

# Price regulation associated with the Prostheses List Framework

Medibank's Submission to Senate Community Affairs  
References Committee

## Introduction

The disparity between Prostheses List pricing for private patients and public patients has long been a concern to Medibank as more than 138,000 of our customers receive an implantable prosthetic device each year.

Medibank is aware of some prostheses devices costing up to seven times more on the Prostheses List compared to prices paid in the public health system, as detailed in this submission.

This disparity is detrimental to consumers, private health insurers, and the Australian Government. Removing prostheses price disparity would allow for real cost savings for consumers – savings Medibank is committed to delivering to our customers.

More than 13 million Australians have some kind of private health insurance and more than 11 million have hospital cover<sup>1</sup>. Implantable prosthetic devices for nearly half of the nation's population often cost at least twice as much as for public patients treated in public hospitals.

The Commonwealth Department of Health states the Prostheses List is the list of surgically implanted prostheses, human tissue items and other medical devices that private health insurers must pay benefits for when they are provided to a patient with appropriate health insurance cover as part of hospital treatment or hospital substitute treatment, and there is a Medicare benefit payable for the professional service.

Private health insurance is an important part of our health system: last financial year Medibank paid for more than 1.3 million hospital admissions – admissions that would otherwise be through the public system.

In the 2015-16 financial year, Medibank spent \$540 million on prosthetic devices as part of the \$5.1 billion we spent on our customers' healthcare.

Moving the Prostheses List to a reference pricing system – using domestic and international benchmarks – will assist Medibank to keep premiums affordable and provide better value private health insurance in an environment of rising health needs and costs.

This submission to the Senate Community Affairs References Committee inquiry into *Price Regulation Associated with the Prostheses List Framework* details how the current system negatively impacts our 3.8 million customers and puts upward pressure on health insurance premiums.

## The role of private health insurance

Australians benefit from a health system that delivers effective and accessible care. However, the affordability of this system is under increasing challenge. Growth in total spending on healthcare increased by around 4.5 per cent per annum over the past decade in real terms, with non-government expenditure on health increasing at an average annual rate of 5.4 per cent – well above general inflation and real GDP growth<sup>2</sup>. The Commonwealth Treasury estimates that the Australian Government's real health expenditure per person will double over the next 40 years, with health expenditure to increase from 4.2 per cent to up to 7.1 per cent of GDP by 2054<sup>3</sup>.

At the same time, consumers are demanding greater transparency into their own health data and care.

Private health insurance plays an integral role in supporting Australia's health system by improving the quality, affordability and access to healthcare in Australia. Today, the majority of Australians – 13.4 million people – hold an insurance policy covering them for hospital and/or general treatment<sup>4</sup>. More than half of the Australians with private health insurance have incomes under \$50,000 per year, underscoring the need for health insurance to remain affordable.

<sup>1</sup> Australian Prudential Regulation Authority report *Private Health Insurance Quarterly Statistics September 2016* (published November 2016).

<sup>2</sup> Australian Institute of Health and Welfare report *Health expenditure Australia 2014-15* (published October 2016).

<sup>3</sup> Australian Government Treasury *2015 Intergenerational Report – Australia in 2055* (published March 2015).

<sup>4</sup> Australian Prudential Regulation Authority report *Private Health Insurance Quarterly Statistics September 2016* (published November 2016).

### Private health insurance helps Australians in two key ways:

- It provides a greater choice – choice of doctor, choice of hospital and choice of timing – and a range of benefits for consumers.
- It supports the public health system by reducing demand on that system.

Consumers with health insurance benefit from greater choice and control, such as choosing to be treated by one's own doctor, shorter waiting times for elective surgery, access to services not covered by Medicare (such as dental, optical and physiotherapy), and having more say over when and where to be treated.

### Private health insurance supports the public system in two key ways:

- Private health insurance funds two in every five hospital admissions in Australia, representing 33 per cent of all days of hospitalisation<sup>5</sup> which would otherwise be borne by the public system.
- The majority of elective surgeries (66 to 67 per cent) in Australia are performed in private hospitals<sup>6</sup>. This reduces waiting times for elective surgery and lowers demand for hospital beds in the public system.

