



Private Healthcare Australia
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Compensation for consumable items being removed from the Prostheses List

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Contact:

Ben Harris – Director Policy and Research

0418 110 863

ben.harris@pha.org.au

About Private Healthcare Australia

Private Healthcare Australia (PHA) is the Australian private health insurance industry's peak representative body. We have 24 registered health funds throughout Australia as members and collectively represent 98% of people covered by private health insurance. PHA member funds provide healthcare benefits for over 14 million Australians.

Background

Private Healthcare Australia supports the Australian Government in their program to modernise the Prostheses List, with significant progress underway on a range of issues. These reforms will go some way to reduce the burden on consumers from high prices but will still have Australian consumers paying more for medical devices than most of the world for many years to come.

As part of these reforms, the Australian Government has elected to remove 494 general items from the Prostheses List from 1 July 2023. This policy intent was flagged in 2019 and confirmed in the 2020-21 Federal Budget. Both the expert advice from Ernst & Young and the clinical oversight from the Department's reference group have determined that these items are general consumables in nature and should not be subsidised through the Prostheses List.

The previous government delayed the implementation of the Government's plan to remove consumable items from the Prostheses List from February 2022 to July 2023. Private health insurers have agreed that net savings delivered from medical device funding reforms will be returned to customers and members through lower premiums, thus this delay has cost consumers over \$30 million.

Consumable items currently on the Prostheses List are generally high-quality medical items that provide benefits to patients. Consumable items which are removed from the Prostheses List from 1 July 2023 will continue to be funded by private health insurance.

In August 2022, PHA circulated a proposed package to provide compensation for hospitals for the removal of general items from the Prostheses List. This package was based on previous usage, with discounted prices to reflect the high prices paid by Australian consumers.

Private Healthcare Australia (PHA) estimates the costs of the list of devices outlined in the consultation paper (as currently used) in the competitive market should be on average, around 65% of the June 2022 prices, differing significantly between product groups. Several of the product groups had significant price cuts in July 2022, reducing that gap by about half.

It may take hospitals some time to realise these market gains, thus the proposed support package was proposed to be eased in over three years.

The PHA proposal was rejected by hospital groups, and no alternative proposal was put forward. The Independent Hospital and Aged Care Pricing Authority (IHACPA) has been asked to provide advice to the sector on bundling arrangements that may be considered by funds and hospitals to come to an agreement on the level of compensation paid for consumable items being removed from the Prostheses List.

Overall policy approach

Private Healthcare Australia supports the Ernst & Young paper's conclusion that a per-item payment for some consumable items is a poor way to incentivise efficient care. A per-procedure price is less inefficient than a per-item payment, with larger bundles providing greater incentives for efficiency.

Our objective is to see patients gain access to a wide variety of items that provide real value when selected by the clinician and in appropriate quantities for their care. We also noted that the mere existence of an item and a requested price or benefit by a supplier does not ensure it should be funded at the level requested by the supplier and in unrestricted quantities. Value should be the guiding approach to this review and its conclusions. PHA support a benchmark of items used in the public system, where there is an implied cost effectiveness employed, as a sound initial proxy to guide the bundles for private patients.

We do not support the proposition that private patients should pay more for their care. Cost and clinical efficacy remain as equally critical in the private setting. A national efficient price framework, as used by IHPA for much of their work, is appropriate for examining the use of general items being removed from the Protheses List.

Pricing and volume benchmarks

International pricing benchmarks should be used – there is no case for Australians to pay more for any medical devices than people in comparable countries. While we support the commitment from the Federal Government in the 2021-22 budget in improving the alignment of the Protheses List scheduled benefits with prices paid in the public hospital system as a first step, this alignment should also include the volumes of devices used between the two systems (very high use of certain general items having been recognised in the private sector by Ernst & Young and the Department).

The very high prices for consumable items on the Protheses List means there is significant capacity for hospitals to increase profits substantially if they are able to use effective procurement processes. PHA have offered to provide further advice on international pricing benchmarks to assist hospitals with their procurement efforts. PHA recognises that it will take some time for hospitals to move to better procurement outcomes by using international benchmark prices.

The Ernst & Young report highlighted areas where hospitals may be able to reduce costs further by addressing volume control or package sizing issues. This must be done in conjunction with clinical staff, and PHA recognises that any volume savings should be retained by the hospital – it is not the business of private health insurers to dictate exactly which consumables should be used when the funding is bundled.

