Pharmac

The right prescription?

Dr Bryce Wilkinson

Prescription medicines in New Zealand are subsidised by the government-funded Community Pharmaceutical Budget (CPB), which is administered by the Pharmaceutical Management Agency, or Pharmac.

Pharmac decides which medicines will be subsidised and by how much. New Zealand is unique among OECD member countries in combining clinical and economic assessments and commercial negotiations in one entity that has a pre-set budget.

To find room in the capped CPB to both fund new medicines and to meet the demands of a growing and ageing population, Pharmac must achieve substantial price reductions – year in, year out. That challenge gives the agency a strong fiscal and commercial focus.

Pharmac's key achievement
Under Pharmac's watch, the annual per capita number of filled prescriptions in New Zealand has risen as unit prices have fallen. Overall, pharmaceutical subsidy spending has not increased relative to GDP.

In contrast, Australia is spending a lot more to subsidise prescription medicines than New Zealand, both in absolute terms and as a percentage of GDP. Yet, annual filled prescriptions per capita across the Tasman are now appreciably lower than in New Zealand. Before 2010, it was the other way around.

Pharmac has attracted international attention for its successes. In any country with a major local pharmaceutical industry, lower prices represent an internal wealth transfer. In New Zealand's case, lower prices for largely imported pharmaceutical medicines tend to increase national income.

Key weaknesses in New Zealand's arrangements
A widespread concern in the pharmaceutical industry is that the drive to achieve lower prices has unduly narrowed the range of subsidised medicines relative to other countries. It may also have led to delays in deciding if new medicines should be subsidised.

Another fear is that without Pharmac, New Zealand may fall behind in medical technologies and individual Kiwis may be denied access to the medicines they need.

Certainly, Pharmac's goal of achieving lower prices by granting sole subsidy status on medicines can distort prescribing choices. The open question is the net wellbeing benefit.

Assessment

The most serious weakness in current arrangements is that no one can know if it is improving Kiwi health and wellbeing. This is because no one knows what mix of prescription medicines Kiwis would be consuming – and at what price – if Pharmac and the CPB did not exist.

Ultimately, it is unclear what the problem is with private arrangements for medicines for which the CPB is the remedy.

This lack of clarity about the CPB's purpose creates an insoluble problem for public administration and accountability for wellbeing outcomes.

A common worry is that without the CPB, people in financial need might be denied access to some medicines. But the mainstream welfare system exists to help such people and cash is generally the best form of assistance for those in financial need. Cash is empowering and enhances choice and flexibility relative to assistance in-kind. Some private insurance policies provide a cash option.

The rationale for financially assisting struggling Kiwis does not justify subsidising selected prescription medicines for those who are not struggling financially. Governments do not tax people to pay for groceries on their behalf for obvious reasons.

The report rebuts the view that failing to subsidise a medicine is to deprive Kiwis of access to it. It finds no undue non-price barriers to accessing registered medicines. Why subsidise what medical professionals might advise people not in financial need to buy anyway?

Recommendations

Unless a clear public policy case to the contrary can be established, there should be a presumption against subsidising medicines for those not in financial need and in favour of a cash option for those who are in financial need.

The same presumption should be applied to any review of the maximum prescription charge for those not in financial need. Fiscally constrained governments in a post-Covid-19 world will need to reprioritise spending.

Another aspect for review is whether less reliance on taxes to pay for medicines might reduce Pharmac's commercial clout. A gradual shift away from the tax system would manage this risk.

The report recommends that Pharmac should be required to benchmark its price-negotiating achievements against international comparators rather than on the 'before and after' basis as it is now.

It also expresses concern that Pharmac's expanding role and pressure to make decisions on socio-economic grounds risks politicising the agency and undermining its evidence-based rigour and focus. Pharmac might be better left to do what it does well – maximising potential therapeutic efficacy within a limited budget.

ABOUT THE AUTHOR

Dr Bryce Wilkinson is a Senior Research Fellow with The New Zealand Initiative and Director of Capital Economics Limited. He has authored or co-authored reports for the Initiative on poverty, inequality and welfare; an assessment of social impact bonds; and several reports on fiscal policy, including *Fit for Purpose: Are Kiwis getting the government they pay for?* (2018).

Bryce holds a PhD in Economics from the University of Canterbury and was a New Zealand Harkness Fellow at Harvard University in the 1970s.

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