Australian Government
Department of Health

Committee: CA Leg. Committee

Tabled Document

Inquiry: 2017-18 Budget Estimates

Date: 29 May 2017

Witness: Senator Watt

Organisation: .....

COMMONWEALTH HOSPITAL BENEFIT

Australian Government
Department of Health

Commonwealth hospital benefit

- Pooling Commonwealth public hospital funding, in-hospital Medicare benefits, and the private health insurance rebate
- Using this funding to pay a Commonwealth hospital benefit for services provided in both public and private hospitals
- Objective is to improve technical efficiency and competitive neutrality
- It is not intended to address allocative efficiency

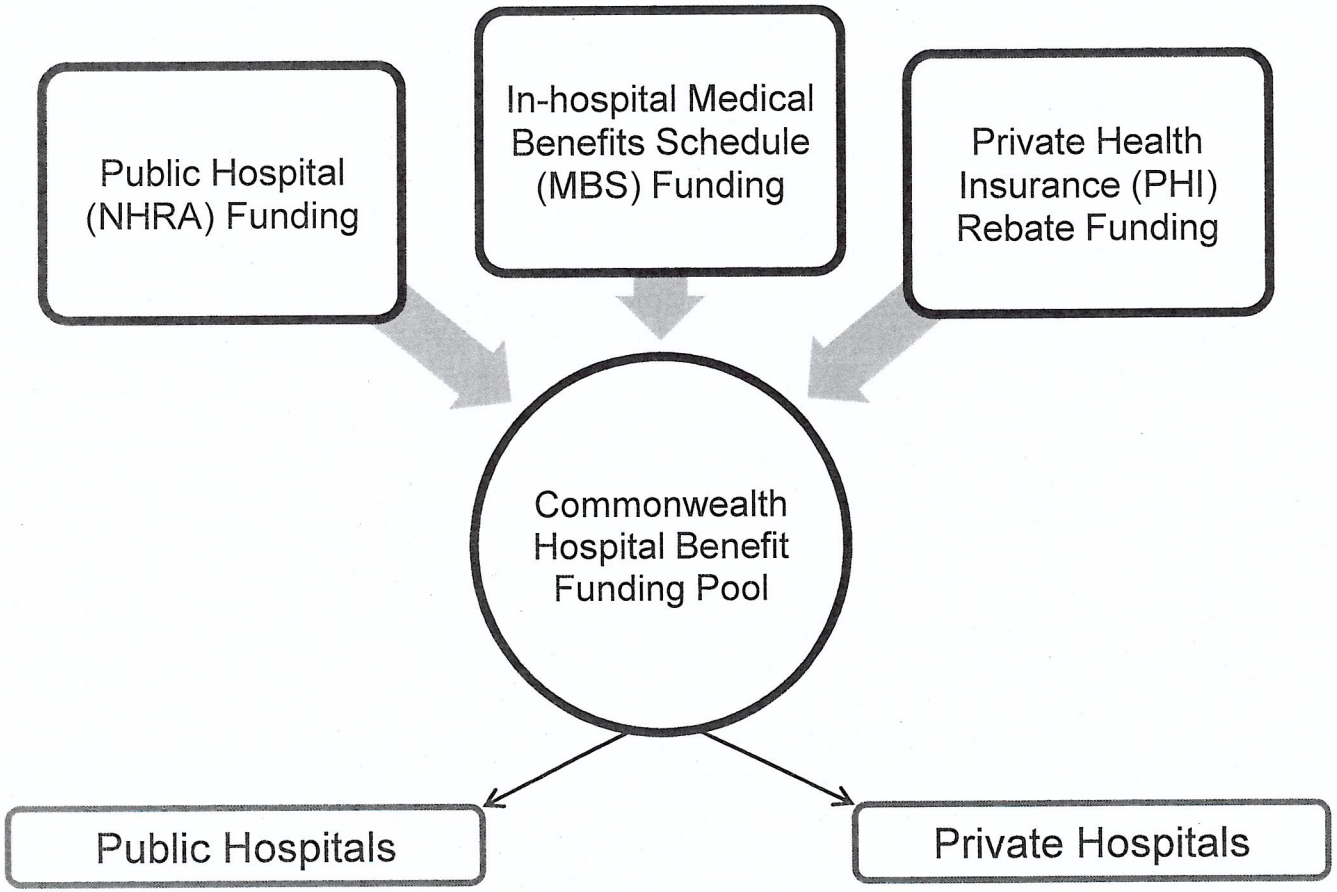
Australian Government
Department of Health