National efficient pricing

The methodology should be based on a national efficient price framework – if a procedure is most commonly done with a product, that is likely an efficient use of the item. If most procedures are done without a product, then that use is unlikely to be efficient. IHPA now has data on general item usage for private patients in the public sector, which may provide some insights. If public sector references are used for pricing, then public sector references should also be used for volume.

Median usage and costs should be used in preference to averages. A small proportion of procedures done with high-cost consumables (such as orthopaedic procedures using expensive haemostats rather than sutures) will drive up the average, where the median may be lower (or indeed, zero)

IHPA should report on the proportion of procedures utilising general items in each category, and:

- if fewer than half the procedures in a category use general items, then the efficient price is zero
- if more than half the procedures in a category use general items, then report the 25th percentile use (which may be zero), the median use and the 75th percentile use

Funds and hospitals will then have good information on which to base decisions about funding general items.

Response to consultation paper questions



Consultation questions

- Are you aware of any issues with the HCP data collection that may impact on the way it captures utilisation of General Use Items for private patient services? Please provide detailed examples that illustrate these issues where possible.
- Do you have any comments on the quality and utility of the proposed data sources for the development of advice on bundling arrangements for General Use Items? Please provide details.
- Are there any other sources of data or empirical information that may be useful in defining alternative bundling arrangements for General Use Items? If so, please identify the specific information and describe the way in which the information could be utilised.

We support the use of the HCP data collection.

In the attachment we provide some global comparative cost information for IHPA's consideration on efficient pricing. In particular, the government's policy documents have stressed that international pricing comparisons are appropriately used where the use of items is not common in the public sector.

PHA support the selected use of data sources and suggest, that ICD-10-AM/ACHI/ACS and MBS data between the public and private system will elicit evidence of low value care supported by the existing Prostheses List arrangements.



Consultation questions

- Do you support or oppose the use of the PL product classification within the design of General Use Item bundles? Please provide details in terms of the specific features of the PL classification.
- Do you support or oppose the use of the ICD-10-AM/ACHI/ACS classifications within the design of General Use Item bundles? Please provide details of any perceived issues or benefits regarding the use of these classifications.
- Do you support or oppose the use of hospital characteristics within the design of General Use Item bundles? Please provide details of any perceived issues or benefits regarding the use of hospital characteristics.
- Are there any other classification systems that IHACPA should incorporate in the design of General Use Item bundles? If so, please provide details of these classifications and a rationale for their use.

PHA supports the use of product classifications. We expect that there is little variation in the use of items such as staples; and we expect there will be wide variation in the use of sponges, glues and adhesion barriers. Low variation is likely to be a sign of efficient use, high variation is likely to include inefficiencies.

We support the use of globally and public based mechanisms for comparing private and public utilisation including ICD-10-AM/ACHI/ACS and MBS and see no reasons for these to differ substantially in benefit cost or utilisation between our public and private systems.

It is unclear why similar procedures should use different items depending on the characteristics of a hospital. For this issue to be considered would need explicit explanation as to why patients would benefit from the use of more consumable items in particular settings, and why such variation would be efficient use of resources.



Consultation questions

- Are you aware of any short-term changes, brought on by the impact of COVID-19, to the utilisation of General Use Items among episodes in which these items are used? If so, please provide details that enable the changes to be examined using the 2020–21 HCP data collection.
- Are you aware of any existing contracting arrangements between hospitals and insurers that might be considered relevant in the formulation of advice on

alternative bundling arrangements? If so, please provide details of the arrangements, noting that IHACPA will ensure confidentiality of this information wherever necessary.

- Are you aware of any instances where a General Use Item charge is raised against an individual episode but where the item is used across multiple episodes, such as might occur for multi-pack or multi-use type items? If so, please provide details.
- Are there any other issues of relevance to the formulation of advice on alternative bundling arrangements? If so, please provide details on these issues and their materiality with regard to the formulation of advice.

It is not clear why COVID would influence the use of consumable items which are to be removed from the Prostheses List. If this is a concern, IHACPA may consider using 2017-18 or 2018-19 benchmarks.

For contracting, funds and hospitals use a range of mechanisms and consider many factors. These can be considered by individual businesses as they consider the outcomes of this process as part of future contract negotiations.

