Financing of pharmaceutical expenditure

In all OECD countries, pharmaceuticals are financed by a mix of public and private spending. Tax-funded schemes or social health insurance cover a significant amount of prescribed pharmaceuticals in most countries, sometimes complemented by private health insurance. Patients typically have to cover some part of the cost of prescription drugs themselves, although exemptions often exist for vulnerable segments of the population such as children, the elderly and patients suffering from certain chronic illnesses. Over-the-counter (OTC) pharmaceuticals are normally financed entirely by private households.

Pharmaceutical spending represents around 1.4% of GDP on average across OECD countries ranging from 0.5% in Denmark to 2.8% in Greece (Figure 10.3). Public funds represent slightly less than 60% on average – just under 1% of GDP across OECD countries. However, this share is significantly higher in Japan (1.5%) and Greece (1.9%) and much lower in Denmark and Norway (both 0.3%). The proportion of private expenditure in GDP is highest in Hungary and the United States (both 1.3%), and also high in Canada (1.0%).

Public protection against the costs of pharmaceuticals is not as developed as for other health services, such as inpatient and outpatient care (Figure 10.4). On average across OECD countries, the public sector covered a much higher proportion of the costs of health services (79%) compared with pharmaceuticals (57%) in 2013. This is true for all countries with the exception of Greece where public coverage for pharmaceuticals is higher (67% vs. 64%). Public coverage for pharmaceuticals is high in countries such as France, Japan and Germany where coverage by public financing schemes accounts for 70% or more of total costs. Private sources have to cover more than half of the total pharmaceutical bill in eight OECD countries, with public coverage being the lowest in Poland (32%), the United States (34%) and Canada (36%). However, in the United States and Canada, private health insurance plays a significant role in covering parts of the pharmaceutical costs for patients. Poland reports large spending on privately financed OTC pharmaceuticals.

The growth in public spending on pharmaceuticals has remained below total health spending growth over the last decade (see Indicator "Pharmaceutical expenditure") with recent growth rates in sharp decline as compared to pre-crisis years (Figure 10.5). Between 2009 and 2013, public expenditure on pharmaceuticals dropped by 3.2% on average across OECD countries while it increased by 2.7% each year in the 2005-09 period. The reduction was particularly steep in Portugal (-11.1%), Denmark (-10.4%) and Iceland (-9.9%). Greece and the Netherlands have also seen significant reversals in growth of public pharmaceutical spending following the crisis compared to the pre-crisis period. The reduction in public spending on pharmaceuticals has not been restricted to Europe. Public spending also came down in Canada and Australia (both -2.1%). Japan, on the other hand, continues to see substantial annual increases (4.9%).

Reduction of public pharmaceutical spending in most OECD countries was achieved by a wide range of policy measures (see Indicator "Pharmaceutical expenditure"), including reforms that have aimed to shift some of the burden of pharmaceutical spending away from the public purse to private payers. These measures included the delisting of products (i.e. excluding them from reimbursement) and the introduction or increase of user charges for retail prescription drugs (Belloni et al., forthcoming). In recent years, measures of this kind have been taken by around a dozen OECD countries. Ireland, for example, introduced a 50-cent prescription fee for Medical Card holders in 2010 which was subsequently increased. At the same time, the monthly drug reimbursement threshold was raised by 20% to EUR 120 for non-Medical Card holders, followed by subsequent increases. As a result of these policy measures, the share of private financing of pharmaceuticals has increased substantially in a number of countries. In Spain, 39% of pharmaceutical costs were covered out-of-pocket in 2013, up from 24% in 2009. In Greece and Iceland, the proportion of pharmaceutical spending paid for by households directly went up by 10 percentage points or more since 2009.

Definition and comparability

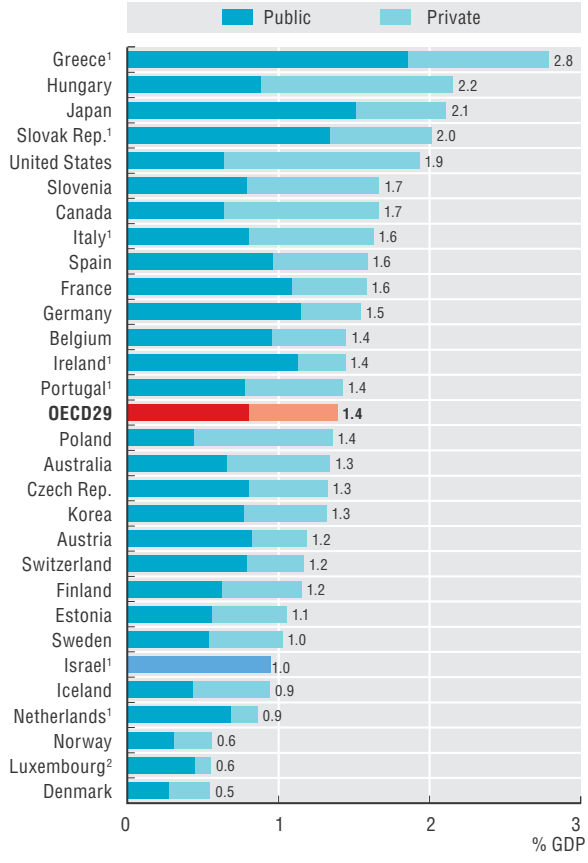
See indicator on pharmaceutical expenditure for definition of what is included and possible limitations. See indicator on financing of health care for definition of "public" and "private" spending on health.

