

Pharmaceutical expenditure

Pharmaceutical care is constantly evolving, with many novel drugs entering the market. These offer alternatives to existing treatments, and in some cases, the prospect of treating conditions previously considered incurable. However, the costs of new drugs can be very high, with significant implications for health care budgets. In 2017, retail pharmaceuticals accounted for almost one-fifth of all health care expenditure, and represented the third largest spending component in OECD countries after inpatient and outpatient care.

Across OECD countries, funding from governments and compulsory insurance schemes played the largest role in purchasing pharmaceuticals (Figure 10.1). On average, these schemes covered 58% of spending on retail pharmaceuticals. Most of the remainder is financed from household out-of-pocket payments; only 3% of spending is covered by voluntary insurance. In Germany and France, government and compulsory schemes cover 80% or more of pharmaceutical costs. By contrast, in Latvia, Poland and Lithuania, almost two-thirds of pharmaceutical spending was through out-of-pocket payments.

Spending for retail pharmaceuticals averaged USD 564 per person across OECD countries in 2017, adjusted for differences in purchasing power (Figure 10.2). Cross-country differences are marked, with spending more than double the average in the United States, followed by Switzerland and Japan. Per capita spending was lowest in Mexico and Denmark, at around half or less of the OECD average. Cross-country differences in spending reflect differences in distribution and dispensing patterns, the uptake of both generic and novel medicines, as well as pricing and procurement policies.

Most spending on retail pharmaceuticals is for prescription medicines (75%), with the remainder spent on over-the-counter (OTC) medicines (19%) and medical non-durables (5%). The costs of OTC medicines are typically borne by patients, though occasionally public payers or mandatory insurance schemes may contribute. Depending on country-specific legislation, some OTC medicines can be sold outside pharmacies, for example, in supermarkets, other retail stores or via the internet. Expenditure on OTC medicines in Poland is almost equal to that on prescription medicines, and accounted for almost a third of the total in Spain, Latvia and Australia.

Growth in retail pharmaceutical spending has fluctuated over the past decade across OECD countries, declining in the years during and after the financial crisis, but increasing again in recent years (see indicator on “Health expenditure by type of service” in Chapter 7). This reflects the actions of many governments in introducing cost-control measures such as de-listing of products (excluding them from reimbursement), cutting manufacturer prices and margins for pharmacists and wholesalers, and introducing or increasing user charges for retail prescription drugs (Belloni et al., 2016[1]).

Figure 10.3 compares growth rates of pharmaceutical spending in the retail sector and in hospitals for a selection

of OECD countries. In Greece, where a policy to reduce wasteful use of drugs was introduced, retail spending on pharmaceuticals has decreased substantially. Growth over the last decade has been positive in some countries, such as Germany and Canada, partly due to new high cost treatments – notably oncology treatments and hepatitis C drugs. Yet analysing retail pharmaceuticals only gives a partial picture of spending: the costs of pharmaceuticals used for hospital inpatient care can also be high, accounting on average for an additional 20% on top of retail spending. Growth in spending on hospital pharmaceuticals has generally been higher than that for retail medicines, with the highest rates in Korea and Iceland. Several countries, including Denmark, Finland and Portugal, experienced growth in hospital pharmaceutical expenditure at the same time as spending on retail drugs declined.

Definition and comparability

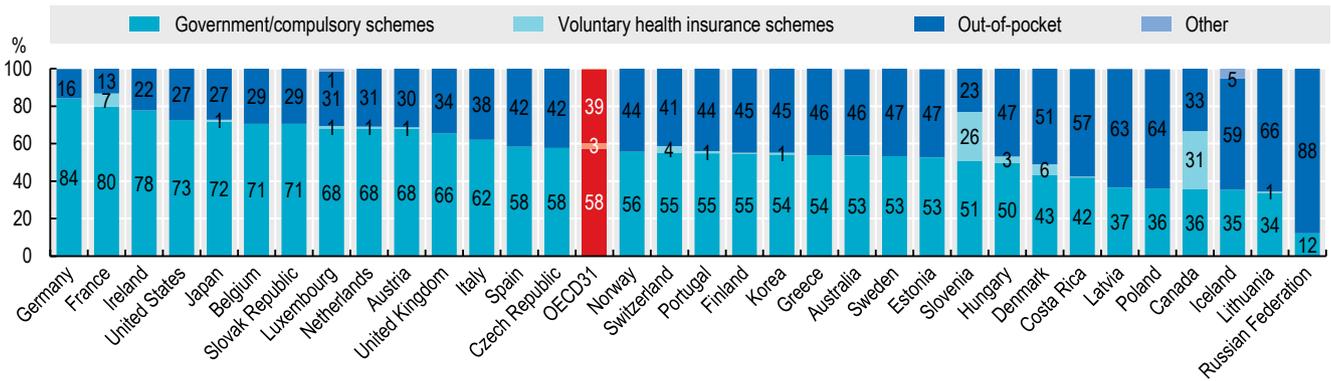
Pharmaceutical expenditure covers spending on prescription medicines and self-medication, the latter often referred to as over-the-counter products. Other medical non-durable goods (such as first aid kits and hypodermic syringes) are also included. It further includes pharmacists' remuneration when the latter is separate from the price of medicines. Retail pharmaceuticals are provided outside hospital care, such as those dispensed through a pharmacy or bought from a supermarket. Hospital pharmaceuticals include drugs administered or dispensed during an episode of hospital care.

