrument specifies the factors that account for variability in the state of health that the instrument is intended to measure
Content validity	The degree to which a health-status measure represents the health domains included within the measure
Convergent validity	The degree of correlation between different measures of the same construct
Criterion (predictive) validity	The degree to which a 'new' health-status measure correlates with a 'gold standard' or to its relationship with an external criterion

^a The concepts of incremental and marginal apply to costs, benefits and effects.

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Term	Definition/Description
Equity criteria	The value or weights attributed to different individuals or groups
Face validity	That quality of a health-status measure such that it seems to be a reasonable measure of some domain of health-related quality of life
Global health index	An index of health status that combines all aspects of patient functioning into a single number
Health status measure	Single instrument measuring different aspects of QOL; individual scores may be aggregated into an Index
Health profile	A health-status measure that produces scores of different health domains (e.g. physical well-being, role functioning, mental health) using the same metric
Health status index	An index that uses weights to compare different levels of health status; can be used to calculate the total number of QALYs
Health status instrument	A constellation of questionnaires, interview schedules, administrative procedures and scoring instructions for a health-status measure
Health-related quality of life (HR-QOL)	QOL measures that are likely to be influenced by health interventions
Healthy years equivalent (HYE)	The hypothetical number of years spent in perfect health that could be considered equivalent to the actual number of years spent in a defined imperfect state of health
Interviewer bias	Bias caused by a respondent's predisposition to the interviewer or the interviewer's interpretation of the answers
Linear analogue instrument	A horizontal or vertical line anchored at one end with 'death' and the other 'perfect health'; used by patients to assess current health status
Multi-attribute scale instrument	An instrument for quality-of-life measurement that includes a health status classification system in which health is defined as being comprised of several domains of patient functioning (e.g. physical, mental, emotional) and a scoring function to convert health status so measured into health-related quality of life (typically on a scale of dead = 0 to perfect health = 1)
Quality of life (QOL)	Physical, social and emotional aspects of a patient's well-being that are relevant and important to the individual
Quality-adjusted life year (gained) [QALY]	A common measure of health improvement used in CUA: combines mortality and QOL gains (outcome of a treatment measured as the number of years of life saved, adjusted for quality)
Reproducibility (reliability)	The extent to which repeated administration of a quality-of-life instrument to a stable population yields the same results
Responsiveness	The extent to which a quality-of-life instrument can detect small but clinically important changes
Sensitivity to change	The extent to which an instrument is responsive to changes in quality of life over time
Single domain instrument	Instrument examining a narrow and clearly defined area of QOL

Term	Definition/Description
Utility	A cardinal measure of the preference for, or desirability of, a specific level of health status or a specific health outcome
Utility function	A mathematical representation of an individual's level of satisfaction with each set of health status alternatives
Utility scale	An interval or ratio scale, defined by 2 anchor states or outcomes and their scores, on which utilities are measured. Often defined by full health = 1.0 and death = 0.0
Utility measure of HR-QOL	A single summary score on the conventional utility scale of health = 1.0, dead = 0.0
Utility weighted index	A QOL weighting scheme with weights determined using a utility approach
Drug Utilisation	
Defined daily dose (DDD)	The average maintenance dose for the clinical indication of a drug in adult patients
Drug usage/utilization review (DUR)	A programme that reviews, analyses and interprets rates, costs and appropriateness of drug usage to assess inappropriate use, prevent adverse drug interactions and optimise appropriate use
Drug use evaluation (DUE)	see DUR
Over-the-counter (OTC) drug	A medication available without a prescription
Quality assurance programme	Programme to evaluate and improve current medical practice and aspects of medical administration to achieve desired results
Miscellaneous	
Meta-analysis	A systematic process for finding, evaluating and combining the results of sets of data from different scientific studies

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