We are hirmaa

Overview and summary of the Senate Inquiry into Price Regulation Associated with the Prostheses List Framework

Wednesday 15th March - Thursday 16th March 2017

Senate Inquiry into Price Regulation Associated with the Prostheses List Framework

On 21 November 2016, the Senate voted in support of a motion by Senators Griff and Xenophon, that the issue of Price regulation associated with the Prostheses List Framework be referred to the Community Affairs Reference Committee. The terms of reference for the Committee can be viewed here.

Submissions were received from across the health sector, including hirmaa, with the Committee establishing public hearings over Wednesday 15th March and Thursday 16th March.

hirmaa welcomed the beginning of the inquiry the establishment of which hirmaa had actively championed throughout 2016. The hirmaa CEO presented on the second day.

The Committee hearing was referenced in a Lateline story, which followed the first day of hearings, as well as an ABC online article.

At the conclusion of the second day the Australian Financial Review gave the hearings prominent coverage in print and online.

For those who were not able to fully monitor all of the Inquiries activities please see the attached breakdown and summary of the hearings.

HANSARD EXTRACT

Opening statement from hirmaa CEO, Matthew Koce to the Senate Inquiry into Price Regulation Associated with the Prostheses List Framework

The hirmaa's funds are all not-for-profit, member-owned and community based. There are 21 of them. They have a customer-centric ethos. They do not serve shareholders. They have very high customer satisfaction scores— around 97 per cent for participating hirmaa funds, with around 20,000 members surveyed each year—we have very high retention rates and we are consistently growing much faster than the industry average. I have a couple of tables that I have asked to be circulated.

But, whilst our funds are performing very well, we are very, very concerned at the pressure that private health insurance is under more broadly, particularly with participation dropping for the first time since the introduction of the Medicare levy surcharge, the lifetime health cover loading and the Australian government rebate. We know that is primarily due to affordability. It is affordability pressure on premiums that is driving this. We know that because we survey our membership. We survey 20,000-odd hjrmaa fund members each year, and we are seeing affordability grow as a concern amongst the members. The number of people with private health insurance fell by 7,785 in the last quarter, according to APRA. Why is that important? My colleague alluded to it: if you have people dropping out of private health, they are going to increasingly gravitate to the public health system and that will put pressure on waiting lists, which are already overstretched in many states. So the two systems, public and private, are intertwined.

One of the key drivers of health inflation in the private health-care system in Australia is the unsustainable cost of prostheses. Costs associated with prostheses are underpinned by poor government regulation and oversight that forces health insurers in Australia to pay prostheses prices that are set by the Minister for Health or his delegate at amongst the highest in the world. This is severely damaging the affordability of private health insurance for consumers and unnecessarily costing taxpayers hundreds of millions of dollars through the Australian government rebate. We have done some estimates. We estimate that just over the last three years it has cost the Commonwealth about $672 million through the rebate, so there is a direct cost to the Commonwealth. In the 2013-14 financial year $1.74 billion in benefits were paid for prostheses, representing 14.1 per cent of all benefits paid. In 2015-16 it grew to around $2 billion. So there is growing utilisation.

hirmaa acknowledges the need to fully accommodate legitimate growth in utilisation for prostheses, however, the current regulatory pricing framework operated by the department, through the Prostheses List, is not set on a sound, prudent or equitable basis. It lacks transparency; it is opaque. The pricing framework mandates fixed benefits for prostheses in the private hospital system that are not systematically assessed on value-based principles of competition or price. Further, benefits are not subject to regular reviews that would reflect changes in the relative performance of prostheses, advances or changes in health services and treatments, or advancements in the manufacturing costs that typically drive cost reductions. Pricing norms in the Australian public sector and internationally do not appear to have any correlation to the benefit levels set for prostheses in the Australian private hospital setting under the current regulatory system. This is consistent with established evidence that shows that Australian consumers are being charged up to 300 per cent more for some items than would be paid in comparable health jurisdictions overseas. We have included some examples of devices sold in France in our submission. Noticeably, this pricing mechanism is not mandated for public hospitals, which are able to access identical classes and models of prostheses at much lower prices by utilising the open market and going to tender.

