

## How Much Will the PBS Cost? Projected Trends in Commonwealth Expenditure

This note discusses some recent projections of future costs to the Commonwealth Pharmaceutical Benefits Scheme. It observes that care should be taken in (i) basing future projections on past PBS growth trends; and (ii) comparing PBS growth with growth in other areas of Commonwealth health expenditure.

### Recent Trends

In 2002–03 a total of \$5.48 billion was spent in Australia on prescription medicines subsidised under the PBS. \$4.63 billion of this (84.5 per cent) was paid by the Commonwealth, and the remaining \$0.85 billion through patient co-payments.<sup>1</sup> In the same year, the Commonwealth spent \$7.24 billion on public hospital services,<sup>2</sup> and \$8.12 billion on medical and diagnostic services (through Medicare benefits).<sup>3</sup> Although the PBS is the smallest of these components of Commonwealth expenditure, it has had the highest average annual rate of growth over the last decade (at 12.7 per cent per annum), compared to 6.2 per cent per annum for public hospital services, and 4.9 per cent per annum for medical services. At these rates, by 2011 the Commonwealth would be spending more on subsidised pharmaceuticals than it would on either public hospital or medical services, and by 2022, more on pharmaceuticals than both public hospital and medical services together.

These rough projections make the sustainability of the PBS a matter for concern. How great the concern should be, though, will depend on how likely it is that this PBS growth will continue. An investigation of

the data, and recent modelled projections, present a number of reasons to question whether growth in the near future will be as high as in the recent past.

### Variable Growth Over the Last Decade

Projections of future PBS expenditure based on past trends need to take account of how uniform or consistent those trends have been.

The PBS growth rate over the last decade has not been uniform. Growth slowed from 20 per cent between 1992–93 and 1993–94, to 6.5 per cent between 1995–96 and 1997–98. After this, growth returned to 20 per cent between 1999–2000 and 2000–01. Since then rates of growth have slowed again, dropping to 9.6 per cent in 2002–03. (See the chart over page).

So, over the last decade, growth rates have fluctuated rather than followed a trend of either slowing or accelerating or remaining the same. This fact should caution against concluding, solely on the basis of recent past experience, that PBS expenditure is likely to continue its growth at an annual average of around 12 per cent.

### Current Department of Health Estimates of Future PBS Expenditure

Since 2000–01, the government has targeted some of the major problematic drivers of PBS growth. Factoring in the anticipated cost-reduction impacts of these measures, the Department of Health and Ageing has estimated that the average annual growth in government expenditure on PBS prescription medicines will be close to 5 per cent per annum in the four

years between 2002–03 and 2006–07.<sup>4</sup> This is less than half the 12.7 per cent rate of the previous decade.

This estimate includes the anticipated impact of the proposed, but as yet unimplemented, patient co-payment and safety-net increases announced in the 2002–03 Budget. It is estimated that these increases would save more than \$1 billion between 2002–03 and 2006–07. Applying departmental budget figures, without the co-payment increases, annual PBS growth would average 6.2 per cent between 2002–03 and 2006–07.

The proposed co-payment and safety-net increases were also intended to address the declining proportion of total PBS costs met through patients' payments. In 1992–93 patient contributions met 20.4 per cent of these costs. By 2002–03, this had steadily declined to 15.7 per cent.

### An Independent Estimate of Future PBS Expenditure

The National Centre for Social and Economic Modelling (NATSEM) recently modelled PBS prescription medicine expenditure up to 2006–07.<sup>5</sup> The model simulates changes over time in PBS prescription volumes and pharmaceutical prices. As well as assuming current PBS policy settings, the model incorporates pharmaceutical industry information about drugs coming off patent, new generic brands, and the entry of new and innovative medicines, all in the context of normal market influences.

The NATSEM projections generally conform to those of the Department of Health and Ageing. According to NATSEM, the average annual rate

of growth in Commonwealth expenditure on PBS prescription medicines between 2001–02 and 2006–07 will be 5.8 per cent per annum. In 2006–07, the patient contribution to total PBS costs is estimated to be still at 16 per cent, suggesting that the steady decline over the last decade will have levelled out.