Australians have access to excellent health care, due in large part to the complementary public and private health systems. However, a combination of demographic trends, industry dynamics and regulatory issues is making private health insurance less affordable, creating a need for careful and balanced reform.

## Soaring healthcare cost inflation

The Private Health Insurance (Prostheses) Rules detail the minimum benefit amounts that private health insurers are required to pay for listed devices. Some public bodies, such as the Australian Department of Veterans Affairs and the Transport Accident Commission in Victoria, also adopt Prostheses List pricing.

The current Prostheses List minimum benefit schedule, which is intended to ensure that health fund members have a minimum level of cover against the prosthesis cost, has had the unintended consequence of setting an artificially inflated price for surgically implantable devices for private patients.

This results in charges substantially above commercial prices, as demonstrated by the data Medibank has obtained from Tasmania, Queensland, Western Australia and South Australia (some of which is detailed in this submission), and those inflated prices are then worn by private health insurance customers via higher premiums.

The rules around the Prostheses List provide for lower charges to be permitted in the public hospital setting, but at least in some state systems, directives from State Governments prohibit lower prices being charged for prosthetic devices for private patients<sup>7</sup>.

Australians have experienced sustained average increases in their private health insurance premiums of around 5.6 per cent each year over the last decade<sup>8</sup>, reflecting soaring health cost inflation.

Costs are increasing because Australians are going to hospital more often – every time we are admitted, we are receiving more treatments and services than in the past, and the cost of treatments and services is also rising.

Since 2011, the number of hospital admissions per Medibank member has increased 19 per cent, and the average amount Medibank pays in benefits per admission has increased 10 per cent. This has seen average hospital benefits paid per member increase by 31 per cent.

Prostheses represent a significant amount of expenditure and Medibank spent \$540 million on our customers' implantable prosthetics in 2015-16. Current governance mechanisms for prostheses have led to benefit levels that are often two to five times higher than prices in comparable systems, both domestically and abroad.

<sup>5</sup> Australian Institute of Health and Welfare report *Australia's hospitals 2014-15 at a glance* (published July 2016).

<sup>6</sup> Australian Institute of Health and Welfare report *Admitted patient care 2014-15: Australian hospital statistics* (published March 2016).

<sup>7</sup> See: Private Health Insurance (Prostheses) Rules 2016 (No.4), paragraphs 9(3)(a) and 9(4)(a); Victorian Hospital Circular 22/2005;

NSW Health Policy Directive PD2006\_008; and WA Health Fees and Charges Manual (section 6.8).

<sup>8</sup> Average increase in premiums over the past 10 years for private health insurance industry, 2007-2016 inclusive.

Private Healthcare Australia states that the case for change to the Prostheses List pricing system is built on four key points:

- Historical regulatory conditions have driven and then entrenched highly inflated prices in Australia's private prostheses market and the current governance model in place to regulate these prices is flawed;
- International and domestic price benchmarks suggest that generally the Australian private health system is paying too much for prostheses;
- There is an imbalance between who benefits and who pays in the current system, with the value tilted heavily towards the multinational shareholders of manufacturers and providers at the expense of Australian consumers and taxpayers; and
- There is a lack of transparency into the true cost of prostheses in the health system and the extent of value disbursed through rebates or other incentives.

**Medibank has committed to returning every dollar saved through prostheses reform to customers.** But affordability remains a significant challenge and this is an opportunity to help us ensure private health insurance continues to provide valuable cover for Australians and alleviates pressure on the public system.

## Public vs private prostheses pricing

Inefficiencies in the regulatory environment for private health insurance that cause increased costs are borne by policyholders through their premiums and also partially by the Commonwealth via the Australian Government Rebate on private health insurance.

The impact of the current regime contributes to the affordability challenges of private health cover. If health insurance ceases to remain a viable alternative to the public health system, then the public system will be subject to even greater pressures.

Some examples of inefficient and inequitable pricing of prostheses are already part of the public record. Through a series of freedom of information requests, Medibank has obtained some data on prices paid for prosthetic devices by public health bodies in several states. Some of this data are detailed in the following examples.

