

# PBS Sustainability

A review of previous Intergenerational Reports & the Pharmaceutical Benefits Scheme

**MEDICINES**  
*Australia*

## *Introduction*

The Government is required to publicly release and table in Parliament an Intergenerational Report (IGR) every five years. Each IGR is required to assess the long term sustainability of Government policies over 40 years, including the financial implications of demographic change.

Three IGRs have been published (2002, 2007 and 2010), and the next is due in early 2015. Each has painted a grim picture of Government finances over coming decades. By raising awareness of long-term fiscal issues facing Australia, they have paved the way for the implementation of major policy reforms with significant financial implications. The PBS is an example of where issues were raised and this formed the basis of the PBS reform that has taken place over the last 5 years.

The 2015 IGR report will be used to guide Government policy and focus public debate on the sustainability of its major spending programs. While previous Reports have presented the PBS as one of the fastest growing components of Government expenditure, this is no longer the case. Over the past five years, PBS expenditure has remained static in real terms. Previous Reports did not foresee or fully estimate the long-term and ongoing effects of price disclosure reforms, which have ensured that the PBS remains sustainable well into the foreseeable future.

This paper will outline the discrepancies in previous reports' projections for the PBS, and provide the most recently available independent data and projections, to help inform community understanding of the PBS components of the 2015 IGR and how these may deliver/progress in the coming years

## *A History of PBS Projections: 2002, 2007, 2010*

The findings from the 2002, 2007 and 2010 IGRs have been bleak: increasing expenditure in certain categories of Government spending will result in an untenable budget position within 40 years. While overall outcomes have been similar, there are important distinctions among each of the first three Reports: modelling has improved, assumptions have been clarified, and in some cases, governments have enacted policy reforms to address concerns.

**Notably, the PBS is one area where experience and extensive policy reform have alleviated the concerns highlighted in previous Reports.**

Since the 2002 IGR, where the PBS was forecast to outstrip spending on hospitals and Medicare, several PBS reforms have been implemented. These included;