If hospitals have been billing patients for items used by another person, or for items used for more than one patient, then they have been breaching their lawful obligations. PHA assumes that if this does occur, it would be very rare indeed.

Attachment: PREDICTION OF MARKET PRICING BY GENERAL ITEM CATEGORY

DRAFT ONLY, PROVIDED WITHOUT PREJUDICE TO AID DISCUSSION

Sub Category/Product Group from Part A PL	2020-21 usage and spend	Comments	Likely Negotiated
03.02 - Drug Delivery Devices (except 03.02.01 - Infusion Ports and 03.02.06 - Pharmaceutical Beads)	\$16.2M 111K units	<p>The Smiths systems would appear preferred by clinical staff and with low cost cannisters and reusable power systems. This would put pressure on the cost of more expensive On-Q systems.</p> <p>Use of cheaper devices and pressure to high priced devices to drop to remain competitive will drive down cost.</p> <p>Price cuts in 2022-23 will approximate 20%</p>	Costs already declining and that trend should continue. Significant savings of 25-50% across the category (including 2022-23 price cuts)
03.03 - Enteral Tubes	\$274K 1.2K units	<p>This group is unlikely to see significant savings, as volume and price are low.</p> <p>The volume growth over the last few years has been modest.</p> <p>Price cuts in 2022-23 will approximate 1-2%</p>	Minimal, estimated 10% drop over three years. (including 2022-23 price cuts)
03.05 - Haemostatic Devices	\$44.2M 186K units	<p>The growth in this groups is clearly not driven by surgery rates, with unit growth of 18.6% and cost growing at 44.5% strongly linked to two companies.</p> <p>With several companies in the market, prices should reduce rapidly. Pricing is a group issue, with Floseal, Surgiflo and Nasopore having very high prices on international comparison. Price competition against products such as Nasopore is very likely without PL protection, leading to prices approaching the international average.</p> <p>The EY report noted that there are also significant volume savings available by using the most appropriate product size.</p> <p>Haemostats are not a high emotion category, with doctors unlikely to object to less expensive options.</p> <p>Price cuts in 2022-23 will approximate 20%</p> <p><i>Examples:</i> HW582 Nasopore costs A\$136 (dropping to \$110 in July and then ~\$93 in March) on the PL, £25.65 (\$48) on the NHS BX259 FloSeal 10ml is around 35% of the category and costs A\$903/\$745/\$640 on the PL, R6051 (A\$551) in South Africa MN172 Surgiflo is around 25% of the category costs A\$903/\$745/\$640 on the PL, A\$350 in the Victorian public system and £203.50 (\$379) on the NHS.</p>	Very significant savings – 50-60% within four years (including 2022-23 price cuts), with additional savings available from a focus on aligning utilisation with indication and avoiding excessive billing.

Sub Category/Product Group from Part A PL	2020-21 usage and spend	Comments	Likely Negotiated
03.08.01 - Adhesion Barriers	\$5.5M 12.4K units	<p>A group that is effectively one small company Fziomed in California, distributed by a range of companies. The product is three times the price the exact code is in the NHS.</p> <p>Group also includes aged consumable items like Interceed which are standard surgical consumables, never fit for being on the PL.</p> <p>Significant opportunity for volume savings.</p> <p>There will be no price cuts in this category.</p> <p><i>Example:</i> FJ001 Oxiplex/AP Absorbable Adhesion Barrier Gel is 45% of the cost of the group. It costs A\$1173 on the PL (and won't change), £224.40 (\$418) on the NHS and R4851.56 (\$482) in South Africa</p>	Very significant savings – 60-70% within four years, with additional savings available from a focus on avoiding excessive billing.
03.08.02 - Internal Adhesives	\$48.1M 215K units	<p>The growth in this group is coming from the addition of already paid for Dermabond. The second driver is Evicel in Orthopaedics where it does not offer HTA value.</p> <p>Given the HTA lack of value for Evicel use in Orthopaedics, the price will likely drop dramatically back to international benchmarks. Prineo likewise will drop in price to protect volume, and competition from standard skin glues.</p> <p>The price on standard skin glues should drop to avoid competition from new entrants.</p> <p>Price cuts in 2022-23 will approximate 17%</p> <p><i>Example:</i> MN230 Dermabond Prineo costs A\$258/\$180/\$128 on the PL, and A\$99.50 in the NSW and Victorian public systems.</p>	Very significant savings – 50-60% within four years (including 2022-23 price cuts), with additional savings available from a focus on aligning utilisation with indication and avoiding excessive billing.
03.08.03 - Ligating Devices	\$26.7M 282K units (some items in this category are retained; the figures above are for the full category)	<p>A mature group that is unlikely to see much unit decline, however its mature status and the lack of competition in the market has left items over-priced. The long term outcome of this group will involve more balancing clinician choice keeping prices sticky with generic lower cost options possible to retain patented unique technologies as needed. More engaged competitive bidding with Applied Medical, Boston, Teleflex and Device Technologies will see generic clips and appliers fall significantly, but this will only appeal to some of the market as doctors have preferred products.</p> <p>Price cuts in 2022-23 will approximate 17%</p> <p><i>Example:</i> MI213 Endo Clip is A\$381/\$250/\$181 on the PL, and A\$265 on the NHS.</p>	PHA had estimated prices were likely to drift down up to 20%, so the 2022-23 price cuts have captured most of the excess value.
03.08.04 - Staples & Tackers	\$89M 263K units	<p>As above core workhorse unit groups of the PL. 86.6% of the group is between J&J and Medtronic. A price driven market may attract Device Technologies and Applied Medical to compete more aggressively.</p>	Prices likely to drift down up to 20% over four years (including 2022-23 price cuts).

