

Who is Medicines Australia?

Represents the pharmaceutical industry in Australia, with member companies that produce innovative medicines and vaccines to ensure a productive and healthy community

Engages with government and other groups to develop health and industry policy

Works with government to ensure fair reimbursement of medicines through the **Pharmaceutical Benefits Scheme (PBS)**

A fiscally sustainable Pharmaceutical Benefits Scheme

Unlike other areas of government spending, the PBS has a number of savings measures built in. These measures allow the scheme to operate in a self sustainable way.

In-built savings measures:

Cost-effectiveness analysis on new medicines

Price reductions on medicines every five years after listing on the PBS

Mandatory price disclosure for multiple brand medicines, driving up competition

Existing reference pricing policies i.e. similar drugs are priced based off the lowest list price already available on the market

Bilateral negotiations between the Department of Health and manufacturers to regulate PBS spending

Medicines Australia recommendation to remove the offset policy for new listings

Alongside these savings measures, an offset policy for new listings is also applied. This offset policy was introduced by the then government in response to the sluggish economic conditions of the GFC.

As the PBS is sustainable due to in-built savings measures, Medicines Australia recommends removing the offset policy for new medicines and adjusting PBS expenditure (\$685 million over the forward estimates) to allow for expected demographic and industry changes.

Demographic trends affecting the future of the industry

Australia's population is currently growing

At a five-year growth rate of 8.8%¹

2011 - 21.5M

2016 - 23.4M

Australia's population is also ageing

2009-2010

13.6%

of Australians aged 65+

2020-2023

17%

of Australians aged 65+²

This age group now represents 56% of the users of PBS medicines³

Trends in new and existing medicines

Medical and medicine innovations are set to disrupt and challenge the health system as we know it. PBS expenditure will need to increase to ensure access to these innovative treatments.

Key trends:



Individualisation – medicine is increasingly meeting the needs of smaller groups of people



Technological advancements allowing for therapies, not just medicines (e.g. CAR-T) which are increasingly one off, curative treatments



Digital healthcare is advancing rapidly with the potential to transform healthcare delivery and outcomes assessment

Required adjustments to PBS expenditure

Without adjusting PBS expenditure to account for future trends, Australia's universal access to medicines is at risk.

Investment in the PBS needs to grow by:

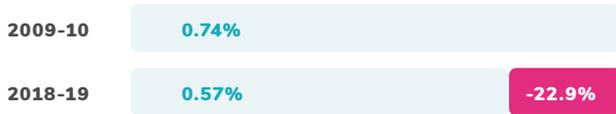
A compound rate of at least 1.64% per year to account for the projected population increase

A compound rate of at least 2.43% per year to account for the ageing population

A compound rate of 5.69% per year (or \$685 million over the forward estimates) to account for trends in new medicines if trends remain similar

PBS as a proportion of GDP is expected to decrease

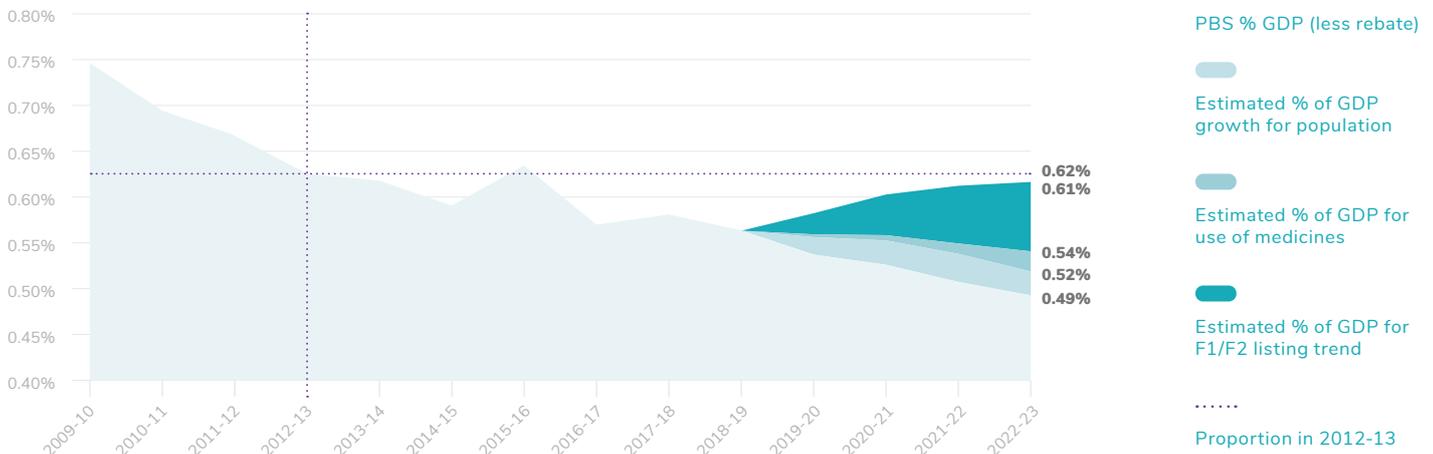
PBS expenditure as a proportion of GDP:



