The Treasury

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

From: [3]
Sent: Wednesday, 4 April 2012 1:42 p.m.
To: ^MOF: Andrew Craig
Cc: Ruth Isaac; John MacCormick; Nicholas Green; @Aide Memoires; [3]
Subject: Recommendations for co-payment changes
Attachments: Aide Memoire: Recommendations for changes to pharmaceutical co-payments; Recommendations for co-payment changes

Hi AC,

Please find attached an aide memoire and recommendations for changes to pharmaceutical co-payments for decision at fiscal issues this afternoon.

Please get in touch if you have any questions.

Cheers,
[3]

[3] | Analyst, Health and Housing | **The Treasury**
[3]

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Date: 4 April 2012

THE TREASURY
Kaitohutohu Kaupapa Rawa

To: Minister of Finance

Aide Memoire: Recommendations for changes to pharmaceutical co-payments

1. This aide memoire provides recommendations for changes to pharmaceutical co-payments for Budget 2012.

Comment

2. Increasing pharmaceutical co-payments will better target subsidies on pharmaceuticals and generate savings for the Crown.

3. The Ministry of Health is preparing advice for Minister Ryall on increasing pharmaceutical co-payments and is due to deliver this to him tomorrow. We have not yet seen their advice.

4. There are three main choices on changes to co-payments:

   - amount of the maximum co-payment;
   - whether the maximum co-payment is a flat rate, or the patient is charged the lesser of the maximum co-payment and the cost to the pharmacy; and
   - whether there are any exemptions from the increase in the maximum co-payment (in addition to current entitlements for children under 6 and subsidy card holders).

5. A flat rate maximum co-payment will generate more savings. However, it would result in some patients paying more than the actual cost of providing and dispensing the drug. The national pharmacy contract would need to be altered to ensure that pharmacists pass on the additional revenue to the Crown and to minimise any increase in private transactions which would impact on Pharmac's bargaining power.

6. Treasury recommends an increase in the maximum co-payment from $3 to $10, where the patient pays the lesser of $10 or the cost to the pharmacy.

7. Treasury recommends exempting community service card holders only. Treasury does not support exempting people over 65 and under 18.

8. There are some implementation decisions which need to be worked through, including:

   - the mechanism for returning the savings to the Crown, whether by reducing DHB funding or through another mechanism;
   - how the co-payment regime will be implemented under the new pharmacy contract; and
   - changes to pharmacy, DHB and Ministry systems to implement the changes.

9. Treasury recommends deciding on the main parameters of a change to co-payments, and a corresponding savings amount to include in the budget, and directing the Ministry of Health to report back with detailed costings and an implementation plan to deliver the savings.

10. Any shortfall between the savings in the budget and the final recommended options should be met by additional options to generate savings from pharmaceuticals. Any additional savings achieved by changes in 2012/13 could be retained in Vote Health.

First contact: [3] **Analyst, Health and Housing** [3]

Responsible person: Ruth Isaac, Manager, Health and Housing [3]

Attachment: (Recommendations for co-payment changes:2310182)

Recommendations for changes to pharmaceutical co-payments

Treasury recommends that Ministers:

1. **note** that the average pharmaceutical co-payment has fallen from $4.71 in 2002/03 to $1.95 in 2010/11, in 2011 dollars;

2. **note** that an increase in the maximum co-payment to $10 is estimated to generate the following savings ($million per annum):

	Exemptions			
	None	**CSC holders only**	**65 and over and under 18 only**	**CSC holders and 65 and over and under 18**
$10 flat-rate co-payment	160 - 170	75 - 99	86.1	63.9
Maximum $10 variable co-payment	unquantified	65 - 85	72.1	53.5

3. **agree** to increase the targeting of pharmaceutical subsidies by increasing the maximum pharmaceutical co-payment from $3 to:

   EITHER

   3.1 a flat-rate of $10 on each prescription item;

   OR [supported by Treasury]

   3.2 the lesser of $10 or the cost to the pharmacy for each prescription item (where the cost to the pharmacy includes the cost of the medicine, mark-up, dispensing fee, and service fee);

4. **agree** to exempt the following groups from the increase:

   EITHER [supported by Treasury]

   4.1 community service card holders;

   OR

   4.2 people aged 65 and over, and under 18;

   OR

   4.3 community service card holders and people aged 65 and over, and under 18;

5. **agree** that the current entitlements for children under 6, prescription subsidy card holders and high-user card holders are unchanged;

6. **note** that the option supported by Treasury is estimated to generate savings of between $65 million and $85 million per annum;

7. **agree** to reduce Vote Health funding by **$50 million** in 2012/13 and **$75 million** per annum thereafter;

8. **note** that changes to appropriations to reflect the Vote Health savings are required by Tuesday 10 April, but it is not yet clear how the Minister of Health intends to give effect to these;

9. **note** that the simplest way to return the savings to the Crown is to reduce DHB population-based funding by the same amount as the reduction in Vote Health, to reflect their additional revenue from co-payments;

10. **direct** the Ministry of Health to report back to Cabinet with detailed recommendations for implementation of the changes to pharmaceutical co-payments, including:

    - detailed costings of the savings to be realised from the changes to co-payments;
    - changes to the Community Pharmaceutical Service Agreement;
    - additional options for savings from pharmaceuticals to meet any shortfall in the savings target; and
    - any consequential changes to pharmaceutical funding policy that may be desirable to ensure maximum cost-effectiveness of the fixed pharmaceutical budget (eg. enabling Pharmac to increase funding and reduce co-payments on specific medicines).