The effect of the Prostheses List is such that the difference between benefits that were paid for prostheses for privately insured patients in 2013-14 and what would have been the case if public sector rates had been utilised was $718 million. I have included a table that shows the latest publicly available data we had at the time. The table is headed 'Impact of prostheses cost variation between public and private hospitals' and it includes some projections as well of what we expect the total difference to be, and the impact on hospital policy premiums. In 2014-15 it was adding about $130 a year to a hospital premium. By 2018-19 we reckon the total difference between the public and private sector costs will be over $1 billion, and it will be costing $181 per policy. This is based on APRA data and the best available data we can get.

We have to ask: where is this $1 Billion going? Where is it going to go in 2018-19? Where is the $718 million going now? Some of that is going into the pockets of the big multinational device companies that are making big profits. We hear them in private refer to Australia as Treasure Island. They think we are Treasure Island because we help keep their balance sheets very profitable in their headquarters all around the world.

We also note that Ramsay Health has been making very big profits. We note that Ramsay Health has hospitals in France so it might have visibility of device prices in France, which are much lower. Is rebating or under the table payments going on between the big hospital groups like Ramsay and the big device manufacturers located all around the world, these big multinationals? We do not know for sure, but there is strong anecdotal evidence that it is going on and there is strong suspicion that it is going on.

I have included a table highlighting Ramsay Health's profitability and what they paid their executives. I note that in the last three years they made $1.2 billion in profit after tax, that over the last three years the four highest paid executives at Ramsay were paid over $107.8 million, and that over the past three years Chris Rex, the CEO, was paid $64.1 million. We took that from their annual reports, so it is on the public record. Most of their profits are coming from Australia and a lot of that is coming from Australian taxpayers, who are covering a lot of the costs for these procedures.

This is a system desperately crying out for greater transparency and accountability. We do not have a shred of confidence in the current pricing arrangements, which are entirely opaque. hirmaa welcomes initial reform efforts undertaken by the previous Minister, Sussan Ley, however, we firmly believe that much, much more needs to be done. The $80-odd million in savings was a fraction of what should be saved. Specifically, we believe that the current system is unsustainable and requires significant reform. We want increased transparency and accountability to ensure the equitable setting of benefits for prostheses. We look to the PBS system as having some good examples of what we could do in this space. We do not see a big difference between pharmaceuticals and devices. We think there should be mandatory legislated price disclosure consistent with the PBS or maybe even stronger, with very harsh penalties for not disclosing. There should be value based pricing principles and we should be judging the value of the product when we work out the price. There should be high quality economic analysis done on anything that gets onto the list. We want reference pricing both nationally and internationally, and we believe that is done within the PBS. And we also want consideration given to the establishment of a national purchasing authority for both the public and the private systems to drive best practice in purchasing of prostheses.

We note that some public hospital systems do purchasing very, very well at a state level. We cannot see why we could not wrap that together in a national body and have this body provide a service to the private sector as well, which would generate greater competition and choice. So that should be looked at. We also want rebates and kickbacks given by device companies, particularly between device companies and hospitals, outlawed through legislation. We want to see it banned.

We also note, as I mentioned earlier, that public entities set up by a number of state governments have established excellent models and arrangements that are seeing the public sector pay considerably less for prostheses devices in the public sector. It would be highly beneficial if experts from these entities could present to this Senate inquiry, and it would be beneficial if they could perhaps also be directed to present to the PLAC to give the PLAC some insight into how the states are managing prostheses prices. Ideally, that would be considered and could add some added value. That concludes my presentation.

Thank you for giving me the opportunity to speak.

