

## SUBMISSION

### Select Committee on Cost of Living

March 2023

**The Pharmacy Guild of Australia (the Guild) welcomes the opportunity to provide a submission to the Senate Select Committee on the Cost of Living. The Guild applauds the Senate on establishing this committee to address the most significant current issue impacting Australians and their spending choices every day. The Guild as always is ready to collaborate with the government as a partner in implementing solutions that address problems while also improving healthcare access and affordability.**

The recommendations in this submission seek to ease financial difficulties faced by individuals and families across Australia during this period of high inflation, while also providing practical solutions to some of the challenges faced by the broader health system.

The Guild recognises the significant step taken by the Government through the implementation of the \$30 maximum general patient co-payment for PBS listed medicines from 1 January 2023. This is providing savings in out-of-pocket costs for approximately six per cent of all PBS prescriptions. While this has been an important step, the limited scope of these reductions has not been enough to address the medicine affordability issues that exist for an unacceptably large number of people. Further reductions in co-payments are needed, now more than ever.

## ABOUT THE PHARMACY GUILD OF AUSTRALIA

The Pharmacy Guild of Australia (the Guild) is community pharmacy's peak organisation, servicing the needs of community pharmacies and their patients. The Guild strives to promote, maintain, and support community pharmacies as the most appropriate primary providers of health care to the community through optimum therapeutic use of medicines, medication management and related services.

Community pharmacy is consistently seen by the Australian public as a trusted and integral part of our nation's healthcare system. Community pharmacies exist in well-distributed and accessible locations, and often operate over extended hours, seven days a week in regional, rural and remote areas. Community pharmacies provide timely, convenient and affordable access to the quality and safe provision of medicines and healthcare services by pharmacists who are highly skilled and qualified health professionals.

The Guild and the 6,000 strong community pharmacy network across Australia has a long and credible record of successfully delivering programs and initiatives for Government and consumers, consistently demonstrating a capacity to deliver significant outcomes within substantial budget and time constraints in often complex and challenging situations, including during the COVID-19 pandemic.

The Guild enjoys strong relationships and a positive influence across the pharmacy and primary health care sector and is regarded as a thought leader in not only the current environment but in shaping the future of healthcare and community pharmacy through productive collaboration.

# **ADDRESSING COST OF LIVING PRESSURES THROUGH AFFORDABLE MEDICINES REFORM**

## **SUMMARY**

### **The medicines affordability problem**

1. The proportion of Australians not having prescriptions filled due to cost (or not taking medicines as frequently as prescribed) is too high, and is worsening due to cost of living pressures.
2. This results in poorer health outcomes and pushes costs onto other areas of the health system. Medicines are listed on the PBS because they have been deemed to be cost-effective, however they are only cost-effective when taken as prescribed – affordability issues create a barrier, and this is worsening with cost-of-living pressures.
3. Australia's PBS co-payments are very high by international standards and are indexed directly to the current high rates of inflation.
4. There is an inequity between metropolitan and regional, rural and remote patients due to the discretionary PBS co-payment discount.
5. The Federal Government has very few mechanisms through which it can directly reduce prices of products in the Australian economy. PBS co-payments are one of these opportunities, and co-payment reductions would be directed at people most in need.

