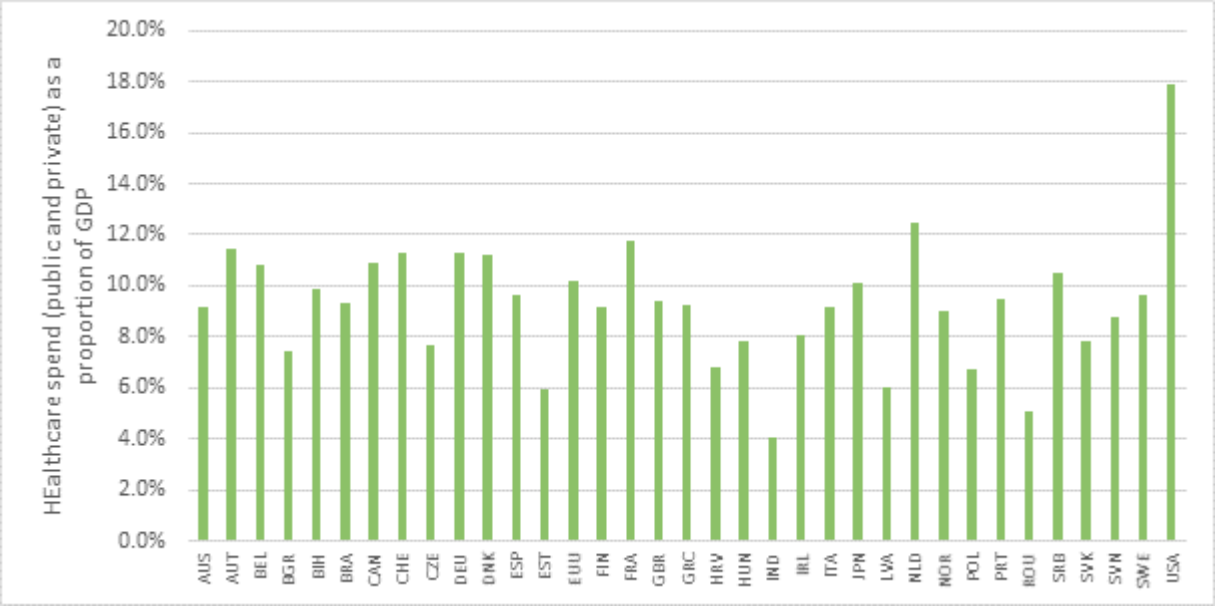
Healthcare in the headlights

That's the way the money goes

In an era of population growth, population aging and the seemingly inevitable expansion of chronic conditions (such as diabetes) the spotlight is more than ever before on health service budgets. We, the voting public, want high quality care, access to the best possible treatments and minimal delays in accessing that care – but we need good value for money.

Different healthcare systems operate in very different ways – and much is made of the comparison of the seemingly enormous amounts of money spent in the US (nearly 18% of GDP)[1] for, at face value, relatively poor overall outcomes. Establishing a ranking of healthcare systems can be problematic – after all, we do not really all agree on what the goal of a healthcare system should be - to save lives or to ensure that the quality of care is maximised – but we can learn from other systems and from differences in priorities in order to optimise spends and best meet the needs of a demanding patient population.

A recent publication from the Commonwealth fund, entitled "Mirror, Mirror on the Wall"[2], carefully analyses healthcare spend and different outcomes – but how much should we trust the findings and how good are European healthcare systems in general?



How much does healthcare cost?

There are huge disparities in spend, in relation to GDP, on healthcare across countries – partly driven by stage of economic development, partly by government and population philosophy towards health and partly by the legacy created within health systems.

Nevertheless, in a group of countries with similar development (for example within the EU) the range of spend on healthcare is relatively constrained – in the case of the EU at around 10% +/-2% of GDP or roughly $3,000 to $4,500 per individual[1].

So where does all the money go?

With $4,500 to spend on each of us in Europe – and a whopping $8,900 in the US – where does it all go to? This compares with 1.5-3 % spent on the military – although the US again tops the list with 4.2% of GDP spent on its armed forces – and 3-5% of GDP on education. So healthcare is a big deal.

