

# The Treasury

## Budget 2024 Information Release

### September 2024

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Reference: T2024/914

Date: 5 April 2024

To: Minister of Finance (Hon Nicola Willis)

## Budget 2024 Prescription Co-Payments

### Purpose

This Aide Memoire provides further context on the Budget 2024 Vote Health prescription co-payment initiative (15792), particularly the Pharmac funding component and the financial implications of different co-payment settings.

### Initiative Context

#### *Budget 2023*

At Budget 2023, the previous Government universally removed the standard \$5 prescription co-payment charge. Before this decision, only children under 14 and people who were eligible under the Prescription Subsidy Scheme were exempt from the co-payment charge<sup>1</sup>. The universal co-payment removal was enacted as of 1 July 2023. The previous Government provided \$706.746m across the forecast period to fund this initiative. \$88.149m of savings from Vote Social Development were also realised due to changes to the level of Temporary Additional Support and Disability Allowance paid.

#### *Budget 2024*

As per the Minister of Health's direction, the Ministry of Health submitted an initiative to reintroduce the prescription co-payment charge for Budget 2024, exempting people with a community services card (CSC) and people 65 and over. This initiative would return \$116.143m of net savings to the centre (*refer option 2*). These savings are relatively modest because:

- The proposed exempted groups (people with a CSC and 65+) consume a high proportion of filled prescriptions<sup>2</sup>; and
- Pharmac requires additional Combined Pharmaceutical Budget funding as discussed in the section below.

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<sup>1</sup> Under the Prescription Subsidy Scheme, once a person or family reach 20 prescription items in a year, they will not have to pay the prescription co-payment charge for any new prescriptions until 1 February the following year.

<sup>2</sup> Within the 75% of New Zealanders that receive at least 1 prescription, the median number of prescriptions per person aged 65+ is 21, compared to the median across all age groups of 7. In 2022/23, approximately 35%-40% of prescriptions qualified for zero co-payments under the Prescription Subsidy Scheme.

## **Pharmac Combined Pharmaceutical Budget funding**

Pharmac needs more funding to buy more medicines to meet the additional demand generated by removing the co-payment charge. There are challenges in assessing the impact of the policy and broader medicine growth drivers. Health officials note there is still uncertainty in terms of the underpinning assumptions, such as behavioural change from the settings change and forecasting future dispensing growth.

### *Budget 2023*

The initiative to remove prescription co-payments for all New Zealanders was added very late in the Budget 2023 process. Due to the pace at which the initiative was progressed, the impact on Pharmac's Combined Pharmaceutical Budget was not considered and had to be addressed post-Budget.

In May 2023, following further advice from officials, Ministers agreed to transfer \$21.8m from Health New Zealand's funding from the original bid to Pharmac's Combined Pharmaceutical Budget to account for the increase in filled prescriptions and therefore the need for increased medicine purchasing following the setting change. Pharmac noted that the cost could be higher than this due to the unknown behavioural impact of the policy. Partial 2023/24 funding was provided on the basis that further work was needed to understand the full impact once more data was available.

In the period July to November 2023, there was a 6.35% increase in filled prescription rate compared to July to November 2022, equating to 1.2 million filled prescriptions. However, health officials note that a significant proportion of this increase may be attributable to pre-existing underlying volume growth in prescriptions and therefore some uncertainty remains as to the true behavioural response to the policy.

### *Budget 2024*

Pharmac has advised that in the event that Combined Pharmaceutical Budget funding is not provided, it would have an estimated funding shortfall of \$23.8m for the 2023/24 year (due to the impact of the universal co-payment removal) and a total shortfall of \$153.5m across the forecast period (if the co-payment charge is reinstated with exemptions for CSC holders and people 65 and over). This estimate will be subject to change however, particularly in out years, as behaviours adjust to new settings and demand stabilises.

### *Recommended use of contingencies and reportbacks*

Given the uncertainties involved, Ministers could decide to place the Pharmac Combined Pharmaceutical Budget funding component of this initiative in contingency from 2025/26 onwards pending updated data on how the new settings impact prescription filling and the need to purchase additional medicines. We recommend that you and the Minister of Health direct health officials to report back later in 2024 on the impact of the prescription co-payment settings change as more data is available.