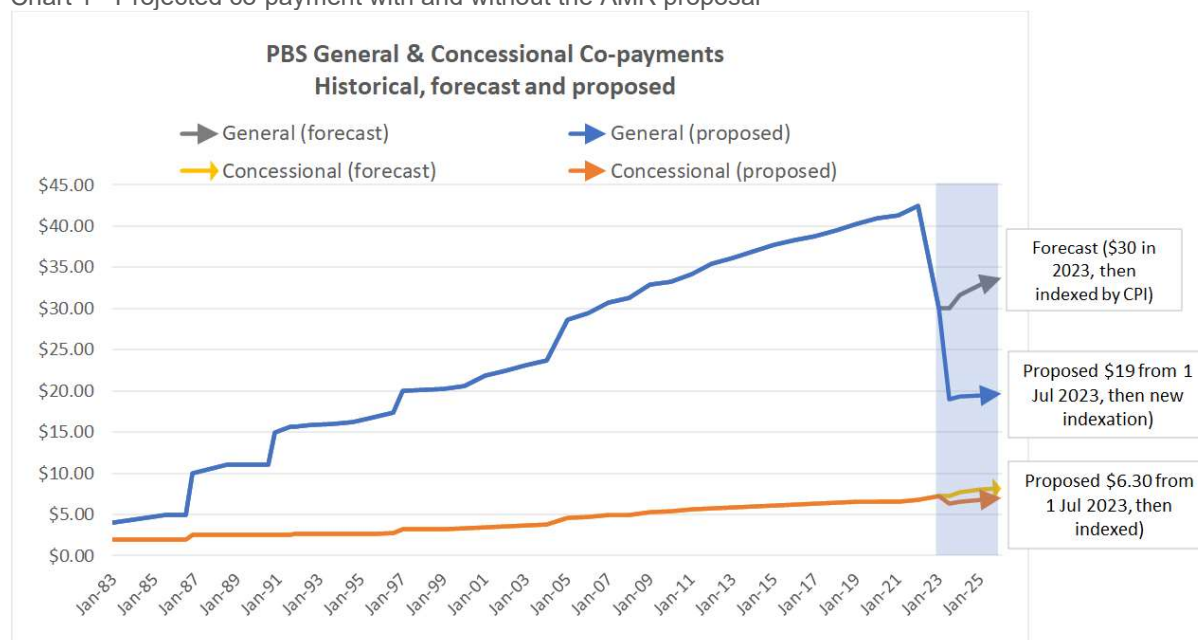
### **The solution – make medicines more affordable to ease the cost of living**

Reduce PBS co-payments, reintroducing universal co-payments, and reform co-payment indexation through implementation of a package of affordable medicine reforms:

1. Implement a further reduction to the PBS general patient co-payment from \$30 to \$19 on 1 July 2023.
2. Reduce the PBS concessional patient co-payment by \$1 in place of the current discretionary \$1 discount, also from 1 July 2023.
3. To ensure equity between general and concessional co-payments in the future, alignment of indexation (from 1 January 2024) for the general patient co-payment with the dollar value increase to the concessional co-payment each year is recommended. For example, if the annual CPI indexation to the concessional co-payment results in a 20 cent increase, the general co-payment will increase on the same date by only 20 cents.

Chart 1 (below) illustrates the historical and projected co-payment with and without the Guild's proposal.

Chart 1 - Projected co-payment with and without the AMR proposal



## Benefits

1. A direct and immediate impact on cost of living, targeted toward those most in need of relief.
2. Further relief on the cost of more than 70% of PBS-listed medicines for more than 19 million Australians, including many people on lower income and families who are not able to access concessions.
3. Lower out-of-pocket costs for patients prescribed medicines for diabetes, stroke prevention, cardiovascular disease, respiratory conditions, epilepsy, hormonal contraception, skin conditions, anaphylaxis, viral infections, Parkinson's disease, macular degeneration, and many others.
4. Improves universality of access to the PBS and enhances medication adherence, immediately and sustainably reducing spending pressures within the health system.
5. Improve Australia's poor standing amongst comparable OECD nations with regard to medicine co-payment levels and affordability, as well as biosimilar uptake rates.

To offset Government costs of reducing the co-payments (notwithstanding the overall benefits through lower healthcare costs), the Guild proposes new measures to raise biosimilar uptake that will contribute to the fiscal sustainability of the PBS – refer to the section in this submission on Budget Cost and Savings Offsets from Biosimilar Uptake Measures). The proposed biosimilar uptake measures ensure that no patient pays more than they currently do for these specialised medicines, many would pay less, and the government would also pay less (and move closer to international pricing policies for these drugs).

## **BACKGROUND**

The reduction in the PBS general co-payment from \$42.50 to \$30 from 1 January 2023 is providing savings in out-of-pocket costs for approximately six per cent of all PBS prescriptions. While this has been an important step, the limited scope of this reduction has not been enough to address the medicine affordability issues that exist for an unacceptably large number of people.

The current high inflationary environment is adding to pressure on people's spending decisions, worsening the situation. The Guild believes there is still more to be done to ensure all patients experiencing affordability issues related to their medicines are provided the same relief, while at the same time addressing cost of living pressures.

PBS co-payments are the most significant consumer charges, for any good or service, that are strictly set and capped through Commonwealth legislation. The government fully subsidises some services (for example, bulk-billed MBS services and PBS safety net prescriptions) and influences the prices paid for other goods and services through subsidy, regulation, duties and taxes. However, those are set for sound economic, environmental or public health reasons and opportunities for directly impacting prices are limited. The PBS represents the prime opportunity for the government to immediately and directly impact the price paid for a significant set of products – targeted at many people most in need of cost-of-living relief - while also creating flow-on benefits in terms of health outcomes and health system performance.