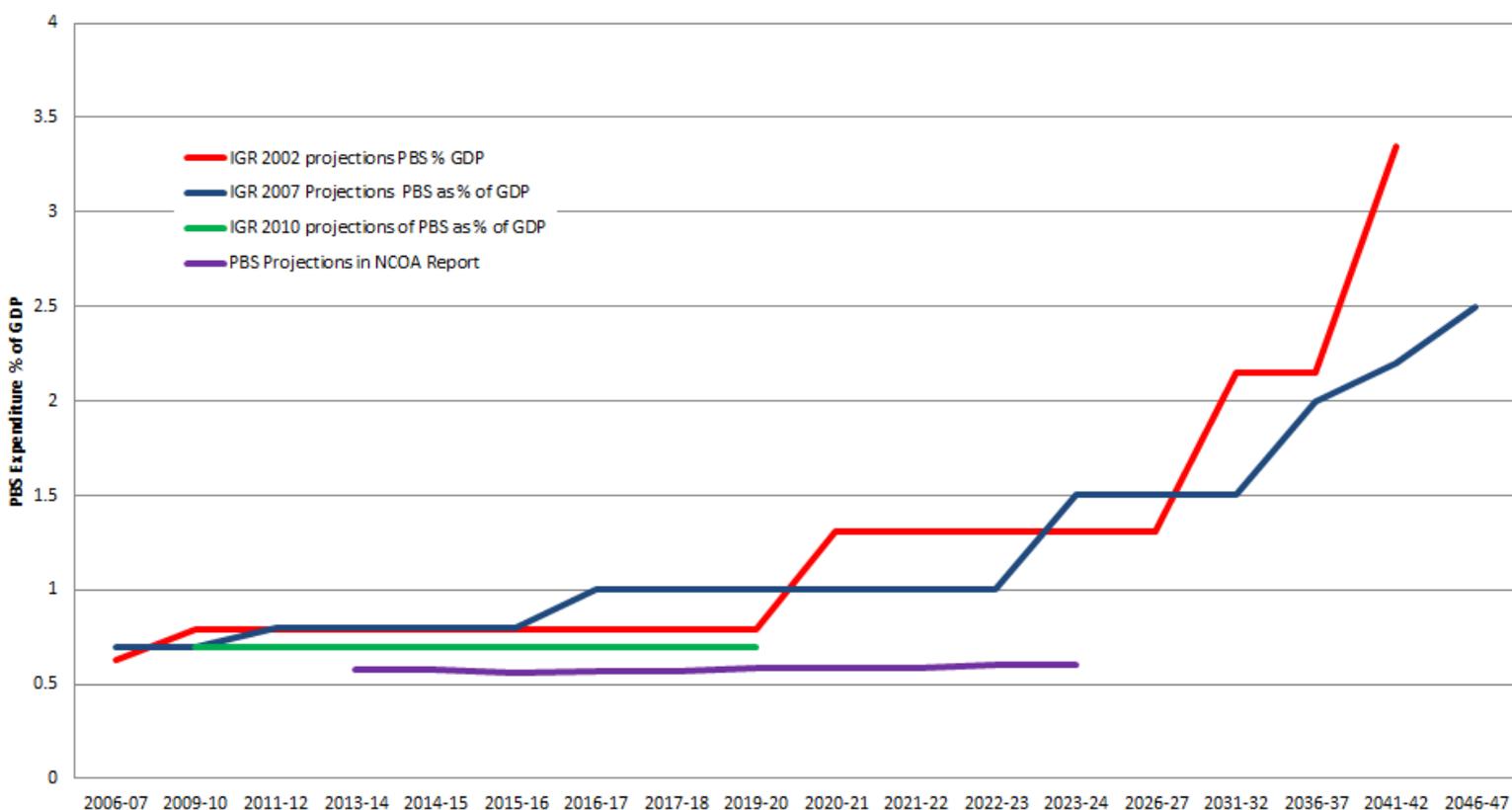
- Significant increases to patient co-payments,
- Administrative price cuts for generic medicines with the establishment of F2, and most significantly,
- The implementation (2007) of a price disclosure mechanism to drive Government savings based on the competitive, market-based prices for off-patent medicines,
- The subsequent strengthening (2010, 2014) through acceleration on price disclosure.

The effect of PBS reform in achieving greater sustainability is illustrated by the successive downward revisions of cost as a proportion of GDP between the IGRs. The 2002 IGR anticipated five-fold growth of the PBS by 2041-42 from 0.6% of GDP to 3.4%. In 2007, this was downgraded to an estimated growth to 2.2% of GDP by 2041-42. The even more modest forecast in the 2010

IGR predicted growth only in line with GDP, remaining at 0.7% of GDP to 2019-20 (the last financial year projected in that Report).

In 2014, the National Commission of Audit (NCOA) revised projections downwards once again, to remain static at 0.6% to 2023-24.

