

# ***The benefits of the PBS to the Australian Community and the impact of increased copayments***

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## ***Executive Summary***

The purpose of this paper is to argue that the Pharmaceutical Benefits Scheme (PBS) has served the Australian community well and that increased growth over the last decade is due to a number of factors. These factors include the listing of new, more expensive medicines on the PBS, the growth in the numbers of people eligible for health concession cards, and a focus on diagnosing and treating chronic illness particularly asthma, diabetes, mental illness and heart disease. However, the benefits of the current system are not evenly spread. People in rural and remote areas still experience disadvantage in terms of access to services and essential medicines.

This paper argues that increases in the present system of 'copayments' for medicines will not contribute to improving the equity, effectiveness or efficiency of the health system but may increase inequity, particularly that faced by those who use the health system most.

There is substantial evidence that low income and poor health status are related. Research shows that currently the PBS benefits those who are sick and on low incomes. Consumer's Health Forum research shows that low income earners are also disadvantaged in the current system as they are neither sick, nor poor enough to qualify for concession cards despite struggling on low incomes.

Also relevant to the discussion on the PBS are the broader financing issues. These include

1. In the 1990's there has been a move away by government of raising additional revenue to fund services through the taxation system;
2. The current copayment system affects the costs to government of medicines, but has not had an impact on the rising costs of the PBS;
3. Copayments are one possible mechanism to fund additional growth in the PBS, but do not address the complex reasons for growth in the PBS;

## *Introduction*

The concern of Government about the recent high rate of growth in the PBS needs to be placed in a broader context. PBS expenditure growth is not new, as the PBS has grown at an average rate of 10 per cent per annum over the last decade. The growth in recent years, however, has been dramatic: in 2000/2001, growth was about 19 percent.

The Government is concerned about its ability to continue to fund such a high growth program. However, it would be flawed policy if the recent high growth justified major policy change that did not take into account the benefits of the PBS. Appropriate prescription and use of medicines is also saving the health budget through assisting people with chronic conditions to stay in the workforce or live independently in the community.

Interventions such as the educational approach of the NPS provide evidenced based information and education to prescribers to encourage them to make informed decisions about prescribing. This approach has provided major savings to the PBS.

Traditional financing options include:

- Exploring ways to limit expenditure growth,
- Cutting other health programs to fund expenditure growth or
- Raising more revenue through the taxation system to fund expenditure growth.

In public policy terms, the definition of the current problem has been too narrowly defined i.e. to curb dramatic growth in the PBS. The PBS was designed to provide essential medicines to those who need them at a price they can afford. As such, the PBS is a key instrument to underpin the Governments' approach to economic, health and social policy.

The level of concern about PBS growth is also an indication of the lack of a long-term strategy in relation to the PBS and the objectives of the National Medicines Policy. For example, there is a tendency to look at the last two years when PBS growth has been very dramatic and assume that growth will continue at the same pace. However, this ignores the fact that in the years 2000 and 2001 around half of the rapid growth was due to two new drugs listed on the PBS (Celebrex and Zyban) and the prescribing of cholesterol lowering medicines.<sup>1</sup> Given current trends new, more expensive medicines will continue to be a cost driver and a pressure point.

Nevertheless, there has been steady growth in the PBS over the last decade despite policy attempting to contain this growth. Policies introduced in the last decade to contain growth include user charges i.e. copayments for concession card holders, generic pricing policies and therapeutic group premiums.

Factors contributing to the growth include newer, more expensive medicines developed for the treatment of chronic conditions such as heart disease, cancer, and mental illness. Other factors include the growth in the number of people eligible for

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1. APAC Speaking notes on the Pharmaceutical Benefits Scheme (unpublished). November 2001

concession medicines and more emphasis on diagnosing and treating major chronic conditions. The national health priorities target conditions such as depression, diabetes and asthma, and incentives are designed for general practitioners to diagnose and treat these conditions. As the population ages there will be more demand on health services and prescribed medicines to prevent further illness, manage chronic conditions and to maintain people in the community. Technological developments and changing demographics and will also have a significant impact on health financing in the future.

