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The Paradox of Health Care & Pharma Costs

"Health care costs as a percentage of gross domestic product (GDP) have remained relatively stable over the past decade in many countries, with an increase of 1-2 percentage points, while drug costs as a percentage of health expenditure have mostly decreased."

Why are healthcare costs and cost-cutting measures so important in most countries? This newsletter examines possible reasons for this paradox:

pharmaLevers has pragmatically analysed key OECDⁱ economic and health data for Australia, Canada, Denmark, France, Germany, the Netherlands, Switzerland, the UK and the US for the 10 years period 2012-2021. The basket of countries includes countries from three continents with very different orientations of their health systems: free market economies or state orientations; financing through taxpayers' money or insurance; medical or economic evaluations.

Health Care spending as % of GDP

Despite these different orientations, health care costs as a percentage of GDP have risen by 1-2 percentage points in most of these countries within ten years. Some see this as a relatively stable situation. However, 1-2 percentage points of GDP are on the order of many national defense budgets or a significant portion of the education budget, which in many nations is around 5%. In addition, the gap between GDP and health growth rates has widened since 2019 and healthcare costs as a percentage of GDP in the EU27 have risen sharply [1].

"The 1-2% increase in health care costs as percentage of GDP is a challenge to affordability, as further growth is likely to come at the expense of other national budgets".

ⁱ <https://data.oecd.org/healthres/health-spending.htm#indicator-chart> ; <https://www.oecd.org/health/health-data.htm>

Table 1: Analysis of OECD data for nine countries for the 10-year period 2012 to 2021

Key Factors	% Growth (2021 vs. 2012)	Absolute Value (2021 vs. 2012)	To be considered
GDP Capita, US\$, PPP	28 % to 45 % (Median 36%)	+10'705 to +18'464 (US\$, capita, PPP)	<ul style="list-style-type: none"> Wage is only about 60% of GDP Out-of-pocket growth was between 10 % and 36% The growth of health care costs affects the individual budget
Health Spending Total, % of GDP	3.03 % to 22.07 % (Median 16.33 %)	+0.32 to +2.41 (Δ percentage point; Median +1.66)	<ul style="list-style-type: none"> The national defense budget in many countries is 1-2% of GDP National expenditure on education is often in the range of 5% of GDP An increase in health care costs of 1-2% of GDP is therefore relevant.
Pharma Spending Total, % of health spending	-23.87 % to 2.02 % (Median -19.09 %)	-3.67 to +0.21 (Δ percentage points; Median -1.88)	<ul style="list-style-type: none"> The overall cost of health care also increased due to other rapidly growing factors such as long-term care, prevention, administration. As a result, the percentage share of the pharmaceutical industry has decreased.

Country Basket: AUS, CAN, DNK, FRA, DEU, NLD, CHE, GBR, USA

Data: <https://oecd.org>; calculation & interpretation by pharmaLevers GmbH

Economic Challenges

GDP in the nine countries has grown by 28-45% (median 36%), which represents a growth in the order of 3.5% per year, which is also an acceptable annual growth rate for healthcare. However, we should acknowledge that GDP growth is not equal with individual income. In many countries, wages account for only 55-65% of GDPⁱⁱ. As a result, individual contributions to health care costs are becoming more difficult not only for insurance premiums, but also for out-of-pocket health spending, which has risen by around +31% (median) in the country basket from 2012 to 2021.

Pharmaceuticals spending in percent of health care

Based on the data in Figure 1, drug costs are expected to be a decreasing factor in rising healthcare costs. Their median decrease as a percentage of health care costs is -1.88 percentage points in the basket of countries. However, this is misleading: to make a comparison, all cost factors must be expressed as a percentage of total health expenditure. In a simple calculation, the same growth rates are used for inpatient, outpatient, and pharmaceutical services. Long-term care, prevention and administration are expected to have double growth rates. Within ten years, total healthcare costs increase and the share of pharmaceutical expenditure in total healthcare costs decreases. However, this also applies to inpatient and outpatient services. Another point to consider is whether hospitals' expenditure on pharmaceuticals is fully included in the data [1].

“Pharmaceuticals spending in percent of health care is misleading. Comparison must be made with each cost factor expressed as a percentage of health expenditure”.

ⁱⁱ <https://www.economiesuisse.ch/de/artikel/hohe-loehne-tiefe-ungleichheit-und-ein-attraktiver-standort>

Learnings

- Despite very different health systems, most OECD data are quite similar for all nine countries studied. However, in Denmark and the Netherlands, health expenditure as a percentage of GDP increased by less than 1 percentage point over ten years. Optimizations for other countries seem possible.
- With current growth rate of health care spending, AFFORDABILITY is getting an issue - an allocation battle with other spending sectors is to be expected.
- The key is to manage the growth rate of every single healthcare cost factor. All health care cost factors should be compared with their percentage share of total health care spending.

Consequences

1. *Keep total healthcare costs as a percentage of GDP stable over the long term*
2. *Manage the growth rate of every single healthcare cost factor. All health care cost factors should be compared with their percentage share of total healthcare expenditure.*

Limitation

This newsletter calculates and interprets OECD economic and health care data in a pragmatic way. No claim is made to completeness and correctness; additions, corrections and comments are welcome. AUS data for medicines and out-of-pocket expenses only cover up to 2020, while UK data for medicines and out-of-pocket expenses are only available from 2013 on. The U.S. differs in that healthcare spending as a percentage of GDP is much higher than in other countries. However, most of the other factors are comparable to the other eight countries, except for per capita spending, which is higher.

References

1. OECD. Health at a Glance: Europe 2022: State of Health in the EU Cycle [Internet]. OECD Publishing, Paris; 2022. (Health at a Glance: Europe). Available from: https://www.oecd-ilibrary.org/social-issues-migration-health/health-at-a-glance-europe-2022_507433b0-en

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