### IGRs and NCOA PBS Expenditure forecast

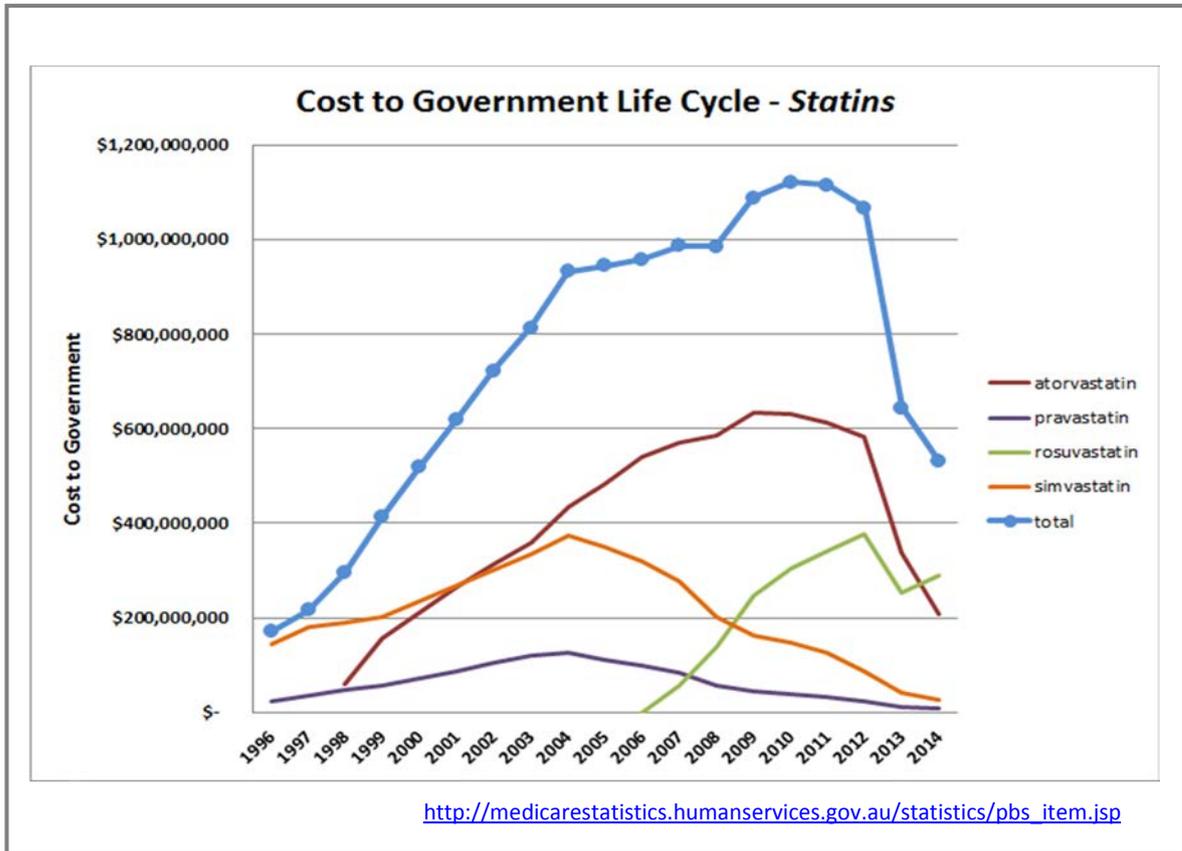


Sources: IGR 2002, 2007, 2010: <http://archive.treasury.gov.au/igr/>, Report of the National Commission of Audit <http://www.ncoa.gov.au/report/index.html>

Price disclosure reforms are clearly having a substantial, ongoing effect on PBS expenditure and the overall health budget,<sup>i</sup> and because price disclosure is embedded in legislation and applied on a cyclical basis to reflect ongoing market discounting and the arrival of new generic medicines, it will continue to deliver substantial savings into the future. Importantly, unlike most other areas of Government health expenditure, any new PBS listings are required by legislation to be found cost-effective by the independent Pharmaceutical Benefits Advisory Committee. As such every dollar spent is a value dollar.