### ***Who benefits from the current operations of the PBS?***

Currently Australia has a reasonably equitable system for people who need prescription medicines. The Pharmaceutical Benefits Scheme subsidises medicines listed to enable those who need prescription medicines to obtain their medicines at a price that is affordable. (For the purposes of the PBS general patients pay \$22.40 and concessional patients pay \$3.60 per prescription.)

The Pharmaceutical Benefit Scheme is underpinned by a safety net for both concessional and general patients. From January 2002, concessional patients who pay more than \$187.20 within a calendar year have additional prescription medicines free of charge for the remainder of the year. General patients who pay \$686.40 or more for prescriptions in a year then have the remainder of their medicines at the concessional rate.<sup>2</sup> However, many people with chronic conditions not eligible for concessional medicines pay the full general co-payment and struggle as a result. The safety net amount is set too high for some with chronic conditions and they may never reach it because of the sporadic nature of their illness, Asthma being a good example.

### ***Co-payments***

Increasing co-payments for concessions and general patients are one approach to reducing the costs to the taxpayer of further growth in the PBS. However, this approach does not address the reasons the PBS is growing and is likely to produce negative consequences for those who use medicines most. An increase in co-payments in isolation from other measures is also unlikely to increase consumer awareness and knowledge of the wise use of medicines or contribute to changing prescribing behaviour in the long term.

Co-payments are unlikely to change the trend for new, more expensive drugs to be preferred by prescribers and consumers over cheaper generic or non- drug approaches. To achieve a better understanding of the need to use medicines wisely, specific education and information strategies are required to inform consumers of the available choices and savings that can be made on medicines. Instead, increasing co-payments is likely to reduce access to medicines by those who most benefit and increase the disadvantage in relation to health status of those who are sickest.

At present, consumers rely on their GP's for diagnosis and treatment of chronic conditions. They generally do not have access to prescribing information or

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<sup>2</sup> Your Health Matters. Health Insurance Commission. Summer 2002.

3. Report on the Australian System of Pharmaceutical Financing and Delivery Vol. 1: Efficiency and Equity Implications of Public versus Private Funding of Pharmaceuticals. November 1999 –Medical Technology Assessment Group (M-Tag) Pty Ltd.

information on the range of treatment options. When a medicine is prescribed they are reliant on the professional knowledge and judgment of the doctor who is treating them. Those who use medicines most and who benefit most from the PBS are concessional patients- the old, low paid and the chronically ill.<sup>5</sup> As discussed earlier this is consistent with the aims of the PBS and the National Medicines Policy

### *The Evidence*

The M-Tag report discusses the impact of price changes on demand for prescription medicines in Australia. It refers to an analysis by NATSEM showing that low-income earners had more recent illness than high-income earners, and the PBS subsidy rose with the number of recent illnesses reported. The NATSEM study quoted also shows that those who were ill more often were more likely to receive a PBS benefit.<sup>6</sup>

Research carried out in the USA in the 1980's known as the Rand Experiment and Richardson's work for the National Health Strategy in Australia in the 1990's found that people do show price sensitivity in making a decision about seeking a diagnosis, but once in the system, they are more willing to pay for services.<sup>7</sup> Canadian Researchers for the Premiers Council on Health Wellbeing and Social Justice concluded that

*In a major experiment with user charges conducted in the United States the Rand Corporation, researchers found that user charges were about equally likely to deter patients from using both unnecessary and necessary services.<sup>8</sup>*

Research conducted in two Canadian States in the 1970's and 1980's showed a greater impact on low income people from price increases. In Saskatchewan user charges for a doctor's consultation reduced the use of physician services more for low-income people. The researchers summarised the impact as transferring costs from public to private budgets with the burden falling disproportionately on sicker members of the community.

