

3 December 1968.

CLINICAL SERVICES LETTER No. 84

TO MEDICAL PRACTITIONERS

Dear Doctor,

This letter is to give you the facts about a matter which has caused some controversy.

FEES FOR DISPENSING IN SPECIAL AREAS

Contracts to dispense medicines, renewable annually, are held by 15 Special Area medical officers (and by four other doctors in remote areas).

Until 1965, these doctors were paid the ingredient costs, plus a 50 percent mark-up on most drugs, together with dispensing fees and container charges. Payments were discounted by 10 percent.

Although the profits then being made were not considered excessive, this system was criticised* on the ground that it encouraged expensive prescribing.

Service Fee

In 1965, therefore, a different system was adopted with all new contracts. Doctors were paid the cost of ingredients plus a service fee, subject to 10 percent discount. The service fee was intended to yield an overall profit similar to that previously being made by these doctors as a group (\$2,386 in 1964).

Initially, the service fee was 35 cents (3s. 6d., including a container fee of 4d.). At the end of 1965, this fee was increased (retrospectively) to 55 cents, a review having shown that this was necessary in order to maintain parity with the on-cost system.

Since then, however, average net profits (excluding container fees) have mounted steadily:

1964: \$2,386
1965: \$3,170
1966: \$3,550
1967: \$4,278

Analysis of the 1967 figures showed that some payments were grossly excessive. The national average for prescriptions issued per head is 6.3. With an average of only 3.6 for the remaining Special Areas, three doctors issued prescriptions at rates of 19.3, 15.4, and 14.7, receiving net profits of \$7,444, \$6,604, and \$7,695 respectively. Another doctor made a profit of \$7,452.

Clearly something had to be done.

*Notably by certain doctors who had themselves done quite well on this system.

P.T.O.

Service Fees Next Year

After detailed consideration of all the facts, the Medical Services Advisory Committee recommended that:

- (a) The service fee be reduced to the chemists' average profit per prescription (43.65 cents) less 20 percent. This discount was considered to be justified by the fact that Special Area doctors do not provide premises at their own expense, and as they dispense only their own prescriptions, should have little "dead stock". For other doctors, who maintain premises, the appropriate reduction would be 10 percent.
- (b) If and when prescriptions issued in any area exceeded 6.3 per head of population, the profit fraction of the fee should be reduced by half.

These recommendations have been adopted, with effect 1 January 1969.

The Special Area service fee will be made up as follows:

					cents
(a)	Net container fee (as for chemists)	..	..	..	2.8
	Profit (including profit on container fee)	..	..	..	34.9
	Total	..	..	..	37.7
(b)	Beyond 6.3 scripts per head:				20.3 cents.

For private practitioners, the full rate will be 42.1 cents, reduced rate 22.5 cents.

FAIR AND REASONABLE?

- The new service fee will still yield a handsome profit. On this system it would have averaged \$2,730 last year. (As compared with \$2,386 in 1964).
- In addition to dispensing profits, these doctors will receive salaries of from \$4,964 per annum upwards, a car allowance (in most cases \$950), a rent free house, and in many instances considerable sums for Workers Compensation. In most areas the work is light.
- Eleven other Special Area doctors, who do not dispense medicines, receive no profits from prescribing.

Yours faithfully,

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