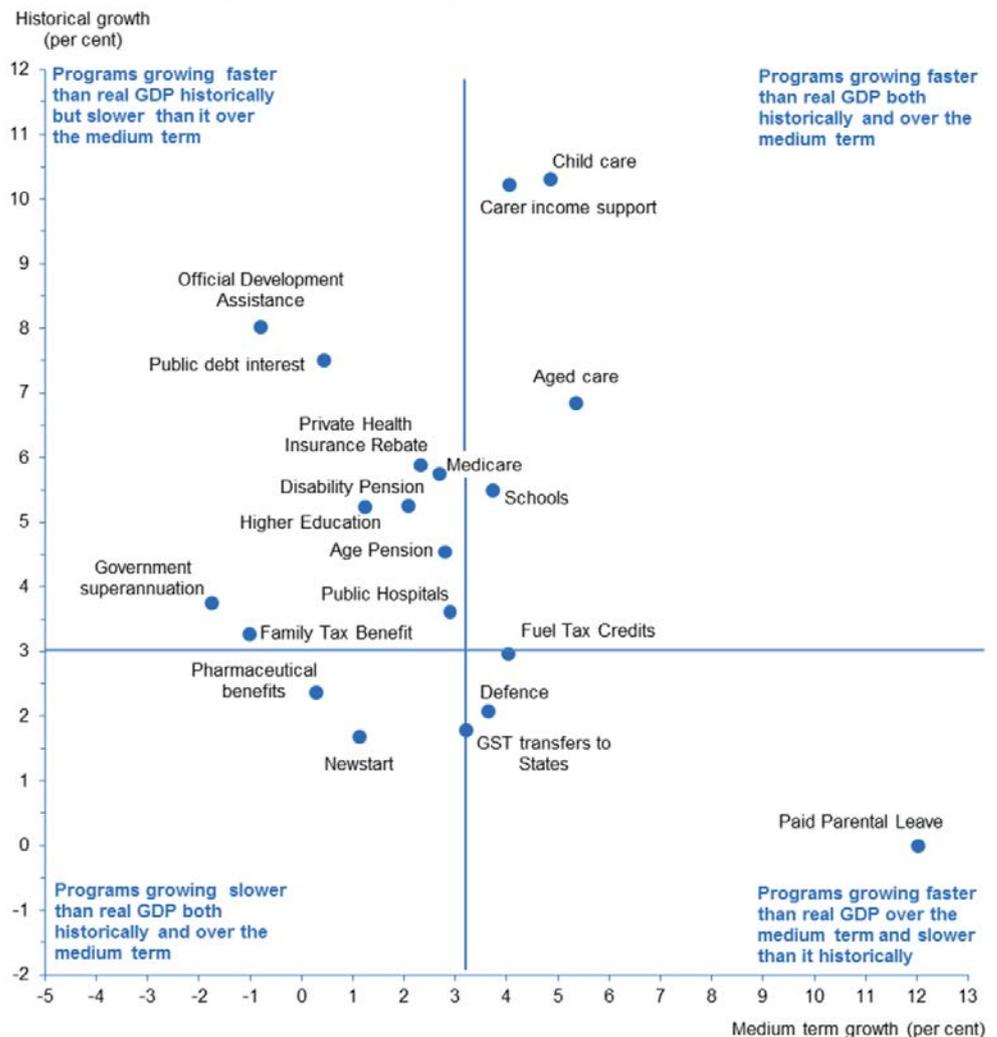
PBS reforms had begun to flow through by the time the 2010 IGR was released, and it acknowledged that anticipated PBS growth had flattened in recent years. However, the full savings derived from price disclosure reforms were not yet fully apparent or factored in – whole classes of drugs are now experiencing massive cost reductions through their life cycle, as they have come off patent and are exposed to generic competition.

In one example, total PBS expenditure for cholesterol-lowering statins have more than halved over four years:



While expenditure on the PBS is now forecast to remain static as a percentage of GDP, spending on other areas of the health and welfare systems are projected to grow rapidly. The Parliamentary Budget Office recently found that the PBS is one of only two major programs growing more slowly than GDP historically and over the medium term. This is in stark contrast to expenditure growth in areas such as child care and aged care, Medicare, public hospitals and the private health insurance rebate.