Summaries

Day 1 - Wednesday 15th March 2017

The first day of the hearings centered on the medical device manufacturers with the Committee hearing from the Medical Technology Association of Australia, followed by two separate panels dominated by device manufacturers and representatives. The Independent Hospital Pricing Authority presented in the final session of the day.

Key points made over the day included:

- The MTAA stating "MTAA totally reject claims made by some that the medical device industry is responsible for the pressure on private health insurance premiums.
- The device industry noting that 'only' 14% of private health premiums can be attributed to prostheses.
- The MTAA noting that "the key issue is that nobody has the data or can provide a concrete estimate of the potential savings that can be achieved" and offering support to a price disclosure model (that protected patients). *Note: We are very suspicious of this.*
- Device manufacturers noting that savings identified by insurers include those devices that are most likely to have a level of ancillary services attached. *Note: there was no evidence supplied throughout the hearings to support that a higher level of service is provided to public patients than private patients.*
- Device manufacturers noting that legal commercial in confidence arrangements were long standing. *Note: Device companies are using this as an excuse to hide behind.*
- The MTAA and device manufacturers noting that the medical device manufacturing industry is a significant local employer. *Note: the overwhelming majority of devices come from overseas with manufacturing increasingly moving to Asia.*
- The MTAA stating in response to a question about a leaks from Cabinet to the MTAA that "there is no evidence; there is nothing to indicate at all that there was a leak or that MTAA received any inappropriate information". *Note: We at hirmaa have very strong grounds to think otherwise.*
- The IHPA stating that they had the data on prostheses requested by the Minister for Health, but were seeking legal advice on whether data on prostheses prices requested by the Minister for Health could be provided.

The full transcript of the day can be read here.

Day 2 - Thursday 16th March 2017

The second day of the Committee included a presentation from Applied Medical Pty Ltd, a long time critic of the existing system, a panel comprising the Consumer Health Forum, Diabetes Australia and the Endocrine Society of Australia, a panel of private health insurers and representatives, a presentation from Catholic Health Australia followed by the Australian Private Hospitals Association and AusBiotech. A joint presentation followed with the Australian and New Zealand Society for Vascular Surgery and the Australian Orthopaedic Association with the day finishing with presentations from the Prostheses List Advisory Committee and the Department of Health.

Key points made over the day included:

- There is a fundamental lack transparency in the prostheses market.
- The current system essentially closes access to new entrants in the market.
- Insurers will pass savings from prostheses reform to consumers (representatives from the Department of Health noted that it was in the interests of insurers to do so and that they were satisfied that the previous cuts had flowed through to consumers).
- The need for reform is clear and that benchmarking between costs in private versus public settings, and national versus international settings, should be undertaken.
- A national or centralised purchasing arrangement could be utilised to benefit both the private and the public systems.
- The issue of private patients in public hospitals was a growing problem that cost insurers $1.1 Billion according to most recent public data.

The full transcript of the day can be read here.

Health Insurers Panel

The Health Insurers Panel comprised:

- Matthew Koce, CEO, hirmaa
- Dr Rachel David, CEO, Private Healthcare Australia
- Rebecca Cross, Head of Government, Policy and Regulatory Affairs, Bupa
- Dr Chris Dalton, National Medical Director and Member of the Prosthesis List Advisory Committee, Bupa
- Mark Fitzgibbon, Managing Director and CEO, nib health funds
- Adam Longshaw, Director, Health and Benefits Management, Bupa
- Cindy Shay, Chief Benefits Officer, Hospital Contribution Fund

Opening presentations largely followed the content of the written submissions with hirmaa CEO, Matthew Koce adding:

> *We have to ask: where is this $1 billion going? Where is it going to go in 2018-19? Where is the $718 million going now? Some of that is going into the pockets of the big multinational device companies that are making big profits. We hear them in private refer to Australia as Treasure Island. They think we are Treasure Island because we help keep their balance sheets very profitable in their headquarters all around the world.…*

This is a system desperately crying out for greater transparency and accountability. We do not have a shred of confidence in the current pricing arrangements, which are entirely opaque.