The Ontario study on the impact of user charges confirms that user charges had a greater impact on low-income people as they responded by reducing their use of physician services or they delayed seeking care because of the cost.<sup>9</sup>

A change in the current policy of consumer co-payments for medicines could add to the hardship experienced by those consumers who struggle to pay the costs of medicines needed for treating a chronic condition. The group identified (those with chronic conditions not eligible for concessions) in research undertaken by the Consumers Health Forum (CHF) described strategies adopted by people to cope with payments for health care. These strategies include people budgeting by not taking all

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<sup>5</sup> Report on the Australian System of Pharmaceutical Financing and Delivery. Vol.1 Efficiency and Equity Implications of Public versus Private Funding of Pharmaceuticals. November 1999. Medical Technology Assessment Group (M-Tag) Pty.ltd.

<sup>6</sup> Ibid.p42

<sup>7</sup> McAuley, P, 1998, Consumer Health Forum. Health Financing Workshop. P.49 June 1998.

<sup>8</sup> Why Not User Charges? The Real Issues A Discussion Paper by Stoddart GL., Barer Morris, Evans RG. Bhatia V. The Premiers Council on Health Wellbeing and Social Justice p.5 Sept. 1993

<sup>9</sup> Ibid p.6

their medicines, taking lower doses than prescribed, or one family member going with out medicines so they could afford medicines for other family members.<sup>9</sup>

As well, the impact of increased copayments on those eligible for concessions on low incomes needs consideration. Many older people for example are taking a number of medicines to manage more than one chronic condition. Increasing their co-payments could result in them not taking all essential medicines as a result of the additional costs. This would compromise timely access to medicines Australians need, at a cost individuals and the community can afford and the quality use of medicines objectives of the national medicines policy. The impact on the viability of the pharmaceutical industry the fourth objective also needs to be explored.<sup>10</sup>

Canadian research was also undertaken in Quebec in the late 90's on the effects of increases in copayments for medicines for social security recipients and other beneficiaries to fund the expansion of public medicines coverage. This research showed that the impact of increased copayments on social assistance recipients caused an increase in hospitalizations/institutionalizations, physician visits and emergency department visits of 194%, 22% and 106% respectively.

For older people in Quebec increased copayments showed increases in hospitalizations, physician visits and emergency department visits of 35 %, 13% and 50 % respectively.<sup>11</sup>

***What are the implications of changes to the current operations of the PBS for those groups who currently benefit?***

At present low income people with chronic conditions who qualify for a concession card use prescription medicines as a component of their strategy for maintenance of life in the community. A cap on the co-payment protects people as does the safety net ensuring access to medicines free of charge once the concession safety net amount is paid. Those who do not qualify for a concession also pay a higher general co-payment and a safety net applies. However, there are groups identified in research carried out by CHF who are particularly disadvantaged by not being eligible for concessions cards.

According to the CHF research, those not eligible for concession cards on low incomes with a chronic condition are struggling to afford essentials including medicines and other health related expenses such as general practitioner and specialist consultation charges. Policy changes such as higher co-payments for general and concessional patients could result in poorer health outcomes for already disadvantaged people. Other consequences will include higher costs to the social security system and the health system.

The CHF research explains that low-income earners who do not qualify for concession cards question whether they should stay in the workforce.<sup>12</sup> Low income

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<sup>10</sup> National Medicines Policy Commonwealth Department of Health and Ageing 2000

<sup>11</sup> A National Pharmacare Plan: Combining Efficiency and Equity by Joel Lexchin March 2001

earners who would like to work at least part time are confronted with a tough decision when a relatively small amount of additional income means they no longer qualify for concessional medicines. The unintended consequences of increased copayments such as people leaving the workforce early or not taking up employment opportunities in order to qualify for concession cards is a policy issue. This would have long-term social and economic implications for Australia given the projected shortages of skilled people.<sup>13</sup>

Other policy options include the introduction of differential co-payments as a mechanism for access to expensive new medicines not listed on the PBS. This sort of policy change also needs careful analysis to ensure that it does not build inequities into the health system. An independent analysis of the implications of this sort of policy change for Australia is needed with a focus on the impact on equity, and equally importantly, the factors driving the price of new medicines. Potentially some consumers who could afford to pay could have access to these medicines. This raises questions about the role of the private prescription market and the impact on health outcomes and health costs in the future. A two-tiered system could develop where those who could afford to pay for expensive new medicines not listed on the PBS had access and those who could not afford to pay were denied access and choice of treatment.