The total amount of patient contributions to PBS-subsidised medicines in the year to 30 June 2022 was \$1,593 million. This increased by 5.9% on the previous 12 months<sup>1</sup>. In addition, the proposed co-payment reduction would also reduce the cost of all prescriptions that currently cost between \$19 and \$30 for non-concessional patients.

### **Targeting Australians most in need of cost-of-living relief**

The weighting of pharmaceutical products in the Consumer Price Index (CPI) is 1.04%. Perhaps of more significance in terms of targeting cost of living measures to those most in need is the relative weight of pharmaceuticals in the ABS' Living Cost Indexes, which measure the changes in cost of living for various household types:

- For age pensioner households, pharmaceutical products have a weighting of 2.17%. This is more than double the expenditure weighting for the total Australian population.
- For the age pensioner households index, pharmaceutical products are the 12th highest weighted item (out of 84 items).
- For the combined Pensioner and Beneficiary Households index, pharmaceutical products have a weighting of 1.77%, more than 50% higher than for the total Australian population.

### **Data shows that the medicines affordability problem is worsening**

The latest ABS data, released in November 2022, showed that the medicines affordability issue was worsening, as summarised below.

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<sup>1</sup> Department of Health and Aged Care, *PBS Expenditure & Prescriptions 2021-22* (Table 3(c))



### **ABS (2021/22) Patient Experiences in Australia: Summary of Findings<sup>2</sup>**

Over 771,000 Australians do not fill their prescriptions or delay having their prescribed medicine dispensed due to cost.

The proportion of people who delayed or did not get prescription medication when needed due to cost increased to 5.6% in 2021-22, from 4.4% in 2020-21.

The following people were more likely to delay getting or go without prescription medication when needed due to cost:

- more people aged 15-24 years than those aged 75-84 years (8.2% compared to 1.6%)
- more of those living in areas of most socio-economic disadvantage than those living in areas of least disadvantage (6.8% compared to 4.2%)
- more of those with a long-term health condition than those without a long-term health condition (6.4% compared to 3.8%)
- more females than males (6.1% compared to 4.9%).

The Australian Patients Association's (APA's) 2022 *Australian Healthcare Index Report*<sup>3</sup> indicates a significant medicines unaffordability issue across the Australian community. The APA survey results clearly show the problem the Guild's proposal is designed to address - that the affordability issue is most significant for the non-concessional (largely under 65) population. People and families requiring regular use of multiple PBS medicines should not have to choose which medicine they forego, or which family member will do without so they can afford to have prescriptions filled.

### **The Australian Patient's Association (APA) 2022 Australian Healthcare Index Report showed:**

- Of people taking prescription medicine, 24% disagreed when asked whether medicine was affordable to them - of great concern, this was up from 19% in the previous iteration of the survey.
- The medicines affordability issue is significant for both the non-concessional (largely under 65) population and the older population. 29% of people aged 50 to 64 disagreed that medicines were affordable, along with 13% of people aged 65 or over.

There is a lack of universal access to affordable prescription medicines due to high and variable individual out of pocket costs. This results in broader costs to the health system and the economy. Specifically, not filling or delaying prescription medicines contributes to medication non-adherence (also known as non-compliance).

These problems can be addressed through further reduction of the maximum patient co-payment to \$19, and a reduction of \$1 to all other co-payments in place of the current discretionary allowable \$1 discount from 1 July 2023.

## **EQUITABLE ACCESS TO PBS MEDICINES**

A reduction to \$19 for the maximum patient co-payment would provide relief to 32% of patients and, when combined with a change to indexation, offers structural, long-term cost of living relief for families, while a reduction of \$1 to the concessional patient co-payment would ensure equity

<sup>2</sup> Australian Bureau of Statistics (2021-22), Patient Experiences, ABS Website, accessed 24 Feb 2023.