### Example: coronary stent

One particular coronary stent used by the public health system in Western Australia has a stated purchase price of \$1,000, while its minimum benefit on the Prostheses List is \$3,450. In calendar year 2015, Medibank funded this particular stent 1,387 times. Paying benefits in accordance with the Prostheses List, Medibank's policyholders have potentially borne up to \$3.39 million of unnecessary cost for this one stent. As Medibank has approximately 28 per cent of the health insurance market, the unnecessary cost burden to private health insurers including Medibank would be in the order of \$12 million per annum for this one device.

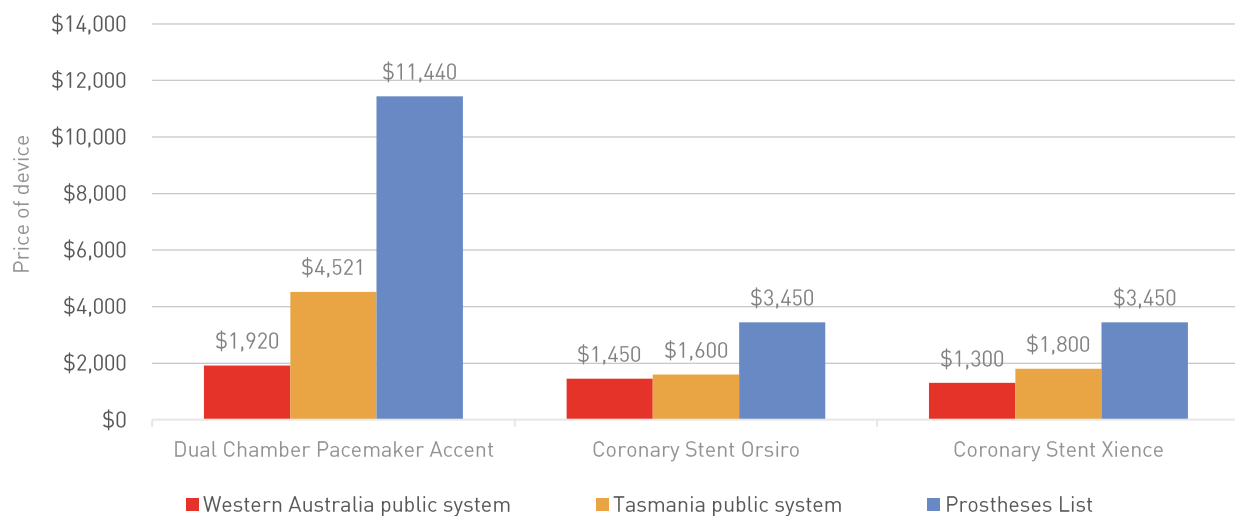
### Example: dual chamber pacemaker

Another Western Australian example is a particular Dual Chamber Pacemaker, which has a stated purchase price of \$1,920, available to state public health entities. The corresponding minimum benefit amount on the Prostheses List is \$11,440. In calendar year 2015, Medibank funded this particular pacemaker 328 times. Paying benefits in accordance with the Prostheses List, Medibank's policyholders have potentially borne up to \$3.12 million of unnecessary cost for this one pacemaker. As Medibank has approximately 28 per cent of the health insurance market, the unnecessary cost burden to private health insurers including Medibank would be in the order of \$11.15 million per annum for this one device.

### Example: implantable cardioverter defibrillator

One particular Dual Chamber Implantable Cardioverter Defibrillator (ICD) used by the public health system in Tasmania has a purchase price of \$26,685 while its minimum benefit on the Prostheses List is \$47,880. In calendar year 2015, Medibank funded this particular ICD 41 times. Paying benefits in accordance with the Prostheses List, Medibank's policyholders have potentially borne up to \$868,995 of unnecessary cost for this one defibrillator. As Medibank has approximately 28 per cent of the health insurance market, the unnecessary cost burden to private health insurers including Medibank would be in the order of \$3.1 million per annum for this one device.

### Examples of differences in pricing between the Prostheses List Minimum Benefit amount and public sector pricing <sup>9 10</sup>



<sup>9</sup> Tasmanian data is from the Royal Hobart Hospital.