Neither the departmental nor NATSEM figures factor in new very expensive medicines that were subsidised under the PBS in 2003. It has been suggested that these drugs could cost the government \$1 billion over the next four years.<sup>6</sup> Assuming this is distributed evenly over these years, these new additions can be estimated to increase the average annual rate of PBS growth to 6.7 per cent (on the five year NATSEM estimates), or 7.4 per cent between 2002–03 and 2006–07 (on departmental estimates).<sup>7</sup>

The NATSEM and departmental projections are merely estimates, and subject to the test of reality. Recent indications, though, conform to these projections. For instance, as the chart below shows, since 1999–2000 the rate of PBS expenditure growth has slowed considerably.

Consistent with this, the third quarter of 2003 has had the second lowest rate of growth (from the previous quarter) of any third quarter since 1994.

### Standing Up to Comparison

At an average annual growth rate of around 7 per cent, the PBS would still be the fastest growing major component of Commonwealth health expenditure. Its average annual growth rate would be around 44 per cent higher than that for medical services, and around 14 per cent higher than for public hospitals.

Projected rates of PBS expenditure growth seem to be lower, however, than the 10.2 per cent annual average between 1990 and 2001 in other OECD countries for which there is comparable data.<sup>8</sup> In connection with overseas trends, if PBS arrangements were to be negotiated as part of a US Free Trade Agreement, PBS growth would likely escalate.<sup>9</sup>

It is worth observing, finally, that comparing the higher growth of the PBS with the lower growth of medical and hospital costs can be misleading. The PBS is designed to operate cost-effectively. Medicines

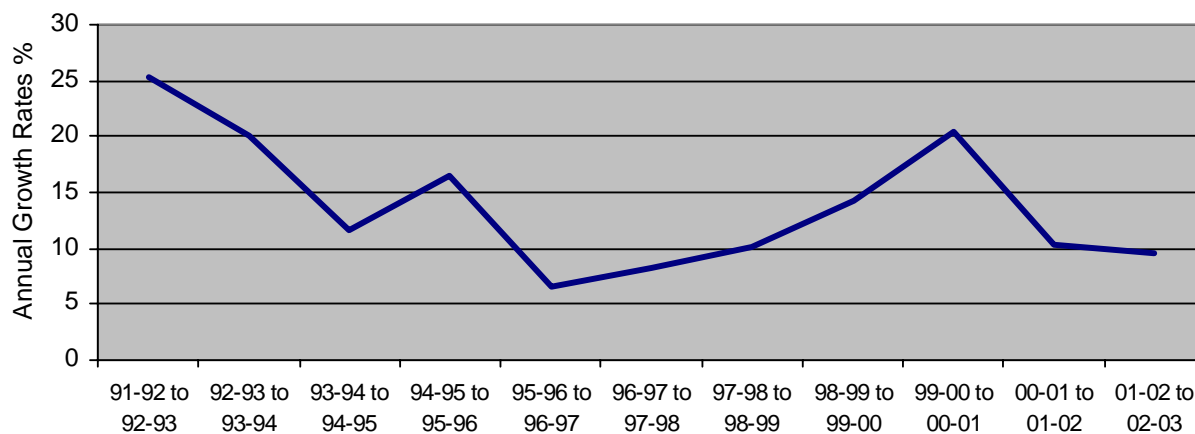
are subsidised, priced, and prescribed with the aim of avoiding the higher treatment costs that may otherwise be incurred through people's use of hospital and medical services. It could therefore be expected that growth in the PBS might be accompanied by lower rates of growth in these other areas of health. The comparatively higher growth rate of the PBS, sometimes noted unfavourably, may in reality be its virtue.

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### PBS Govt Expenditure Annual Growth Rates 1991–92 to 2002–03 (General, Concessional and Safety-Nets)



1. Health Insurance Commission, [Annual Report 2002–03](#) and 1997–98, and [PBS Expenditure and Prescriptions](#), Department of Health and Ageing. Figures here are only for medicines prescribed under the PBS general and concessional patient subsidy arrangements (and safety-nets).
2. Through Australian Health Care Agreements. Department of Health and Ageing, [Annual Report 2002–03](#).
3. Health Insurance Commission, [Annual Report 2002–03](#).
4. [Budget Strategy and Outlook 2003–04](#), [Section 6–26](#).
5. [NATSEM Report CP2003-011](#), University of Canberra.
6. Mr Peter Costello, Press Conference, 8 December 2003.
7. Both without the proposed co-payment increases factored in.
8. [OECD Health 2003](#).
9. See M. Rickard, 'Free Trade Negotiations, the PBS and Pharmaceutical Prices', [Research Note](#), forthcoming, Parliamentary Library, 2003–04.