Myth number 1: Pharmaceuticals eat up most of the budget

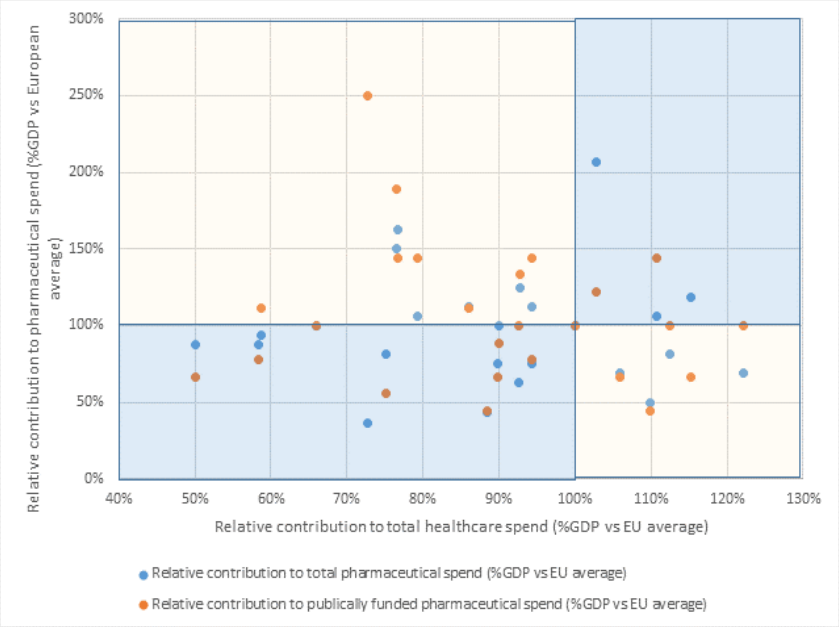
According to the OECD and based on Eurostat data, about 0.9% of GDP goes to fund public, and another 0.7% of GDP goes to fund private expenditure on pharmaceuticals in the EU. This means that around 16% of all healthcare spend in Europe is directed towards pharmaceuticals – including over the counter medicines.

Myth number 2: Pharmaceutical spend is rising inexorably and a proportion of the healthcare bill

The OECD also reveals the trend in terms of spend on pharmaceuticals over time – with some interesting results. It is true that from 2000 to 2009 the growth in real terms of spend on pharmaceuticals was around 3.3% per year for the EU as a whole. In some countries – for example Italy – spend on pharmaceuticals fell over the period. In 2010 there was no growth in Europe on pharmaceutical spend with many countries seeing savings versus the previous year.

In the same period (2000-2009), spend within the EU on healthcare in total rose by only 0.2% of GDP per year but, since GDP grew by roughly 1.6% over the period, actual total spend on healthcare rose by a little over 3.3% per year for the same period. In 2010, while pharmaceutical spend remained flat, healthcare spend in total continued to grow in Europe – all-be-it by a relatively modest 2%.

Looking at the relationship between healthcare spend (as a proportion of GDP) and pharmaceutical spend (again as a proportion of GDP either including or excluding private funding) no clear pattern emerges – see chart below. Two groups of countries are, however, particularly interesting:



Group 1: Pharmaceutical high spenders– those in the top-left of the chart where pharmaceutical expenditures as a proportion of GDP are high relative to their total spend on healthcare

Group 2: Pharmaceutical savers- those in the bottom right of the chart where pharmaceutical expenditures are relatively low

Group 1: the pharmaceutical high spenders

Here there are a few countries where either relatively low labour costs or relatively recent economic emergence mean that pharmaceutical cost increases have outstripped the pace of the change in the healthcare service in general: Bulgaria, Hungary, Slovakia and Slovenia. This is particularly true if we include the private sector sales of pharmaceuticals. In these countries, we might expect relatively high increases in overall healthcare costs still to come as the economies mature and recover from the relatively recent global economic crisis.