<sup>10</sup> The price illustrated here is the buy price not the net cost of the device to the purchasing agency or hospital. The net cost would take into account rebates, volume discounts, price discounts on disposable items and capital equipment price discounts, which may result in a lower net cost.

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## Differences in pricing between the public sector and the Prostheses List Minimum Benefit amounts

*This analysis illustrates public sector prosthesis price data for a range of public hospitals or state purchasing agencies, at the point of supply, and contrasts them to the Prostheses List prices (otherwise known as the 'minimum benefit amount' that private health insurers are required to pay). This is an analysis of the buy price, not the net cost, of the device to the purchasing agency or hospital.*

Category	Assessment body	Device	Example of public sector price	Prostheses List (PL) price	Difference between state and PL prices <sup>11</sup>
Cardiac	Coronary Stents	Pro-Kinetic Energy	\$300 in Qld \$550 in Tas	\$1,248	316% 127%
Cardiac	Coronary Stents	XIENCE Xpedition Everolimus Eluting Coronary Stent System	\$1,300 in WA \$1,800 in Tas	\$3,450	165% 92%
Cardiac	CRT <sup>12</sup> Pacemakers	Allure Quadra RF PM3242	\$6,500 in WA \$7,349 in Tas	\$13,520	108% 84%
Cardiac	Dual Chamber Pacemakers	Accent MRI DR RF PM2224	\$1,920 in WA	\$11,440	496%
Cardiac	Dual Chamber Pacemakers	Entovis DR-T	\$5,147 in Tas	\$11,440	122%
Cardiac	ICDs with CRT	Quadra Assura MP CD3371-40Q/CD3371-40QC	\$16,000 in WA	\$52,750	230%
Cardiac	Remote Monitoring System	Cardio Messenger II-S 3G <sup>13</sup>	\$500 in WA	\$1,960	292%
Cardiac	Single Chamber ICD <sup>14</sup>	DYNAGEN ICD VR DF-4	\$11,500 in WA	\$46,510	304%
Neurosurgical	Dura defect repair	Duraform Dural Graft Implant - 4" x 5" (10x12.5cm)	\$1,361 in Tas	\$1,890	39%
Neurosurgical	Neuro Intervention	Target Detachable Coils	\$750 in Qld	\$1,505	101%
Neurosurgical	Neuro Intervention	Excelsior SL-10 & Excelsior 1018	\$500 in Qld	\$700	40%
Ophthalmic <sup>15</sup>	Posterior Chamber Intraocular Lenses	TECNIS® Toric 1-Piece IOL	\$460 in WA	\$1,042 (\$834)	127% [81%] <sup>16</sup>
Specialist Ortho-	Skeletal reconstruction	APTUS Hand and Foot	\$575 in Qld	\$1,402	144%
Specialist Ortho-	Upper Limb	SMR Reverse Humeral Body with Locking Screw	\$1,300 in SA	\$3,500 <sup>17</sup>	169%
Urogenital	Nephrostomy Catheters	Flexima Nephrostomy Catheter	\$15 in WA	\$120	700%
Vascular	Grafts	Intergard W - Woven Straight	\$346 in Qld	\$800	131%
Vascular	Stent Grafts	Advant PTFE V12 Stent Graft System	\$3,059 in Qld \$3,560 in Tas	\$4,185	37% 18%
Vascular	Vascular Stent	Pulsar 35 Peripheral self-expanding Nitinol stent system	\$1,200 in Qld	\$2,970	148%

<sup>11</sup> The difference between public sector prices obtained by Medibank and Prostheses List prices in 2014 or 2015, except where marked. See appendix for detail. Public sector price is used as the denominator.

<sup>12</sup> CRT = Cardiac resynchronisation therapy.

<sup>13</sup> Device listed in 2016, WA and Prostheses List prices are 2016 prices.

<sup>14</sup> ICD = Implantable cardioverter defibrillator.