This received prominent page 2 coverage in the Australian Financial Review which also published the story online.

The Committee asked a range of questions to the panel, focusing on the feasibility of a national purchasing authority as well as national and international benchmarking of prostheses devices.

The Committee also explored the '25% market share rule" in some detail which was raised regularly throughout the day.

The Committee also questioned assertions from the manufacturing industry, made the day prior, that private hospitals facilitate 'ancillary services' associated with prostheses that public hospital did not.

The full transcript of the panel can be read here.

Michael Roff, CEO, Australian Private Hospitals Association confirms the use of rebates

Confirming the strong anecdotal evidence compiled by hirmaa and proponents of prostheses reform, Michael Roff, CEO, Australian Private Hospitals Association (APHA) confirmed the systematic practice of rebating between private hospitals and medical device manufacturers.

…a large proportion of my members report that they do not get any rebates from suppliers. These are typically the smaller standalone, independent hospitals and other smaller groups like day surgeries—that sort of segment of the industry.

*Those who are a bit larger and in a stronger negotiating position have arrangements, I am advised, that are typically on two bases. There is a volume basis. So, if you hit a particular target for a whole-of-business spend, for example, you spend X million dollars or X hundred million dollars a year—and that is not necessarily just on prostheses but also on consumables, theatre equipment or whatever that particular company supplies—**then a rebate regime will kick in.***

*The other way it works is on a growth target. So if you exceed what you spent the previous year by X per cent, then a certain level of rebate might kick in and that might even be tiered, so **the higher your growth the greater the rebate you get.***

The assertion that "a large proportion" of APHA members do not engage in rebating is quite misleading with the obvious fact being that the majority of costs to the consumer will be generated in the high volume hospital settings in which rebating is most prominent. hirmaa will continue working to ensure that these 'X' references are filled out that the scale of the rebates are revealed.

General Observations from the Hearing

- Committee members appeared to understand the need for reform.

- Committee members noted through questioning and statements that the Prostheses List was based on a period of significant inflation in the prostheses market.

- The Committee questioned why the the 25% market share agreement had been established (the Department of Health did note that this was no longer used for new categories).

- The issue of private patients in public hospitals was understood by the Committee with members expressing interest in the $1.1 Billion cost this represented to insurers.

- The Chair of the PLAC, Professor Terry Campbell noted that his report will be completed before the end of the year and recommendations will be provided to the Minister as they are decided (even if this is prior to the report being completed).

- Committee members sought the opinion and advice of Professor Campbell about timeframes for reform, and positively inquired into proposed solutions such as the creation of a purchasing authority, domestic and international reference pricing and greater transparency, including price disclosure.

- Professor Campbell also stated that he hoped the PLAC would received data from IPAA as per a request from the Minister for health, noting:

> *There have been a lot of comments about visibility over prices, and I do not have any more visibility over real prices than the people who were talking about it this morning. This morning was the only bit of the hearings that I have managed to see. We will see. There should be new data that should give some actual numbers.*

- On the issue of general pricing transparency, the Chair of the Committee, Senator Rachael Siewert, Australian Greens, WA observed towards the end of the second day that:

> *…there are issues here that are opaque that they are hiding behind. Sorry—I should not use that sort of language. But issues around confidentiality are preventing a full understanding of what is going on—the bulk purchases, the rebates that are occurring. There are issues around confidentiality that continue to make it opaque when everyone is saying: 'Oh, it's too opaque. We need to be getting transparency.' Yet it seems to me that they will not table the information so that there is full transparency.*

- On the overall exercise of the Committee Inquiry, Committee member Senator Dastyari noted that:

> *Senator Griff should be congratulated for bringing forward this inquiry.*

Note: If there are any questions on the Senate Inquiry please feel free to contact Matthew Malone on matthew.malone@hirmaa.com.au or on phone 9896 9372.