## **Financial implications of different co-payment settings**

You have different options available depending on which groups you want to exempt from the prescription co-payment charge and the extent you would like this initiative to

contribute to higher levels of savings for Budget 2024.<sup>3</sup> Under all options, children under 14 and people eligible for the Prescription Subsidy Scheme would remain exempt from paying the prescription co-payment charge.

**Option 1 – Maintain the current settings so no one pays the prescription co-payment charge (i.e. continue the Budget 2023 settings)**

	2023/24 (\$m)	2024/25 (\$m)	2025/26 (\$m)	2026/27 (\$m)	2027/28 (\$m)	Total operating (\$m)	Average operating per annum (\$m)
Savings from returned Health New Zealand funding <sup>4</sup>	-	-	-	-	-	-	
Pharmac CPB funding	23.780*	50.000	50.000	50.000	50.000	223.780	
<b>Total funding</b>	<b>23.780*</b>	<b>50.000</b>	<b>50.000</b>	<b>50.000</b>	<b>50.000</b>	<b>223.780</b>	<b>55.945</b>

\* Making the total funding for 2023/24 \$45.58m, as \$21.8m has already been provided.

**Option 2 – Reinstate the prescription co-payment charge, exempting people 65+ and people with a CSC (The Minister of Health’s submitted option and included in the current Budget 2024 package)**

	2023/24 (\$m)	2024/25 (\$m)	2025/26 (\$m)	2026/27 (\$m)	2027/28 (\$m)	Total operating (\$m)	Average operating per annum (\$m)
Savings from returned Health New Zealand funding	-	(70.979)	(64.586)	(66.201)	(67.856)	(269.622)	
Pharmac CPB funding	23.780	31.234	32.015	32.815	33.635	153.479	
<b>Net savings</b>	<b>23.780</b>	<b>(39.745)</b>	<b>(32.571)</b>	<b>(33.386)</b>	<b>(34.221)</b>	<b>(116.143)</b>	<b>(29.036)</b>

<sup>3</sup> Options 2 and 3’s costings provided by the Ministry of Health and Pharmac. Option 1 is Pharmac’s best estimate of costings at this time, but health officials would undertake further analysis if this option was progressed. Option 4 reverses the Budget 2023 initiative, but would also require further analysis to confirm final costings. The average operating per annum is the total operating cost over four years (for consistency with previous advice/other initiatives).

<sup>4</sup> Savings from a reduction in Health New Zealand payments to pharmacies.

**Option 3 – Reinstate the prescription co-payment charge, exempting people with a CSC**

	2023/24 (\$m)	2024/25 (\$m)	2025/26 (\$m)	2026/27 (\$m)	2027/28 (\$m)	Total operating (\$m)	Average operating per annum (\$m)
Savings from returned Health New Zealand funding	-	(105.858)	(90.433)	(92.693)	(95.011)	(383.995)	
Pharmac CPB funding	23.780	25.763	26.407	27.067	27.744	130.761	
<b>Net savings</b>	<b>23.780</b>	<b>(80.095)</b>	<b>(64.026)</b>	<b>(65.626)</b>	<b>(67.267)</b>	<b>(253.234)</b>	<b>(63.309)</b>

**Option 4 – Reinstate the prescription co-payment charge for everyone, including people 65+ and people with a CSC (i.e. reset to pre-Budget 2023 settings)**

	2023/24 (\$m)	2024/25 (\$m)	2025/26 (\$m)	2026/27 (\$m)	2027/28 (\$m)	Total operating (\$m)	Average operating per annum (\$m)
Savings from returned Health New Zealand funding	-	(174.452)	(178.813)	(183.284)	(183.284)	(719.833)	
Vote Social Development funding	-	25.381	25.090	24.913	24.913	100.297	
Pharmac CPB funding	23.780	-	-	-	-	23.780	
<b>Net savings</b>	<b>23.780</b>	<b>(149.071)</b>	<b>(153.723)</b>	<b>(158.371)</b>	<b>(158.371)</b>	<b>(595.756)</b>	<b>(148.939)</b>

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