<sup>3</sup> <https://australianhealthcareindex.com.au/reports/>



of cost-of-living relief by replacing the current discretionary \$1 discount. This change would align with Recommendations 2-1 and 2-2 from the 2017 *Review of Pharmacy Remuneration and Regulation* which state that:

*“The variation in pricing of Pharmaceutical Benefits Scheme (PBS) medicines to consumers has unintended consequences for equity and consumer access...The payment made by any particular consumer for a PBS-listed medicine should be the co-payment set by the Australian Government for that consumer...”. (Recommendation 2-1)*

*“The \$1 discount has not led to equitable outcomes for consumers...The Australian Government should abolish the \$1 discount on the PBS patient co-payment” (Recommendation 2-2).*

The discretionary \$1 co-payment discount has not addressed affordability issues. Department of Health data shows that it is provided on 25% of subsidised PBS prescriptions<sup>4</sup>, and data analysed through the 2017 Review showed that it had created significant inequities between rural and regional patients compared with their metropolitan counterparts. This goes against the principles of universality of access that are central to the PBS and Australia's healthcare system generally.

In combination, the measures proposed in this submission will ensure a major improvement in affordability, health outcomes and universal access.

The non-universality of access to prescription medicines is evident in Chart 1 showing the growing gap between PBS concessional and general co-payments faced by patients. In real terms, the gap between the two co-payments has increased by more than 400% since 1983, and even with the reduction to \$30 the gap has still tripled in real terms over the same period. The chart also shows the gap will grow again after 2023.

In addition to addressing current affordability issues through a further reduction in the general co-payment, the Guild's proposal includes reforms to co-payment indexation to address the problem in the longer term. This reform will prevent a future re-widening of the gap between the concessional and general co-payments (shown in Chart 1).

## INTERNATIONAL COMPARISONS

International comparisons of patient co-payments or charges for pharmaceuticals (Table 1) show that Australia's general patient co-payment, concessional co-payment and safety net are very high compared with the amounts paid for the same medicines for equivalent population groups in other OECD countries that have a national scheme for subsidised medicines. This continues to be the case even with the recent reduction in the co-payment to \$30.

Table 1 – International comparison of patient co-payments

| Country                                  | Co-payment or charging arrangement  |
|--|---|
| <b>Australia</b>                         | \$7.30 (concessional patients) and \$30.00 (general patients), maximum per year \$262.80 (concessional patients) and \$1,563.50 (general patients). |
| <b>Scotland, Wales, Northern Ireland</b> | Free for all patients.  |
| <b>England</b>                           | About 90% of prescriptions are free, maximum charge for others is £9.35.  |
| <b>France</b>                            | Variable per item, maximum €50 total cost per year (all patients).  |

<sup>4</sup> Department of Health and Aged Care, PBS Expenditure & Prescriptions 2021-22 (Table 15(a))



|                    |  |
|--------------------|--|
| <b>New Zealand</b> | \$5.00, with a maximum of \$100 total cost per year (all patients).  |
| <b>Ireland</b>     | €1.50 per item (or €1.00 for over 70s), up to a maximum of €15 per month per person or family (€10 for over 70s). Separate, free Long Term Illness Scheme for some conditions. |
| <b>Germany</b>     | 10% of prescription cost, minimum €5, capped at maximum of €10 (all patients).   |

The poor relative outcomes of Australia's extreme two-tier co-payment arrangements were evident in a 2017 *Commonwealth Fund study*<sup>5</sup> that found that the proportion of adults with two or more chronic conditions who cited cost as a reason for skipping prescriptions or doses was between 30% and 500% higher in Australia than in France, Germany, the Netherlands, Norway, Sweden, and the United Kingdom, and only fared better than two countries without a universal medicines access program (the United States and Canada). The Commonwealth Fund concluded that Australia ranked third worst in cost-related non-adherence "due to its high copayment requirements" and recommended that Australia "could broaden access by reducing the standard copayment for prescriptions".

## THE CONSEQUENCES OF UNAFFORDABLE MEDICINES

Medicines are listed on the PBS only if they are cost-effective, as determined through the comprehensive Pharmaceutical Benefits Advisory Committee (PBAC) process. This process considers the benefits in terms of reduced mortality and morbidity, and lower costs to the health system, based on medicines being taken as prescribed. Non-adherence is a major reason for treatments shown to be efficacious in trials often being less effective in clinical practice<sup>6</sup>. Medication non-adherence, either through taking less of the medicine than prescribed, or not having the prescription filled at all, directly contributes to higher health care costs, including preventable hospital (re-)admissions and medical appointments.