Sub Category/Product Group from Part A PL	2020-21 usage and spend	Comments	Likely Negotiated
		<p>Clinicians need to play an active role in driving suppliers to sustain unrestricted choice. If the duopoly participants do not come to the table on a reasonable discount then hospitals and clinicians may shift to lower-cost suppliers.</p> <p>Price cuts in 2022-23 will approximate 1-2%</p> <p><i>Example:</i> AS186 Endo GIA reload is 35% of the cost of the group. It costs A\$323/\$320/\$318 on the PL, and A\$291 on the NHS.</p>	
03.08.11 - Dynamic Wound Closure Devices	nil	n/a	n/a
04.02.05 - Repair, Liquid Sealant (0 to 3ml)	\$270K <500 units	Most of these products are not used for dura closures. There is likely to be scope for substitution in non-dura applications.	Very significant savings – 40-50% within four years (including 2022-23 price cuts), with additional savings available from a focus on aligning utilisation with indication and avoiding excessive billing.
04.02.06 - Repair, Liquid Sealant (>3 to 6ml)	\$2.7M 3.6K units	<p>Price cuts in 2022-23 will approximate 18%</p> <p><i>Example:</i> MN203 Evicel costs A\$753/\$649/\$580 on the PL, and A\$375 in the UK.</p>	
04.02.07 - Repair, Self-Adhesive Membrane Sealant, Small (≤10cm ²)	n/a	This is a new product group in July 2021 PL, limited to a small number of MBS items, and Australian usage data are not available.	As no data are available, to be determined with case payments.
04.02.08 - Repair, Self-Adhesive Membrane Sealant, Medium (>10 to 50cm ²)	n/a	<p>This is a new product group in July 2021 PL, limited to a small number of MBS items, and Australian usage data are not available.</p> <p><i>Example:</i> BX343 Hemopatch is the only product in the group. It costs A\$505/\$452/\$417 on the PL, A\$393 in Spain and A\$520 in the UK.</p>	As no data are available, to be determined with case payments.
10.07.01 - Arterial Closure Devices	\$11.4M 34K units	<p>These items are significantly cheaper in New Zealand and other markets. There are two main suppliers to provide competitive tension.</p> <p>Price cuts in 2022-23 will approximate 10%</p> <p><i>Example:</i> The Terumo products are A\$332/\$307/\$290 on the PL. The price in New Zealand is A\$225.</p>	Prices likely to drift down 25-30% over four years (including 2022-23 price cuts).

Notes

- Prices have been sourced from the UK, South Africa, France, New Zealand and some other international prices. Conversion to Australian dollars was done in 2021 should be rechecked before quoting.
- The NSW and Victorian government prices come from a document provided to PHA from Catholic Health Australia – these prices have not been independently verified.
- For general items, there are no prices available from France, or from New Zealand (other than insulin pumps and arterial closure device). These countries do not list consumables on their price lists.
- Prices are generally lower in the UK and South Africa, although South African prices are higher for ligating devices and staples and tackers (other than Securestrap and Insorb).
- The existence of a price does not necessarily mean a product is used in that market.