<sup>15</sup> A 20 per cent discount on prostheses list prices appears to apply to all Ophthalmic devices in WA per a state government health directive - (OD 0159/08) 'Fees chargeable for the supply of surgically implantable prostheses fitted in Public Hospitals and Health Services' (File no: RSD-00135/06).

<sup>16</sup> In any instance where the pricing mechanism described in footnote 14 applies, the comparison price and difference will be as shown in brackets.

<sup>17</sup> Minimum benefit amount revised to \$2,580 in 2016 Prostheses List.

## Impacts beyond private patients

In addition to the impact on the 11.3 million Australians who have hospital cover, there are a number of other state and federal government entities that may have a similar interest in reform of Prostheses List pricing.

These bodies appear to reference the Prostheses List and reducing these prices in line with commercial pricing could also bring about savings to those schemes. This would benefit all Australian taxpayers – both those with health insurance and those without health insurance.

Government bodies appearing to use or reference Prostheses List pricing include:

- Department of Veterans' Affairs (Cth)
- WorkCover (NSW)
- Motor Accident Commission (SA)
- Return to Work Corporation (SA)
- Transport Accident Commission (Vic)
- WorkSafe (Vic)

## Improving value for money and affordability

Medibank has a fundamental stake in the health and wellbeing of our 3.8 million customers. We are working to provide greater value to our customers and to address the affordability challenges that the private healthcare industry faces.

Through our hospital contracts, we have worked collaboratively with our hospital partners to reach the best possible agreements to provide value for our customers including low or no out-of-pocket costs.

We have introduced an initiative to give 100 per cent back on annual dental check-ups which will benefit our 2.7 million customers with Extras cover. This can save a family of four up to \$400 a year.

We are continuing to invest in our primary care program, CareComplete, as one in five Australians is now living with two or more chronic conditions. We have recognised the need for a fresh approach to patient care that drives better outcomes and are collaborating with more than 1,400 GP clinics on this evidence-based approach.

Medibank is also leading the way in supporting the health of Australians through a model it has developed to predict and prevent health issues of its customers. From early 2017 Medibank will reach out to customers it identifies as likely to have high preventable health needs over the next 12 months to proactively offer support.

The model will let us provide a more personalised service for our customers, improve their quality of life, help them to stay out of hospital and take pressure off premiums and the healthcare system more broadly.

There is obviously more to do in improving the value of health insurance for Australians, but to really deliver improved savings and lower premium increases, reform is required across the whole sector including on Prostheses List pricing.

## Conclusion

The benefits that health insurers pay to hospitals have increased by an average of \$858 million each year in the last three years<sup>18</sup>. Regulatory reform of private health insurance is essential in keeping premiums affordable and we welcomed the Federal Government's announcement (October 2016) on the first stage of reforming the Prostheses List. We are returning every dollar of this saving to our customers.

To improve value for our customers we will continue to collaborate with all parts of the private health system to reduce inefficiencies and offer our customers access to high quality healthcare at more affordable rates.

Moving the Prostheses List to a reference pricing system – using domestic and international benchmarks – will assist Medibank to keep premiums affordable and provide better value private health insurance in an environment of rising health needs and costs.

We will continue to make a constructive contribution as part of the reform process to significantly improve the affordability of private health insurance for Australians and alleviate the pressure on the public system.

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<sup>18</sup> Australian Prudential Regulation Authority reports *The Operations of Private Health Insurers Annual Report*, 2013, 2014, 2015 and 2016.



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**Appendix - source and year of public hospital system data and Prostheses List minimum benefit comparisons**

State	Category	Source	Year of public data	Prostheses List reference year
WA	Ophthalmic	Health Corporate Network (no longer available online) in July 2015	2015	2015
	Cardiac		2015	2015
	Urogenital		2015	2015
SA	Specialist Ortho	FOI data received in 2016	2015	2015
Tas	Cardiac	RTI data received in 2015	2012/13 to 2014/15	2015
	Vascular			2015
	Neurosurgical			2015
Qld	Cardiac	RTI data received in 2016	2014, 2015	2014, 2015
	Specialist Ortho		2014, 2015	2014, 2015
	Vascular		2014, 2015	2014, 2015
	Neurosurgical		2014, 2015	2014, 2015