

The Treasury

Budget 2023 Information Release

July 2023

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Joe Mansell [TSY]

From: Caitlin Andrews [TSY]
Sent: Friday, 31 March 2023 1:33 pm
To: ^Parliament: Rose Boele van Hensbroek
Cc: ^Parliament: Jordan Ward; Jess Hewat [TSY]; Simon Duncan [TSY]; Sarah Bradley [TSY]
Subject: Co-payment initiative costings
Attachments: Estimated cost of removing prescription co-pay.docx

[IN-CONFIDENCE]

Kia ora Rose

For your reference, attached are the costings provided by the Ministry of Health to remove prescription co-payments for all New Zealanders.

Key points from our perspective:

- There is evidence to suggest a small proportion of adults are not collecting prescriptions due to cost, and as such this initiative is likely to positively contribute to health outcomes for New Zealanders.
- Implementing zero co-payments should be relatively easy (within one month)
- A number of large commercial providers have already removed co-payments for prescriptions (e.g. Countdown, Chemist Warehouse). We do not have a good understanding of what percentage of this funding would go to businesses already absorbing the cost of co-payments. We've heard informally that 10% of this funding could be passed on to relieve cost for business, not New Zealanders (although further work from the Ministry of Health would be required to confirm this). You may wish to consider targeting funding to reflect this.
- The Ministry of Health have been unable to identify the cost of schemes already subsidising prescription co-payments. We understand the main schemes, the Disability Allowance and High-use healthcare card have small uptake and are unlikely to materially offset the cost of zero co-payments.
- The costings present an upper and lower bound of increased demand for prescriptions as a result of zero co-payments. The Treasury is currently using the mid-point cost in their draft budget package advice. To mitigate risk, you may wish to consider the high-point cost in the first year and adjust if needed through Budget 2024. It will be unlikely that Te Whatu Ora will be able manage upside risk.
- We recommend a report back after one year to provide further information on uptake and the potential to realise savings from the Disability Allowance and High-use healthcare card.

Any questions let me know.

Thanks
Caitlin



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Estimated cost of removing prescription co-payments for all New Zealanders

We estimate the cost of removing prescription co-payments for all New Zealanders over 4 years as between \$636.1m – \$848.1m (with a middle point of \$706.8m).

We caution that the cost provided is an estimate based on current demand, and a potential increase in the number of prescriptions filled if the cost barrier is removed. In particular, we do not have data on the difference between the number of prescriptions written, and the number filled (column c).

| a | b | c | d | e | f |
|-----------|---|--|---------------------------------------|--|----------------------|
| FY | Estimated annual cost to consumers based on current demand (\$151.6m spent by patients in 2021/22 [proclaim data], with an average 2.5% increase annually based on increase over the last four years) | Estimated cost of the increase in the potential number of prescriptions filled if cost is removed as a barrier* | Total estimated cost mid-point | Low estimate | High estimate |
| | | | | The cost range was developed by estimating a likely cost midpoint based on current claims data, and the potential increase in the number of prescriptions filled if cost is removed as a barrier. A range is presented to accommodate the substantial uncertainty about this estimate, with a 10% downside risk and a 20% upside risk, given uncertainty about increased demand. | |
| 23/24 | \$159,270,818 | \$10,926,900 | \$170,197,718 | \$153,177,946 | \$204,237,261 |
| 24/25 | \$163,252,588 | \$11,200,073 | \$174,452,661 | \$157,007,395 | \$209,343,193 |
| 25/26 | \$167,333,903 | \$11,480,074 | \$178,813,977 | \$160,932,579 | \$214,576,773 |
| 26/27 | \$171,517,250 | \$11,767,076 | \$183,284,327 | \$164,955,894 | \$219,941,192 |
| | | | \$706,748,682 | \$636,073,814 | \$848,098,418 |

* Assumptions for column c

- 135,000 adults estimated by the [2021/22 New Zealand Health survey](#) as having had an ‘Unfilled prescription due to cost’. (This is defined as aged 15+ having got a prescription for themselves but not collecting one or more prescription items from the pharmacy because of cost, in the past 12 months).
- [38] – the mean cost of a prescription in 2022.
- We assume a mean of^[38] unclaimed prescriptions per person for those who answered the Health Survey saying that they had an unfilled prescription due to cost. This assumption will need to be tested.
- We have observed an annual secular increase in expenditure on prescriptions of on average 2.5% per year over the last four years.

Other notes:

- Currently people on the Disability Allowance are required to pay the co-payment for some prescriptions up front (so would be counted in the data in column a) and subsequently claim a reimbursement from Vote Social Development as part of their benefit. This reimbursement would no longer be required if the co-payment was removed. Work would be needed by MSD to estimate this offset.
- Removing prescription co-payments for all New Zealanders can be implemented quickly, within one month. Removing the prescription co-payment for all New Zealanders will mean abolishing the prescription subsidy scheme (under the Health Entitlement Cards Regulations 1993). We will need to begin a process to amend the regulations for clarity, but this does not impede removal of the prescription co-payment.
- The impact on demand of reducing co-payments will depend on other factors that affect decisions about whether to fill prescriptions, including access to pharmacies and access to a prescriber (particularly GPs). We expect the impact to vary across the population, with people on low incomes and those who have multiple medicines (e.g. people with long term conditions) the most responsive to the reduction in co-payment. International evidence finds that the price elasticity of demand for pharmaceuticals (i.e. the % change in demand occurring in response to a % change in price) is between -0.1 and -0.3, often close to -0.2.[1]
- It is possible that there will be improved health and reduced use of other potentially more costly health services among people whose uptake of medicines does increase when the co-payment is removed. A recent study found there might be a correlation between zero prescription co-payment and reduced hospitalisations in vulnerable populations with complex health needs: while this study does not control for other important variables, it does create a testable hypothesis.[2]

^[1] Detailed references and commentary can be provided.

^[2] Norris, P., Cousins, K., Horsburgh, S. et al. Impact of removing prescription co-payments on the use of costly health services: a pragmatic randomised controlled trial. BMC Health Serv Res 23, 31 (2023). <https://doi.org/10.1186/s12913-022-09011-0>