The options being considered by government to contain costs need to protect the health and financial status of vulnerable groups. It is also important to think through the impact of increased co-payments on the quality use of medicines and the hospital system. Policy decisions based solely on short-term objectives will almost certainly have unintended consequences. If people stop taking essential medicines because they cannot afford them more illness is likely. Also likely is more cost shifting from the community to hospitals and a more inequitable distribution of health services and treatments.

### ***What needs to happen in Australia to ensure access to medicines for all Australians?***

Sustaining the PBS for current and future generations is a priority to ensure equitable access to medicines. Any changes to the current system of copayments should ensure the principle of equity applies in order to protect those with chronic conditions who need medicines to maintain themselves in the community. Concession cards could be reviewed to take into account those with chronic conditions on low incomes who are not currently eligible for medicines at the concession price.

More emphasis is needed on ensuring that aboriginal people and people from diverse cultures understand and make use of their entitlements through the operation of the PBS. A broader public policy discussion is needed about the financing of the PBS in order to ensure that Australians have equity of access to essential medicines in the future. More resources are needed for education of both prescribers and consumers about appropriate use and the role of medicines in maintaining health and preventing illness.

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<sup>12</sup> Easing the Burden: The Pharmaceutical Benefits Scheme and People with Chronic Conditions Executive Summary. March 1999

<sup>13</sup> Population Ageing and the Economy. Research by Access Economics. January 2001.

*A longer-term approach to sustaining the PBS is needed. The following recommendations are posed*

- Access to consumer medicines information (CMI) for consumers and participation in education about the role of medicines and non-drug approaches to maintaining health and preventing further illness.
- More information and education for consumers and prescribers about the Pharmaceutical Benefits Scheme, the safety net and the costs of medicines.
- More emphasis on the role of allied health professionals in assisting people to manage medicines and provide support and education about non-drug approaches to maintaining health.
- A targeted campaign on the PBS safety net ensuring those who use medicines the most, older people, those with chronic illness and families on low incomes, are fully informed of their entitlements through the operation of the PBS safety net.
- More information and explanation for consumers and prescribers of the role of generic medicines and ways of achieving savings on prescription medicines.
- Discussion of the recommendations in the CHF Costs of Chronic illness report.

### *Conclusion*

The intention of increased copayments is to send a price signal to consumers in order to reduce their use of unnecessary medicines. However, those who cannot afford the increased copayments may not use essential medicines appropriately and are likely to use more hospital and emergency services.

The solutions to the problem of rising costs of the PBS need a longer-term analysis of the benefits of using medicines against the costs of the PBS. Research is needed on the contribution made by the PBS to better health outcomes for individuals and the community. Research is also needed on the prevention of unnecessary illness due to medicines particularly for those older people prescribed multiple medicines.

As the population ages, more emphasis is needed on health promotion, non drug approaches such as smoking cessation and the role of diet and exercise in the prevention of further illness. Combining these approaches with education about the wise use of medicines makes a contribution to sustaining the PBS for future generations.

Explaining the aims of the PBS to people would also assist the community to understand that all those who need essential medicines have access to those medicines at a price they can afford. An educational approach that includes explanations of generic medicines and policies such as therapeutic group premiums enlists consumers in developing solutions to the rising costs of medicines. Such approaches also build on the community's support for the universality of the PBS.

Finally, PBS policy does not work in isolation to other public policy. There is a link between how much we value as a community access to essential medicines and the wellbeing of our economic, social and health policy. It is ironic that the discussion in relation to increasing copayments is about containing expenditure growth when copayments and safety nets require administrative systems which carry their own costs. The unintended consequences of restricting access to affordable medicines in terms of the lost productivity of people with chronic conditions and the increased pressure on already overburdened hospitals needs to be considered. It is time to address the real causes of growth in the PBS in order to ensure its sustainability for future generations of Australians.