The consequences of the economic downturn are also being seen in some other hard hit markets – Spain and Ireland featuring in this sector as healthcare salaries have been slashed in line with harsh austerity principles.

Despite a relatively laborious market access process – involving protracted reimbursement negotiation – Portugal also features in this quadrant.

Group 2: Pharmaceutical savers

Three countries form the core of the pharmaceutical savers – spending relatively less on pharmaceuticals than on healthcare in general. These are: Austria, Denmark and Belgium. So how do these countries control pharmaceutical spend – and is it a good thing?

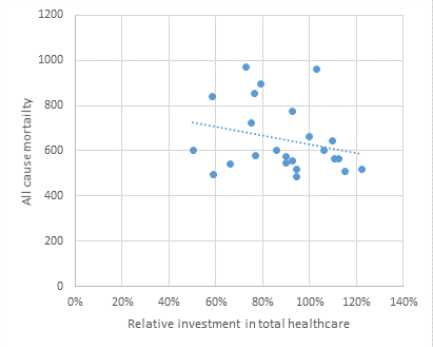
Austria has a strong healthcare system with a clear focus on prescribing behaviours. A simple “traffic light” scheme – green, yellow and no boxes are given to pharmaceuticals – coupled with systems and data few live to physicians (such as the relative pricing of drugs) make control of prescribing relatively straightforward. Of the 2000 or so products with a green box most are generics, with only 5-6% being classified as innovative medicines. In addition to difficulties in generating wide and unrestricted access, reimbursement negotiation can be a protracted process with the eventual results below the EU average – helping to further drive down costs.

The pathway to reimbursement in Belgium can also be long – frequently one year. Once on the market, price-volume relationships and external referencing are used to manage down reimbursed prices. At the same time, orphan and "expensive" drugs are evaluated on a case by case basis – adding complexity to the prescription process for healthcare professionals.

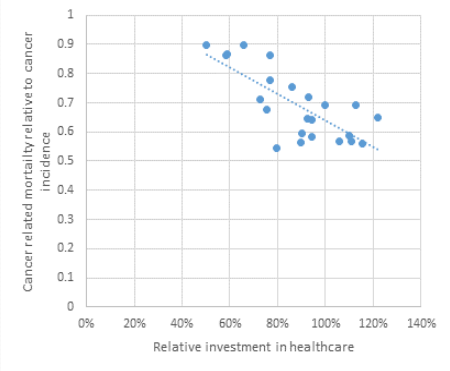
The Danish market is, at face value, a free pricing environment. However, in agreement with the industry a total cap on pharmaceutical growth of 1% per year has been in place since 2009 and relatively high patient co-payments (including sales tax at 25%) have limited the growth of more innovative products.

Does spending matter?

While we don't have comparable data for the quality and patient experience of healthcare across Europe, there are a few hard markers of impact of healthcare that can help to assess whether healthcare spend and/or spend on pharmaceuticals change the course of healthcare. While there are many confounding factors, there is a clear correlation between relative public investment in pharmaceutical spend and all-cause mortality.



Taking an area in which healthcare expenditure may be expected to impact outcome – here for example the relationship between the incidence of cancer and cancer related deaths – there is a very strong relationship between relative healthcare spend and outcome. This is true even within the limited window of difference that European countries offer.



As the authors of Mirror Mirror conclude, investment in healthcare does not answer every challenge offered – but, taking all things into consideration, access to pharmaceuticals and efficient investment in healthcare systems can still bring substantial health benefits. Exceptional performance can occasionally be seen with limited investment just as underperformance with excess spend can occur but, on the whole, additional investment links directly to improved health.

1. World Bank. World Development Indicators. at <http://data.worldbank.org/indicator/SH.XPD.TOTL.ZS>
2. The Commonwealth Fund. Mirror, Mirror on the Wall, 2014 Update: How the U.S. Health Care System Compares Internationally. (2014). at <http://www.commonwealthfund.org/publications/fund-reports/2014/jun/mirror-mirror?utm_source=twitter&utm_medium=social&utm_campaign=>

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