Health services refer to inpatient and outpatient care (including day cases), long-term health care and auxiliary services.

References

Belloni, A., D. Morgan and V. Paris (forthcoming), "Pharmaceutical Expenditure and Policies: Past Trends and Future Challenges", *OECD Working Paper*, OECD Publishing, Paris.

10.3. Expenditure on pharmaceuticals as a share of GDP, 2013 (or nearest year)

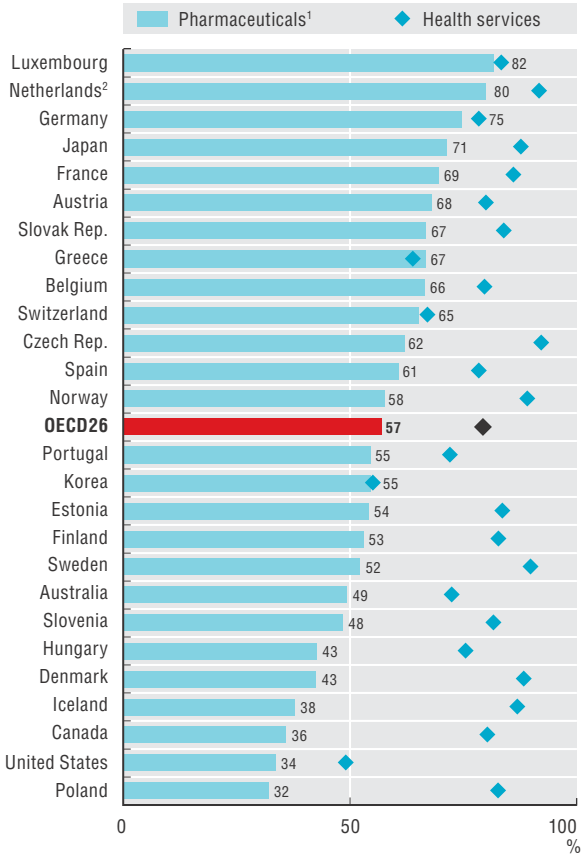


1. Includes medical non-durables.
2. Excludes spending on over-the-counter medicines.

Source: OECD Health Statistics 2015, http://dx.doi.org/10.1787/health-data-en.

StatLink http://dx.doi.org/10.1787/888933281325

10.4. Public share of expenditure on health services and goods, 2013 (or nearest year)

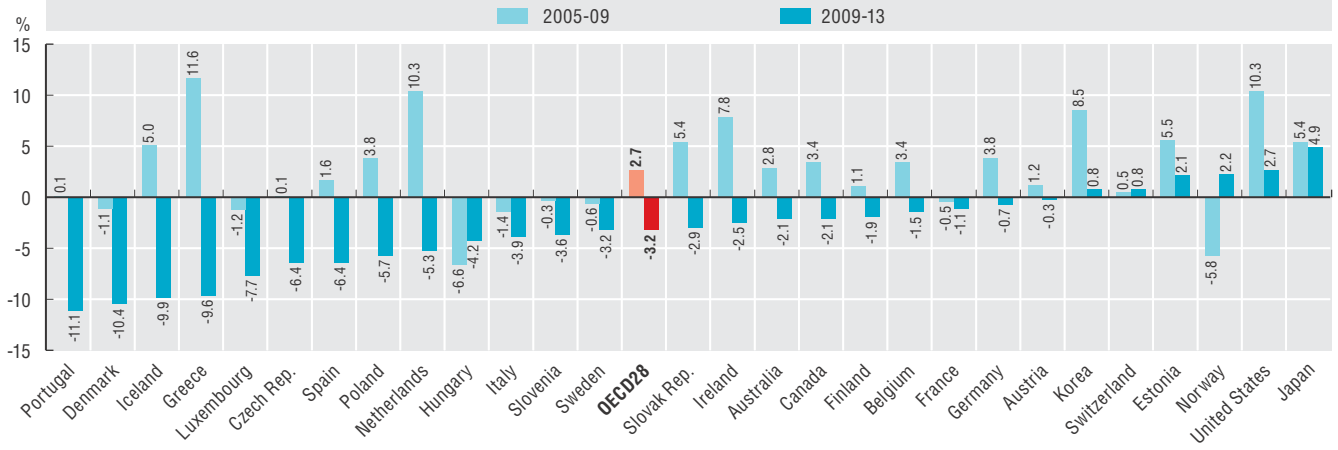


1. Includes medical non-durables.
2. The shares for the Netherlands are overestimated as they include compulsory co-payments by patients to health insurers.

Source: OECD Health Statistics 2015, http://dx.doi.org/10.1787/health-data-en.

StatLink http://dx.doi.org/10.1787/888933281325

10.5. Average annual growth in public pharmaceutical expenditure[1] per capita, in real terms, 2005-09 and 2009-13 (or nearest periods)



1. Includes medical non-durables.

Source: OECD Health Statistics 2015, http://dx.doi.org/10.1787/health-data-en.

StatLink http://dx.doi.org/10.1787/888933281325

Information on data for Israel: *http://oe.cd/israel-disclaimer*