Paying for consumable items that are coming off the Prostheses List in February 2022

Revised version August 2021

PHA recommendation provided without prejudice

The Australian Government decided in the 2021-22 Federal Budget to remove consumable items from the Prostheses List. Consumable items on the Prostheses List, including those identified by the Ernst & Young report, are generally high-quality medical items that provide benefits to patients. Consumable items which are removed from the Prostheses List from 1 February 2022 will continue to be funded by private health insurance.

PHA circulated a proposal in early July for consideration by stakeholders. No other proposal has been circulated to date. Following criticism of the previous PHA proposal (and in the absence of any alternatives being publicly canvassed) PHA has recast our proposed support package to address some of the issues of concern to hospitals.

There are three key changes to the proposal circulated in July:

- The support package will be calculated based on product groups,
- The option of using MBS as the basis of compensation has been dropped, and
- Hospitals receiving second tier default benefits will be eligible for support packages[1]

The Department of Health discussion paper released 23 August 2021 notes the categories of devices to be removed from the Prostheses List and lists additional categories that may be removed following consultation.

Private Healthcare Australia (PHA) estimates the costs of the list of devices outlined in the consultation paper (as currently used) in the competitive market from February 2022 should be on average, around 65% of current prices, differing between product groups. It may take hospitals come time to realise these market gains, thus the proposed support package will be eased in over three years.

The Ernst & Young report identified some areas where items may be currently used in excess of need, and/or there are substitutes available (such as smaller sizes). The variability of use of some product groups supports this hypothesis. However, the support package from private health insurers for consumable items does not assume any volume reductions or substitution efficiencies.

The core change is that PHA now recommends that the support package be tailored by product group rather than an overall number. This will ensure less diverse services, smaller services and those with unusual casemix will not be disadvantaged.

PHA recommends that the support package for hospitals by product group differ by product group, to take account of the expected differences in market responses. For example, it is clear that a number of product groups are significantly overpriced, while the prices for others, such as staplers

[1] These arrangements may need adjustments to the second-tier default calculations as bundled prostheses compensation must be removed from the annual calculation under the current benefit Rules

and tackers, are less inflated. PHA has previously circulated our estimates of market movement in the core product groups identified by Ernst & Young, with examples of prices in other markets.

Hospitals currently receiving second-tier default benefits will be eligible for the support package, and are encouraged to make other arrangements with funds such as contracting.

Hospitals and funds will be able to agree a contract out of these arrangements at any stage for other payment options, such as case payments. However, the support package will be payable until such time as a new contract is agreed. It is anticipated that hospitals and funds will roll the support package into other contracted arrangements at the end of their current agreements, if not before. Most contracts extend to three years.

The support package simply takes every eligible hospital's benefits from every health fund for each product group for the corresponding period in the base year and multiplies by the percentages in the attached tables. The base year will be 2018-2019, as the last two years have been impacted by restrictions on elective surgery. There are no adjustments for casemix changes – if casemix changes are significant, hospitals and funds would be encouraged to opt out of the support package arrangements and agree on other funding mechanisms. This option is simple, easily implemented, and recommended by PHA.

These arrangements can be done through mutual agreement of individual hospitals and individual health funds (which is not binding) or enforced through a PHI circular from the Department of Health to provide quasi-legislative enforcement. To provide consistency and certainty, PHA recommends that the Department of Health regulate the quantum of the support package and allow hospitals and funds to mutually agree not to be bound where an alternate arrangement is made.

Private health insurers have agreed that net savings delivered from medical device funding reforms will be returned to customers and members through lower premiums.

Hospitals will be required to agree that no additional out of pocket costs will be sought for items coming off the Prostheses List that are covered by this measure.

Hospitals will be expected to agree that consumable items, including those removed from the Prostheses List, will be available to clinicians to provide services to their patients.

If overall savings from medical device funding reform are not delivered for consumers, then the support package arrangements may be subject to review.

It is possible there may be resistance to this measure based on 'confidential' rebate arrangements against bundles of products procured by hospitals. These rebates are paid against regulated Prostheses List benefits. Benefits for patients for the purpose of funding medical devices should not be diverted for any other purpose, including a non-transparent funding source for hospitals. There is no role for secret rebates to be paid which exceed commercial benefits that could be obtained through efficient procurement.

Support package levels – core items to be removed

Category	Feb 2022 – Jan 2023*	Feb 2023 – Jan 2024*	Feb 2024 – Jan 2025*	From Feb 2025 for uncontracted services
	*unless contracted otherwise beforehand			
01.03 Intraocular fluids	95%	90%	85%	50%
03.02 Drug Delivery	80%	70%	60%	50%
03.03 Entral Tubes	100%	95%	90%	50%
03.05 Haemostatic Device	65%	50%	40%	40%
03.08.01 Adhesion Barriers	60%	50%	40%	40%
03.08.02 Internal Adhesives	65%	50%	40%	40%
03.08.03 Ligating Devices	90%	85%	80%	50%
03.08.04 Staples and Tackers	90%	85%	80%	50%
03.08.05 Polypropylene Mesh	90%	80%	70%	50%
03.08.11 Dynamic Wound Closure	60%	60%	60%	50%
04.02.05 Liquid Sealants large	65%	60%	50%	40%
04.02.06 Liquid Sealants small	65%	60%	50%	40%
04.02.07 Repair membrane sealant small	New products, to be determined with case payments.			
04.02.08 Repair membrane sealant medium				
10.07.01Arterial closure devices	85%	75%	70%	50%

The support will be paid to each hospital as a percentage of that hospital's actual spending in each product group for the base year of 2018-19. These payments are not indexed. If a hospital's volume of services in relevant clinical categories is reduced by more than 20% from the base year, then proportional adjustments will be made to the support package.

Support package levels – products from Attachment B (may or may not be eligible)

PHA will assess these items over the coming weeks and provide advice.

Most of these items are high value clinically and reasonably priced, and should they be removed, we would recommend very high support for hospitals (up to 100%).

Other items are overpriced compared to other markets, and/or the current Prostheses List rules encourage revenue gaming (for example, spinal fusion cages).

Some are not suitable for the Prostheses List, and some of these have been subject to significant misuse (such as surgical guides and biomodels). For example, most of the existing biomodels would not meet the proposed new definitions.