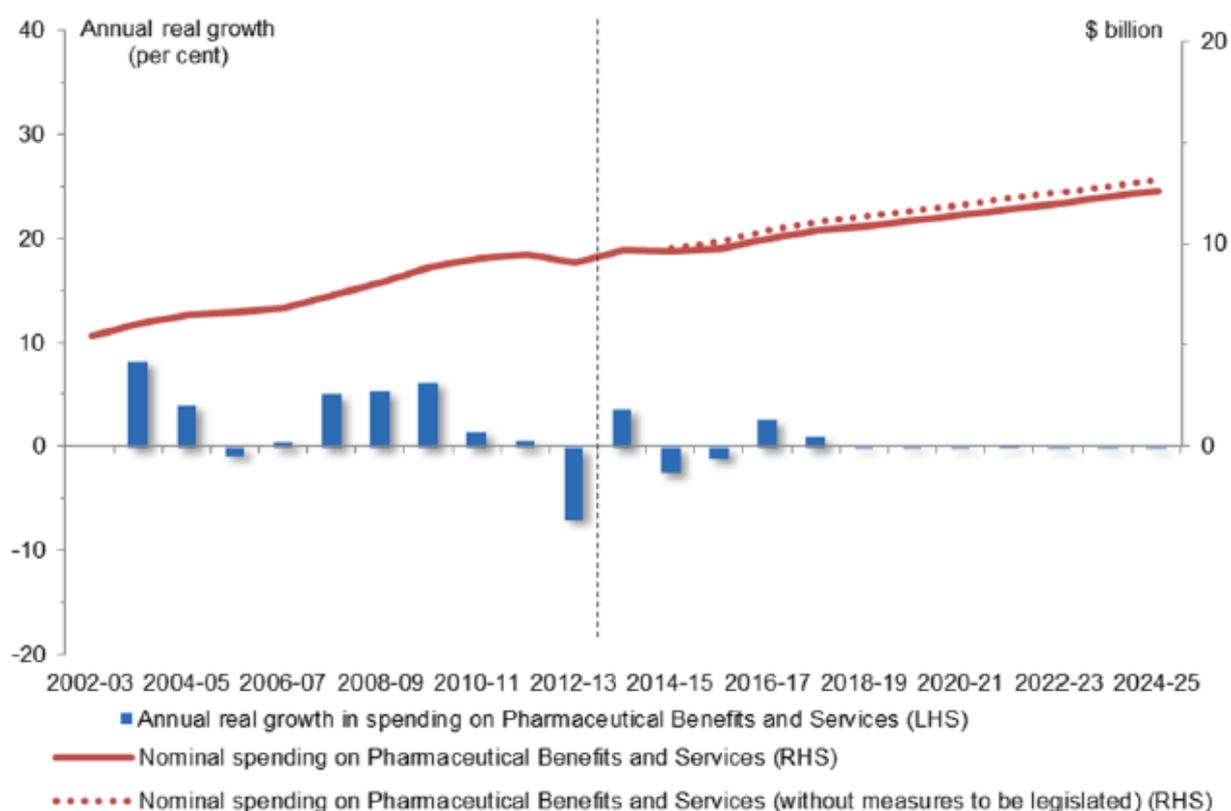
Figure 2.2: Annual real growth in spending programs and real GDP<sup>o</sup>



### Factors the 2015 IGR must take into account

An accurate forecast of PBS expenditure in the 2015 IGR will need to take into account the ongoing impact from the significant reforms of the last decade. Since the release of the 2010 IGR, the 2010 price disclosure reforms have been estimated to deliver an additional \$3.4 billion in savings to 2017-18, and the 2014 reforms an additional \$1 billion, leading to a total estimated saving from price disclosure of \$20 billion.<sup>1</sup>

More recently, the Parliamentary Budget Office appears to have incorporated these savings into PBS expenditure, with real growth of just 0.3% annually, producing a “negligible share of growth in total spending over the medium term”.<sup>1</sup>



Source: Australian Government Budgets and PBO Analysis

The effect of highly-specialised and higher cost medicines as a proportion of PBS expenditure has been noted in a recent analysis by the Parliamentary Library – but this cannot be viewed in isolation<sup>1</sup>. The fact that overall real growth of the PBS is static means that these reforms have successfully created headroom for innovative new medicines to be listed on the PBS.