Commonwealth hospital benefit

- The Commonwealth pays a case-mix adjusted hospital benefit for all hospital services regardless of setting or insurance status
  - (other than veterans and compensable cases)
- The benefit would be set as a proportion of the national efficient price of delivering hospital services
- States would be required to meet the balance of the cost for public patients (thus maintaining free public hospital services)
- Private patients could take out insurance, or meet the balance of the costs themselves

Australian Government
Department of Health

Commonwealth hospital benefit - funding



Australian Government
Department of Health

Commonwealth hospital benefit - scope

- Commonwealth public hospital funding is currently paid for the scope of services determined by the Independent Hospital Pricing Authority
- In the private sector Commonwealth funding is largely limited to admitted patient services and does not cover services such as emergency departments
- The new benefit would begin by applying to all services included in the IHPA's scope, regardless of whether they were in a public or private hospital

Australian Government
Department of Health

Commonwealth hospital benefit - mechanics

Setting the benefit

- Benefit indexation – in line with the national efficient price set by the IHPA
- Benefit relativities – determined by the IHPA
- Scope of services – determined by the Minister only after advice from the IHPA

Private doctors' remuneration

- Currently doctors are paid with funds from MBS, insurers and patients' pockets
- It would be open for hospitals or insurers to negotiate a single payment for doctors

Australian Government
Department of Health

Commonwealth hospital benefit - benefits

- Improves equity of Commonwealth funding and competitive neutrality between states and sectors in the delivery of services
- Paying a benefit directly to hospitals would reduce administrative costs associated with administering the premium rebate and improve efficiency
- Basing benefits on a National Efficient Price would ensure continued pressure to improve technical efficiency in both the public and private sector
- Removes the Commonwealth's exposure to cost shifting activities involving reclassification of patients as private patients
- Potentially simplifies experience of private hospital patients in paying doctors' bills

Australian Government
Department of Health

Private Hospital Episode Indicative Example

CURRENT (Private Patient)		FUTURE (Private Patient)	
Medical		**Episode**	
MBS	**$600**	**Hospital benefit** [Note 1]	**$1,750**
PHI		**PHI**	
PHI rebate	$60	PHI premium	$2,550
PHI premium	$140	**Total PHI Benefit**	**$2,550**
Total PHI Benefit	**$200**	**Out-of-pocket** [Note 2]	**$700**
Out-of-pocket	**$200**	**Total Episode Costs**	**$5,000**
Total Medical Costs	**$1,000**		
Hospital			
PHI			
PHI rebate	$1,050		
PHI premium	$2,450		
Total PHI Benefit	**$3,500**		
Out-of-pocket	**$500**		
Total Hospital Costs	**$4,000**		
Total Episode Costs	**$5,000**		
Total Commonwealth	$1,710	Total Commonwealth	$1,750
Total Premiums	$2,590	Total Premiums	$2,550
Total Out-of-pocket	$700	Total Out-of-pocket	$700

Note 1: Assumption that the Hospital Benefit is 35% of the National Efficient Price (NEP).

Note 2: Assume total out-of-pockets are unchanged.

Commonwealth hospital benefit - issues

- Does not directly address problems arising from the division of responsibilities between the Commonwealth and the states
  - (Although it would assist in setting a common currency for hospital services to underpin funds pooling in coordinated care models).

- Removing the in-hospital MBS would require insurers or hospitals to reach agreements with the medical profession on the fee levels that would be reimbursed by insurers or bundled into a hospital episodic charge

Commonwealth hospital benefit – issues (2)

- There would no longer be any Commonwealth support for "general treatment" insurance products covering dental, physiotherapy, podiatry etc.
  - (However, over 90% of people with general treatment cover also hold hospital cover, and would be no worse off in aggregate if the existing subsidy was redirected from general treatment to a hospital benefit. It is important to note that this figure is an average and does not reflect the range of individual experiences.)