Statement by the 2016 Compliance to Medicines Working Group (CMWG) to the Pharmaceutical Benefits Advisory Committee (PBAC):

*"The Pharmaceutical Benefits Scheme (PBS) subsidises medicines that improve health outcomes and provide value for money. Compliance with medication regimens is one factor that can influence the achievement of health outcomes and affect the cost-effectiveness of a medicine."*

[PBS Fact Sheet: CMWG Report to PBAC.](#)

A 2019 Australian study points to an estimated \$10.4 billion annual cost of medication non-adherence across only medications for *hypertension, dyslipidemia, and depression*<sup>7</sup>. Of the \$8.4 billion annual non-adherence cost post intervention, \$2.1 billion arose from the outpatient setting, \$1.9 billion from inpatient-related expenses, \$1.8 billion on prescription medications and \$1.6 billion were attributed to medical related costs such as general practitioner visits. For these chronic conditions, medications are prescribed to reduce the immediate and short-medium term risk of adverse health events. The resultant costs of non-adherence are therefore first round budgetary effects.

A disruption to continuing treatment for a chronic health condition can have significant health and quality of life consequences for a person, their family, and the community. Additional negative

<sup>5</sup> Commonwealth Fund, *Why Is the U.S. an Outlier? Issue Brief*

[https://www.commonwealthfund.org/sites/default/files/documents/\\_\\_\\_media\\_files\\_publications\\_issue\\_brief\\_2017\\_oct\\_sarnak\\_paying\\_for\\_rx\\_ib\\_v2.pdf](https://www.commonwealthfund.org/sites/default/files/documents/___media_files_publications_issue_brief_2017_oct_sarnak_paying_for_rx_ib_v2.pdf) 2017 Oct 1;2017:1-14. PMID: 28990747. Exhibit 7

<sup>6</sup> Usherwood T. Encouraging adherence to long term medication. *Aust Prescr* 2017;40:147-

50. <https://doi.org/10.18773/austprescr.2017.050>

<sup>7</sup> Cutler, Rachelle Louise et al. "Pharmacist-led medication non-adherence intervention: reducing the economic burden placed on the Australian health care system." *Patient preference and adherence* vol. 13 853-862. 23 May. 2019, doi:10.2147/PPA.S191482.

economic impacts of medication non-adherence include reduced labour force participation and productivity, with flow-on effects to reduced economic growth and lower tax revenue. The Organisation for Economic Cooperation and Development (OECD) has also noted the high costs of non-adherence and concluded that investing in medication adherence improves health outcomes and health system efficiency<sup>8</sup>.



\* Rachelle Louise Cutler, Andrea Torres-Robles, Elyssa Wiecek, Barry Drake, Naomi Van der Linden, Shalom I (Charlie) Benrimol, Victoria Garcia-Cardenas Pharmacist-led medication non-adherence intervention: reducing the economic burden placed on the Australian health care system, *Patient Preference and Adherence*, 2019:13 pp. 853-862.

## BUDGET COST AND SAVINGS OFFSETS FROM BIOSIMILAR UPTAKE MEASURES

The estimated cost of the further co-payment reductions to the Federal Budget over 4 financial years from 2023-24 is \$2,244 million. **The Guild estimates that this cost will be largely offset by a proposed biosimilars uptake reform.** Details of this reform and the associated net budget impact estimates for the proposed package of measures are provided below.

### Biosimilar medicines uptake measures

Biosimilar medicines have long been recognised as a significant savings opportunity for Government. Biologics and biosimilars have unique characteristics and different market dynamics to other PBS medicines. However, there are currently no PBS pricing policies or patient-directed incentives implemented specifically for biologic and biosimilar medicines. This is limiting the impact of price disclosure on these medicines and reducing the confidence of potential market entrants.

Biosimilar uptake has also been low (relative to the much higher substitution rates for generic medicines) mainly due to the low number of biosimilars available through community pharmacy with medicines such as *epoetin*, *filgrastim*, *trastuzumab*, *rituximab* and *infliximab* largely requiring administration via infusion in a hospital or health clinic setting. As self-administered biologic medicines come off patent, there will be greater opportunity for savings as these are more frequently dispensed from community pharmacy.

With an aim of biosimilar substitution of 70-80% from the suite of policy changes proposed by the Guild, and the resultant large increase to volumes of biosimilar medicines, the Government

<sup>8</sup> Khan, Rabia & Socha, Karolina. (2018). Investing in medication adherence improves health outcomes and health system efficiency: Adherence to medicines for diabetes, hypertension, and hyperlipidaemia <https://tinyurl.com/ybo3qg3w>. 10.1787/8178962c-en.



would be in a position to negotiate with the biosimilars sector for a further and immediate reduction of 10% to the Approved Ex-Manufacturer Price (AEMP) for biosimilar medicines.