The ongoing impact of price disclosure policies and market competition will continue to deliver savings over the medium term, as the first generation of highly-specialised medicines becomes subject to competition. The impact of competition by similar biological medicines (or “biosimilars”) is also expected to deliver significant savings by providing competition for some of these specialised therapies in 2015.

## *Productivity benefits from innovative medicines*

It is essential that the 2015 IGR not only acknowledges the savings accrued to date and the future sustainability of the PBS, but also recognises the significant benefits attributable to the use of innovative medicines, including better health outcomes and increased productivity for Australians.

Timely use of effective medicines directly impacts government and private sector expenditure on other, more expensive treatments such as surgery, hospitalisation and aged care. Medicines reduce workplace absenteeism, increase workplace participation and increase labour productivity – all of which are essential stimulants to the economy as we experience an ageing population.

The Treasury Report *Australia's Demographic Challenges* highlighted that improvements in workforce participation are affected, at least in part, by the health of the workforce: in contrast, “poor health often leads to early retirement, spells out of work, and lost productivity through sickness or injury”.<sup>ii</sup> When a patient receives an effective treatment for a chronic illness, he or she can return to work sooner and avoid making claims on the welfare system,<sup>iii</sup> an area often projected to face unsustainable increases over the next 40 years.

The forthcoming IGR is expected to also highlight the significant widespread pressures created by the ageing Australian population. A recent report found over 660,000 older Australians were absent from the labour force due to a health condition, “reducing Australia’s GDP by approximately \$14.7 billion per annum.”<sup>iv</sup>

An example of the impact of health on productivity and the significant role played by innovative medicines from, a 2013 study on labour force participation, showed that people aged 25-64 who suffer back problems and arthritis have a greater likelihood of being not currently employed and out of the labour force. But over the last decade, innovative medicines in the form of biological disease-modifying anti-rheumatic drugs have been shown to provide productivity benefits including maintaining employment and reducing absenteeism in the workforce.<sup>v</sup>

## *Conclusion*

While the 2002 IGR painted an alarming picture, later IGRs have presented an increasingly accurate picture of government spending on PBS listed medicines. From a barely conceivable projection of 3.4% of total GDP in 2002, to a static 0.7% projection in the 2010 IGR, it is clear that the PBS has moved firmly onto a sustainable path over the past 15 years.

This path, reinforced by the most recent independent projections by the Parliamentary Budget Office and National Commission of Audit, stands in stark contrast to other areas of Government spending within and outside the Health portfolio.

**As the population ages it is imperative that universal access to innovative medicines remains available to keep people productive, healthy and independent.** The PBS must be recognised, by both the community and Government, as a sustainable and cost-effective investment in Australia’s future.

- PBS is sustainable and well below earlier IGR forecasts
- PBS is well placed to meet the needs of an ageing Australian population
- PBS growth is under control and 2015 IGR must reflect this

## Endnotes

---

<sup>i</sup> Australian Institute of Health and Welfare, *Health Expenditure Australia 2012-13*, released 23 Sept 2014, pp. 53-54

<sup>ii</sup> Treasury 2004 *Australia's Demographic Challenges*, p. 6

<sup>iii</sup> <http://www.biomedcentral.com/1471-2458/14/220> The economic impact of diabetes through lost labour force participation on individuals and government: evidence from a microsimulation model, Deborah Schofield, Michelle M Cunich, Rupendra N Shrestha, Megan E Passey, Lennert Veerman, Emily J Callander, Simon J Kelly and Robert Tanton , 4 March 2014

<sup>iv</sup> Schofield, Deborah, et al. *Chronic disease and labour force participation among older Australians*, Medical Journal of Australia Volume 189 Number 8 (20 October 2008), at page 447.

<sup>v</sup>Chronic disease and labour force participation among older Australians, Deborah J Schofield, Rupendra N Shrestha, Megan E Passey, Arul Earnest and Susan L Fletcher -Med J Aust 2008; 189 (8): 447-450 <https://www.mja.com.au/journal/2008/189/8/chronic-disease-and-labour-force-participation-among-older-australians>