Expenditure on retail pharmaceuticals includes wholesale and retail margins and value-added tax. Total pharmaceutical spending refers in most countries to “net” spending – i.e. adjusted for possible rebates payable by manufacturers, wholesalers or pharmacies. Pharmaceuticals consumed in hospitals and other health care settings as part of an inpatient or day-case treatment are excluded (available data suggests that their inclusion would add another 10-20% to retail pharmaceutical spending). Comparability issues exist regarding the administration and dispensing of pharmaceuticals for outpatients in hospitals. In some countries, the costs are included under curative care; in others, under pharmaceuticals.

References

- [1] Belloni, A., D. Morgan and V. Paris (2016), “Pharmaceutical Expenditure And Policies: Past Trends And Future Challenges”, *OECD Health Working Papers*, No. 87, OECD Publishing, Paris, <https://doi.org/10.1787/5jm0q1f4cdq7-en>.

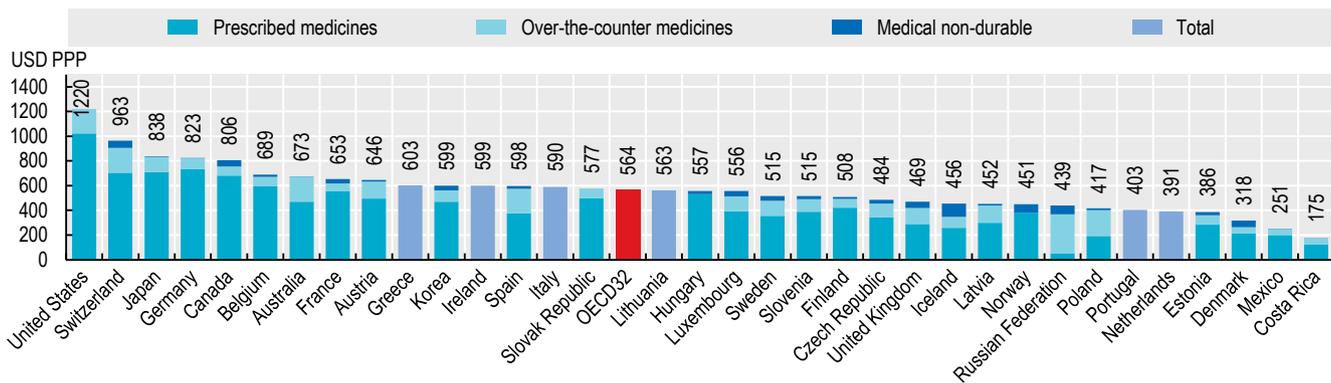
Figure 10.1. Expenditure on retail pharmaceuticals¹ by type of financing, 2017 (or nearest year)



Note: "Other" includes financing from non-profit-schemes, enterprises and the rest of the world.
 1. Includes medical non-durables.
 Source: OECD Health Statistics 2019.

StatLink <https://doi.org/10.1787/888934017994>

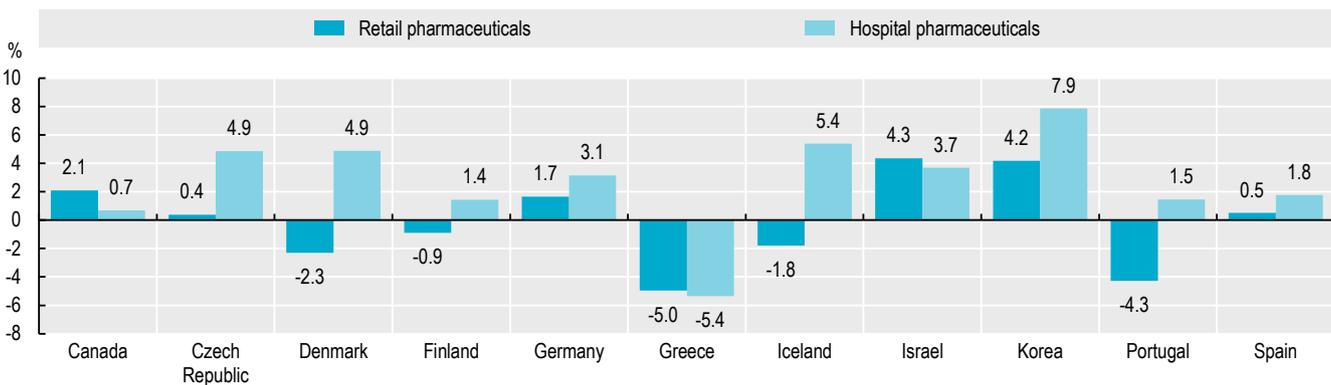
Figure 10.2. Expenditure on retail pharmaceuticals per capita, 2017 (or nearest year)



Source: OECD Health Statistics 2019.

StatLink <https://doi.org/10.1787/888934018013>

Figure 10.3. Annual average growth in retail and hospital pharmaceutical expenditure, in real terms, 2008-18 (or nearest year)



Note: OECD estimates for Portugal exclude expenditure on other medical products from retail spending.
 Source: OECD Health Statistics 2019.

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