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PBS REFORMS
→ ARE THEY WORKING?
THE EVIDENCE

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PAPER 01

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INTRODUCTION

This paper was prepared for policy makers, commentators, healthcare stakeholders, health consumer organisations, industry and other parties with an interest in an Australian public policy icon, the Pharmaceuticals Benefit Scheme (PBS). It is a companion piece for a study by the Centre for Strategic Economic Studies (CSES) at Victoria University which was commissioned by Medicines Australia in 2009 to analyse the impact of PBS reform measures since their introduction. CSES was asked to analyse trends in overall PBS expenditure and to report on how reforms have affected stakeholders; namely, the Government, pharmacists, wholesalers, manufacturers and other suppliers, and patients. The full report is available on the Medicines Australia website www.medicinesaustralia.com.au

The aim of this paper is to address some key issues relating to sustainability of the PBS, and timely and equitable access to medicines for Australians into the future.

IS THE PBS COSTING TOO MUCH? NO

Since the 1990's successive Australian governments have been concerned about the growth in expenditure of the Pharmaceutical Benefits Scheme (PBS). The current Government is no exception and relevant Ministers have recently highlighted concerns about PBS growth and the long term sustainability of Australia's PBS.

The latest figures indicate that the PBS is costing the Australian tax payer over \$8 billion per year.¹ This equates to just over 14 percent of total Federal Government expenditure on healthcare² and, according to the OECD, less than 8 percent of the cost of the total health system.³ For this Australians receive universal access to the latest prescription medicines used to fight the complex and costly ailments from which the population increasingly suffers: including diabetes, depression, dementia and cancer.

An ageing population means a growing disease burden. Diseases affecting an ageing population are also more complex and chronic. The costs of researching and developing medicines to treat, manage and hopefully cure such ailments will also continue to rise. Likewise, it is reasonable to assume that the cost to the tax payer of the PBS will also grow. Australians expect universal access to medicines in a timely manner. To ensure the scheme that delivers those medicines remains sustainable, wise and judicious allocation of resources is essential.

It could be argued, however, that based on available evidence and international comparisons, ongoing concerns about the non-sustainability of the PBS are in fact over-stated. The scheme as currently administered is one of the most judicious and efficient uses of tax payer money possible—one that few, if any, Government program could hope to match.

IS THE PBS IS COST EFFECTIVE? YES

Every single medicine that has been listed on the PBS since 1993 has been rigorously assessed for its cost-effectiveness. This means that an expert committee has analysed the clinical trial data and come to the conclusion that the cost of funding this medicine is outweighed by the health and economic benefits that the use of the medicine produces. No other part of the health system can claim this. In fact, it is difficult to think of another area of Government expenditure where such a claim could be made. While \$8 out of every \$100 spent on health in Australia is spent on pharmaceuticals, no other area of health investment can guarantee to deliver more value for money than that invested in the PBS. By careful design of the system itself, sustainability and efficiency are hard-wired into the PBS.

1 Australian Government Budget Papers—Statement 6: Expenses and Net Capital Investment, various years

2 Australian Institute of Health and Welfare, *Health Expenditure 2006–07*

3 OECD Health Data 2009, *Statistics and Indicators for 30 Countries*

AUSTRALIA'S EXPENDITURE ON PHARMACEUTICALS IS THIRD LOWEST IN THE OECD AS A PROPORTION OF GDP

When questioning the long-term sustainability and efficiency of the system it is instructive to ask how Australia compares to its OECD counterparts in terms of long-term trend expenditure on pharmaceuticals. Of 24 reporting OECD countries in 2005 and 23 countries in 2006, Australia had the third lowest spend on pharmaceutical sales relative to the size of the economy. Only New Zealand and Luxembourg spent relatively less. To contrast this against other economies, pharmaceutical sales in the United Kingdom, Germany and Scandinavian countries are around 1.5 times greater as a proportion of GDP than Australia, while Japanese, Italian and Korean sales are 1.8 times greater. Sales in France and Portugal are almost double the proportion of GDP than that of Australia, while in Hungary sales are over 3 times and Greece over four times larger than that of Australia.⁴

Moreover, analysis by the OECD shows that Australia pays the lowest prices for originator medicines relative to economy-wide price levels amongst OECD nations.⁵ It could thus be argued that Australia is failing to pull its weight, and is in fact free-riding on the efforts of others in the funding of research into medicines for future generations.

Figures 1 and 2 graphically represent the gulf between what Australians spend on pharmaceuticals relative to comparable health systems.