### Biosimilar medicines: facts and statistics

- In financial year 2020-21, the top 25 biologic medicines accounted for over \$3.8 billion in PBS government cost, and they represent the fastest growing segment of PBS spending.<sup>9</sup>
- Countries including Finland, Greece, Italy, Poland and Denmark are benefitting from biosimilar uptake success by increasing market access to treatments such as erythropoietin's (used to treat anaemia) and tumour necrosis factor (TNF) inhibitors (used to treat a range of autoimmune and immune-mediated disorders).
- The UK's National Health Scheme (NHS) reported savings of £110 million from low cost biosimilars of Humira® (adalimumab) since it came off patent in October 2018 and reports now indicate that the costs have reduced from an annual cost of £400 million to £100 million due to the uptake of biosimilars.
- In December 2022, the Ontario government became the most recent international jurisdiction to announce a policy of mandatory switching to biosimilar medicines. In September 2022, the European Medicines Agency issued a statement confirming that biosimilar medicines approved in the European Union (EU) are interchangeable with their reference medicine or with an equivalent biosimilar.

The Guild estimates that, over the 4 years to 30 June 2027, savings to the Government from the proposed policy changes related to biosimilar medicines would offset 59% of the cost of the Guild's co-payment reform proposal (see Table 2 below). The biosimilar savings would be derived from:

- the increase in patient contributions to the cost of the biologic if they choose to remain on the reference biologic,
- the greater impact of price disclosure as a result of the increase in substitution to biosimilars, and
- the 10% reduction in AEMP for biosimilar medicines.

Given the international evidence, and with the appropriate policies, support, and incentives, we can expect a biosimilar uptake of 70-80%. Such an outcome, however, will not be achieved by a single policy measure - there must be a multi-pronged approach to promote biosimilar uptakes with benefits for patients, clinicians, and government, including:

- Continuing and enhancing differential Authority requirements – making it simpler to prescribe a biosimilar, with Streamlined and Telephone Authority for biosimilars versus written Authority Required for reference biologics
- Changing the treatment failure requirements for biosimilars so that initiating a person on a biosimilar does not contribute to the treatment failure limits within a treatment cycle. While the limits vary according to the condition treated, this policy change will encourage specialists to prescribe biosimilars and will similarly be welcomed by patients and patient support groups
- Implementing a price differential in the patient co-payment between a biosimilar and the reference biologic through the introduction of a Specialised Medicines co-payment for formulary F2 biologic medicines. This will provide a very strong incentive for patients to use the biosimilar and clinicians will recognise the direct cost benefits for their patients.

<sup>9</sup> Department of Health and Aged Care, PBS Expenditure & Prescriptions 2021-22 (Tables 5(d) and 9(a))

### Complete Solution (from 1 July 2023)

- The General PBS co-payment to reduce from \$30 to \$19 on 1 July 2023.
- The Concessional PBS co-payment to be reduced from \$7.30 to \$6.30 on 1 July 2023.
- Replace the discretionary co-payment discount with the application of the across the board lowering of the co-payment to all eligible prescriptions (restoring equity and ensuring no patient pays more than they currently do).
- Alignment of indexation (from 1 January 2024) for the general patient co-payment with the dollar value increase to the concessional co-payment each year
- A biosimilar uptake package to be introduced from 1 July 2023, including:
  - A new Specialised Medicines general patient PBS co-payment to be introduced for F2 reference biologic medicines and set at \$30.
  - A new Specialised Medicines concessional patient PBS co-payment to be introduced for F2 reference biologic medicines and set at \$9.90 (this represents the same percentage increase to the applicable co-payment as for the General category compared to the proposed \$19 co-payment).
  - General patients to pay only \$19 if they choose a biosimilar alternative.
  - Concessional patients to pay only \$6.30 if they choose a biosimilar alternative.
  - Importantly, all patients would pay less than they currently do, while building in a price signal to incentivise biosimilar uptake.

Table 2

| Indicative Budget funding requirement  |  |
|--|--|
| <u>Budget Impact Element</u>   | <u>Total, 4 years<br/>from 2023-24</u> |
| <b>Reduced General and Concessional co-payments from 1 July 2023, and co-payment indexation reform</b> | \$2,244m                               |
| <b>LESS: Savings offsets (biosimilar reforms)</b>  | (\$1,324m)                             |
| <b>Net budget cost: \$920m</b>   |  |