Meeting Summary
Ministry of Labor and Social Security (MOLSS)
Mr. Xiong Xianjun, Deputy Director of Health Insurance Department
August 31, 2005

On August 31, 2005 Mr. Jeffrey Gren, Director Office of Health and Consumer Goods led a U.S. delegation of medical device and pharmaceutical delegation in a meeting with Deputy Director Xiong. After the welcoming remarks from Deputy Director Xiong, Mr. Gren opened the discussion. He thanked Deputy Director Xiong for his welcome and explained that the U.S. delegation was mainly in Beijing for talks with SFDA on regulatory matters, but wanted to also meet with MOLSS to continue the long term collaboration to widen the Chinese population's access to medical products.

Mr. Gren thanked the MOLSS for the latest expansion of the essential drug list to include more innovative pharmaceutical products. He expressed hope that the value of technology and innovation will be increasingly recognized. Mr. Gren invited Deputy Director Xiong to give an update on China's urban insurance plan.

Deputy Director Xiong stated that the management of reimbursement provisions was the most important aspect of insurance administration. China's reforms began in earnest in 1998. Urban workers continually are encouraged to join the urban insurance plan. Currently membership stands at 130 million. Employers and employees both contribute to the medical insurance fund – on the average, employers contribute 7-8% of employee's salary. Annual contributions to the medical insurance plan reach 100 billion yuan.

The 2004 expanded essential drug list mainly refers to generic, not brand, names. In addition, the list does not account for whether the manufacturer is domestic or foreign. The inclusion criteria used to determine whether a medical product is to be included in the essential drug list are whether it is: 1) clinically needed, 2) safe, 3) efficacious, 4) "reasonable" as a therapy, and 5) available.

More specifically, to be on the list, a medical product must be part of an effective, currently accepted and practiced medical therapy. If multiple therapies exist, emphasis will be place on listing a reasonably priced drug. It must be found safe and effective (SFDA approval would be basis). Finally the adverse event profile must be satisfactory. The list is compiled from the perspective of the insured people/consumers.

The list is divided into A and B categories. Category A consists of products more preferred by hospitals and experts for their effectiveness, lower prices and safety profiles. Category B is for products that are clinically effective but for which lower priced alternative therapies exist. Reimbursement is available for drugs in category A. Costs for Category B drugs are out of pocket.

This list is updated every two years. Once the central list is issued, provincial authorities can modify category B, but not A. The provincial governments individually determine the reimbursement amounts, staying within guidelines from central government.

Mr. Gren asked if and when there are opportunities for industry to provide input during updates of the list.

Deputy Director Xiong clarified the bi-annual process and pointed out where industry may give input. There are three stages:

Stage 1:

1) Investigate and evaluate how previous list was implemented
2) Conduct survey of new products/therapies
3) Qualify and recruit appropriate experts to serve on central panel
4) Invite private sector to give input

Stage 2:

1) Central panel members (100 to 200 health officials and scientists) meet to work on draft plan
2) Input from other government agencies and industry is solicited
3) Working draft is reviewed by MOH, NDRC, TCM Administration and is accepted or rejected
4) Preliminary list is present by central level panel to provincial authorities (also posted on website)
5) Provincial governments, with panels of their own, will vote to accept the list as is or modify and submit suggestions.
6) After reviewing voting results and comments, central panel will finalize list

Stage 3:

Administrative Formalities

1) Publicize the final list and issue appropriate instructions
2) Central level staff to provide training to provincial staff who will enforce the list.

Industry can contribute to stages 1 and 2.

Ms. Cheryl Shu of the U.S. delegation raised the following three points:

1) Commercial healthcare insurance needs to be encouraged
2) There should be consistent and transparent implementation of the bi-annual updating process for national and local reimbursement lists.
3) The co-pay level should be the same percentage, whether brand or generic, and not a flat amount.

Deputy Director Xiong responded that growth of commercial healthcare insurance has been strong and is encouraged by MOLSS. Commercial insurance now provides plans for specific diseases, for the student population, and for specific drugs.

The U.S. delegation also noted that they had been working with Ms. Han Feng of the Social Insurance Industry Association (which is associated with MOLSS) to develop a

medical device Healthcare Economics Roundtable to discuss a number of issues related to reimbursement and pricing. One of the topics that had been suggested for this event was the role of private insurance. Deputy Director Xiong expressed an interest in having MOLSS participate in this event.

Accomplishments

- Gained a clearer understanding of the updating processes of the essential drug list. Understand when and how U.S. industry can provide input into update process.

- Emphasized U.S. interest in discussing the role that health insurance will play as China's healthcare system develops.

- Acknowledged that DOC will be involved in organizing the medical device Healthcare Economics Roundtable, and received a positive response from MOLSS to participating in this event.

- MOLSS agreed to meet with a U.S. delegation again during the March 2006 trip to China.