FIGURE 1 PHARMA SALES AS PERCENTAGE OF GDP

SOURCE Medicines Australia charting of *OECD Health Data 2009, Statistics and Indicators for 30 Countries*

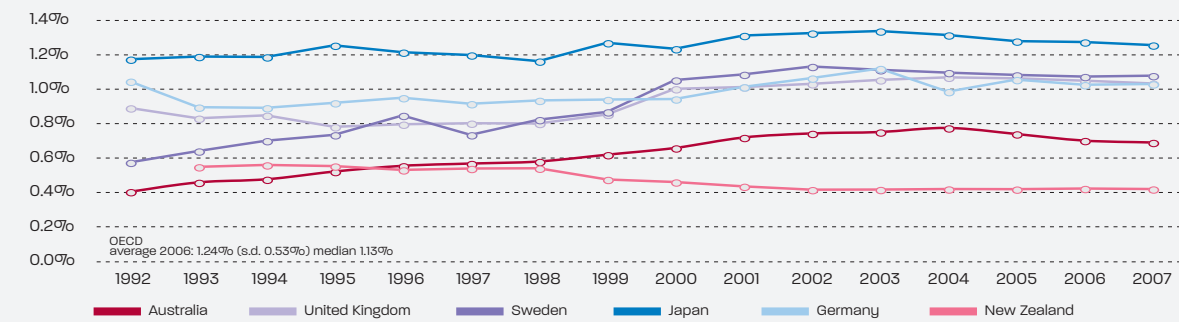
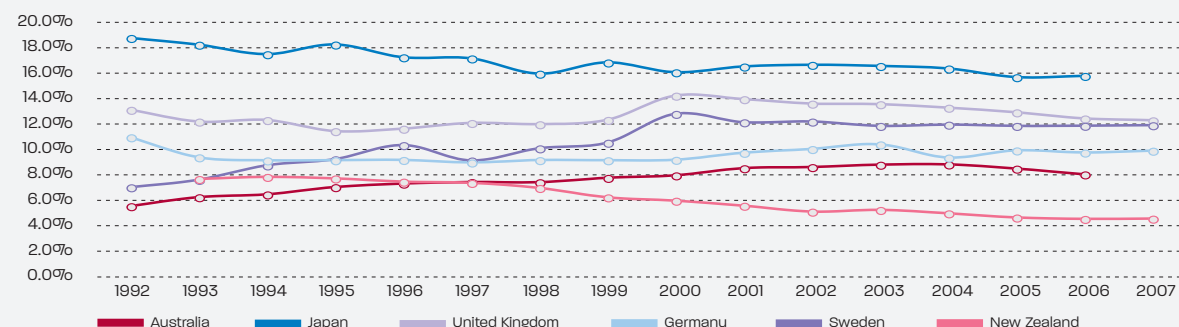


FIGURE 2 PHARMA SALES AS PERCENTAGE OF TOTAL HEALTH EXPENDITURE

SOURCE Medicines Australia charting of *OECD Health data 2009, Statistics and Indicators for 30 Countries*



4 OECD Health data 2009, Statistics and Indicators for 30 Countries

5 OECD Health Policy Studies 2008, Pharmaceutical Pricing Policies in a Global Market

Any debate on the sustainability and efficiency of the PBS must take into account these facts:

- 1 Every single medicine funded on the PBS since 1993 has been found to return more to Australia in terms of health and economic benefit than it costs; no other component of the health system has such an in-built guarantee of sustainability and efficiency.
- 2 Australia has historically spent, and continues to spend, significantly less on pharmaceuticals than the vast majority of OECD countries both relative to size of economy and as a proportion of total health system expenditure.
- 3 Australia pays the lowest prices for originator medicines relative to economy wide-prices in the whole of the OECD.

THE ROLE OF RECENT PBS REFORMS FOR PBS SUSTAINABILITY

In 2007, the Australian Government, with the support of the Parliament, passed the most comprehensive package of changes to the PBS since its inception in 1948. The reforms created structural changes to the PBS intended for its long term sustainability.⁶

From August 2007, market competition was introduced to drive down the costs of older, off-patent medicines, a group of drugs for which Australia has traditionally been paying over the odds relative to other OECD countries. Already these PBS reforms have seen the price of some medicines fall by more than 70 percent. These reforms were carefully negotiated between Government, the Australian pharmaceutical industry, pharmacy, doctor groups and patient groups, with the specific objective of using the windfall generated by market competition to be able to fund the latest, most innovative medicines as they became available, and at a price for which they could be demonstrated to provide value-for-money. The final reform package was supported by the Government, the Opposition, the innovative pharmaceuticals industry, pharmacy, doctor and consumer groups. At the time, the Australian Government estimated that PBS Reform would deliver \$3 billion worth of savings to the tax payer over 10 years.⁷

In March 2009, Medicines Australia commissioned the Centre for Strategic Economic Studies (CSES) at Victoria University to analyse the impact of PBS reform measures since their introduction and for the next decade. CSES was asked to analyse trends in overall PBS expenditure and to report on how reforms have affected stakeholders; namely, Government, pharmacists, wholesalers, manufacturers and other suppliers, and patients.