Without a change in Government investment, PBS as a proportion of GDP **will continue to decrease at an annual rate of 3.39%**

To account for expected demographic and industry trends, PBS as a proportion of GDP **will need to increase to 0.61%**

PBS expenditure as a proportion of GDP over the forward estimates (including MYEFO updates), with projections for growth to match population, use of medicines, and listing trends



Australian PBS expenditure is lower than other OECD countries

OECD proportion of GDP allocated to pharmaceutical growth⁴

Country	2014	2015	2016	2017	2018	2019
Canada	1.74%	1.82%	1.83%	1.79%	1.80%	N/A
Germany	1.57%	1.59%	1.61%	1.58%	N/A	N/A
Japan	2.04%	2.15%	2.01%	N/A	N/A	N/A
GBR	1.14%	1.14%	1.14%	1.15%	N/A	N/A
Australia (OECD)	1.30%	1.35%	1.36%	N/A	N/A	N/A
Australia (FBO*, less rebate)	0.62%	0.59%	0.63%	0.57%	0.58%	0.57%

*FBO = Final business outcomes
N/A = Not Available

Investment in medicine provides important benefits for Australian society

These benefits include:

- Australians live longer and healthier lives
- Australia remains a leading country in disease treatment and prevention
- Industry contribution to the Australian economy
- Avoiding disease progression and the additional costs involved
- Reduction in the costs of early retirement due to ill health
- Reduction in days of hospital care and resulting hospital expenditure

The pharmaceutical industry contributed \$8.9 billion in 2016⁵

Listing new Hepatitis C treatments in 2016 led to approximately 38,000 people being cured⁶

In 2015, hospital expenditure was reduced by \$3.47 billion due to investment in medicines in the prior decade⁷

References

- ¹ Australian Bureau of Statistics, 3101.0 Australian Demographic Statistics, Population Change (Summary).
- ² AIHW, 2018, Older Australia at a Glance. <https://www.aihw.gov.au/reports/older-people/older-australia-at-a-glance/report-editions>.
- ³ Department of Health and Ageing, 2013. Trends in and drivers of Pharmaceutical Benefits Scheme expenditure.
- ⁴ OECD Data, Pharmaceutical spending, <https://data.oecd.org/healthres/pharmaceutical-spending.htm>
- ⁵ PwC Consulting, 2017. The economic contribution of the innovative pharmaceutical industry to Australia
- ⁶ The Conversation, 2016. Australia leads the world in hepatitis C treatment – what's behind its success? <https://theconversation.com/australia-leads-the-world-in-hepatitis-c-treatment-whats-behind-its-success-81760>.
- ⁷ Lichtenberg F, 2019 The Impact of Pharmaceutical Innovation on Premature Mortality & Hospitalization in Australia 1998-2018.

Methodology

Pre-budget submission written by Medicines Australia.
Summarised and visualised by McCrindle - mccrindle.com.au.