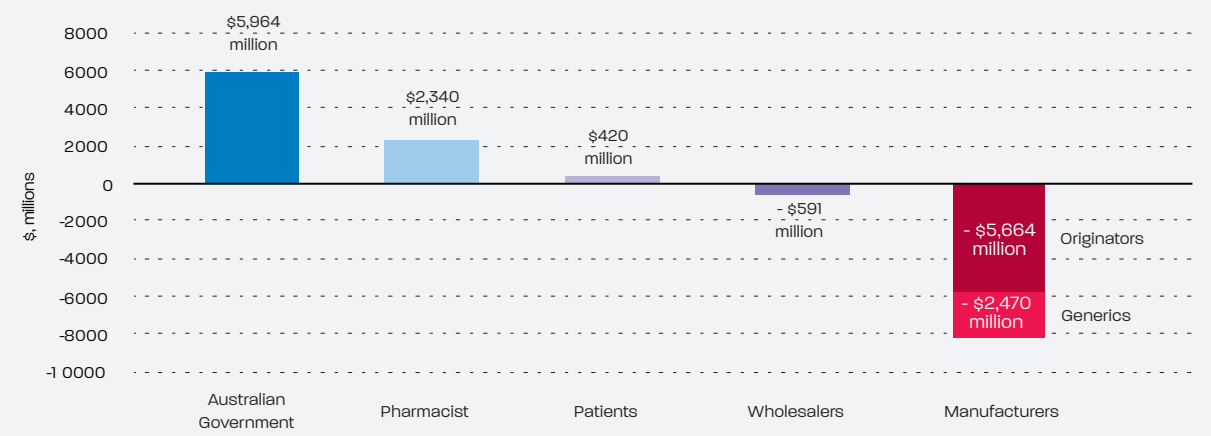
The CSES report assessed the savings to be conservatively double the original Government estimate. In short, the recent reforms are very likely to deliver the tax payer a \$6 billion windfall. **Figure 3** tracks the magnitude of the expected savings.

6 http://www.healthactive.gov.au/internet/main/publishing.nsf/Content/pbs_reform_02feb07.htm

7 Tony Abbott, Minister for Health and Ageing, Media Release: *PBS Reform*, 16 November 2006

FIGURE 3 PBS REFORMS—EFFECTS ON PBS STAKEHOLDERS (2008–09 TO 2017–18)

SOURCE Centre for Strategic Economic Studies, 2009, *The Impact of PBS Reforms on PBS Expenditure Savings: Actual and Projected from 2008–09 to 2017–18*, extracted from tables 3.4 to 3.7



Moreover, patients will be net beneficiaries of the PBS reforms in the long run. Not only will they pay less for the existing medicines, but they will also continue to access new innovative medicines into the future. According to CSES, in the last three years an increasing number of medicines are being dispensed at benchmark prices (premium-free). This trend is corroborated by Government data.⁸ This is again good news for patients who benefit directly from not having to pay premiums for the medicine that suits them most.

For the most part, the pharmaceuticals industry will absorb the impact of these structural adjustments to the pharmaceutical market in Australia, albeit at a cost to local jobs and investments in clinical research and manufacturing. It negotiated these reforms in good faith on the basis that it would provide a long-term platform for driving even greater efficiencies out of an already efficient market in return for a stable environment in which to conduct business and plan investments. In short, the industry traded fiscal certainty for the Government in return for business predictability.

WHAT ARE THE RISKS OF ABANDONING THE TERMS UNDER WHICH RECENT PBS REFORMS WERE NEGOTIATED?

One of the consequences of the continued unfounded concerns about the long term sustainability of the PBS is that the Government appears to be introducing additional ad-hoc price-cuts.⁹ The unpredictability and size of these cuts creates a very uncertain business environment for companies. There is a danger here for both the Government and Australians. In a market place in which pharmaceutical spending is already significantly lower than most comparable markets, and where comparative prices to the whole economy are the lowest in the OECD, there is only so much that companies may be able to absorb whilst still remaining viable concerns within Australia. New Zealand provides a salutary example of the consequences of continuing to reduce pharmaceutical spending below a certain level of GDP (see **Figure 2**). New Zealand

⁸ Pharmaceutical Benefits Pricing Authority, Annual Reports, various years

⁹ For example, in the 2008–09 Federal Budget the Government introduced new Therapeutic Group Premiums (TGP) groups into the PBS which will cost the industry over \$100 million, Australian Government Budget Papers—No.2 Part 2: Expense Measures, Health and Ageing, *Pharmaceutical Benefits Scheme—extending the therapeutic group premium policy*, 2009–10

patients are missing out on the latest innovative medicines and the health outcomes they deliver. The pharmaceutical industry has a much reduced presence in New Zealand, and those companies that do participate in the market, do so largely from the base of their Australian operations. The shorter term threat in Australia is that companies may experience such difficulties in listing medicines on the PBS that medicines may end up not being subsidised and exist only on the private market. This could lead to greater out-of-pocket expenses for Australians, greatly decreasing equity of access, and compromising the objective of universal access through the PBS.

If Australians are to continue to rely on access to effective, cost-efficient and up-to-date medicines, current PBS reforms should be allowed to run their course without further imposts by Government.