Members Health
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Prostheses reform key to delivering $1 billion in savings to consumers

Members Health welcomes the release of the Prescribed List Reforms evaluation and points to the reform process being a very long way from completion.

New analysis shows that a lack of action is driving more than $1 billion a year in unnecessary costs to consumers of private health.

The just released 2023–24 hospital data by Government shows Australians with private health insurance continue to pay significantly more for medically implanted devices than is justified, with prices far exceeding average public hospital benchmarks.

Private prostheses expenditure totalled approximately $2.48 billion, compared to $1.38 billion if public sector prices were applied, revealing a $1.10 billion saving opportunity, or 44 per cent.

“These excess costs are a key and avoidable driver of health insurance premium increases,” said Matthew Koce, Chief Executive Officer of Members Health, the umbrella body for Australia’s not-for-profit and member-owned health insurers.

“Despite successive reviews and partial reforms, the data shows the prostheses pricing gap has not been adequately addressed.”

“Australians are paying higher premiums year after year, and a significant portion of that pressure comes from inflated prostheses costs, that only government has the power to fix. Fixing this issue would directly reduce cost pressures on policyholders and help limit future premium increases for Australians.”

“Mr Koce said the issue is systemic and exposes a fundamental failure in the Government’s regulatory settings, and that there is a strong case for requiring multinational device companies to repay unjustified costs.”

“The data points to inequitable pricing that unfairly hurts privately insured patients.”

“Regulatory failure in prostheses pricing is entrenched across the system, not confined to a handful of procedures. Consumers have a right to question why government-sanctioned prices remain among the highest in the world.”

The data shows the scale of the problem is widespread. Among the top 30 procedure groups, private prostheses spending reached $1.89 billion, compared to $1.09 billion if aligned with public benchmarks, a gap of $806 million, or 43 per cent.

In high-volume procedures, the differences are both substantial and consistent. Hip replacements alone account for more than $100 million in excess costs each year, while knee replacements add close to $90 million. Spinal fusion procedures contribute approximately $69 million in additional costs, and pacemaker implantation more than $50 million, all of which ultimately feed into premiums paid by consumers.

“These figures provide clear evidence that prostheses reform has fallen short,” Mr Koce said.

“The persistence and scale of the pricing gap demonstrates that previous reforms have failed to deliver meaningful change, leaving in place a regulatory framework that continues to mandate excessive pricing.”

“We still have a system that allows big multinational suppliers to charge significantly more in the private sector than in the public system for the same devices. That is a clear case of regulatory failure, and it is consumers who are paying the price.”

Matthew Koce said, “aligning private prostheses prices more closely with efficient public sector benchmarks and prices overseas represents one of the most immediate and practical opportunities available to government to ease cost pressures on Australians.”

“Reducing inflated device costs would directly relieve pressure on future premium increases, deliver meaningful cost-of-living relief for households, and strengthen the long-term sustainability and value of private health insurance.”

“Every dollar saved from unnecessary prostheses costs is a dollar that helps keep premiums lower for Australian families,” Mr Koce said.

“Australians should not be paying a premium for identical devices simply because they are treated in the private system. This is a clear case of Government led price discrimination against privately insured Australians.”

Members Health is urging the Government to complete prostheses reform and ensure pricing reflects efficient, evidence-based benchmarks that deliver fair value for consumers. The best way to achieve that is through using domestic and international prices as benchmarks.

Members Health is the national peak body for an alliance of around 20 health funds that are not-for-profit or part of a member-owned group, regional or community based. They all share the common ethos of putting their members’ health before profit. Our funds represent the interests of more than 5.4 million Australians.

If public pricing was used in the private health sector, potential savings exceed $800,000 in the top 30 DRGs by private use. For all DRGs, in total, around $1.1 billion per annum would be saved.

Procedure (AR-DRG)	Avg Private Cost ($) PHDB	Avg Public Cost ($) NHCDC	Difference ($)	Difference (%)	Annual Saving ($m)
Knee replacement – minor (I04B)	$6,828	$4,781	$2,047	30%	$89.2
Hip replacement – minor (I33B)	$8,536	$5,139	$3,397	40%	$101.8
Spinal fusion – minor (I09C)	$15,079	$7,085	$7,994	53%	$69.0
Coronary procedures (F24B)	$3,995	$2,581	$1,414	35%	$37.0
Pacemaker implantation (F12B)	$10,228	$3,984	$6,244	61%	$50.6
Cardiac defibrillator (F01B)	$34,263	$14,266	$19,997	58%	$46.7
Other joint replacement (I05B)	$9,498	$6,976	$2,522	27%	$20.8
Back & neck procedures (I10B)	$3,543	$512	$3,031	86%	$60.3
Spinal fusion – intermediate (I09B)	$20,266	$9,552	$10,714	53%	$34.2
Heart valve replacement (F25B)	$24,574	$19,731	$4,843	20%	$12.5
Obesity surgery (K11B)	$3,277	$1,596	$1,681	51%	$31.2
Multiple joint procedures (I01B)	$13,598	$7,991	$5,607	41%	$24.2
Lens procedures (C16Z)	$599	$302	$297	50%	$28.4
Shoulder procedures (I16Z)	$1,699	$1,236	$463	27%	$13.9
Knee replacement – major (I04A)	$7,255	$5,654	$1,601	22%	$8.6
Pacemaker replacement (F17B)	$10,171	$3,609	$6,562	65%	$20.8
Maxillofacial surgery (D04B)	$3,797	$1,457	$2,340	62%	$19.1
Lower limb fracture procedures (I13C)	$2,254	$1,289	$965	43%	$12.7
Breast surgery (J06B)	$1,241	$466	$775	62%	$17.6
Hip replacement – major (I33A)	$8,624	$6,073	$2,551	30%	$8.3

Procedure (AR-DRG)	Avg Private Cost ($) PHDB	Avg Public Cost ($) NHCDC	Difference ($)	Difference (%)	Annual Saving ($m)
Knee reconstruction / revision (I29Z)	$2,017	$1,746	$271	13%	$3.7
Spinal deformity fusion (I06Z)	$35,944	$19,912	$16,032	45%	$12.2
Vascular procedures (F14C)	$3,000	$1,187	$1,813	60%	$16.3
Foot procedures (I20B)	$1,782	$921	$861	48%	$12.5
Knee revision (I32B)	$9,329	$8,118	$1,211	13%	$3.3
Spinal procedures (B03C)	$6,753	$1,658	$5,095	75%	$19.2
Cochlear implant (D01Z)	$24,415	$21,060	$3,355	14%	$3.4
Hernia procedures (G10B)	$618	$416	$202	33%	$7.8
Spinal fusion – major (I09A)	$28,822	$11,899	$16,923	59%	$12.1
Elbow & forearm procedures (I19B)	$2,363	$1,436	$927	39%	$7.9
Top 30	$304,369	$172,636	$131,732	43%	**$806,251,528**
All Included DRGs	$1,127,665	$593,827	$533,837	44%	**$1,098,785,993**

Source:

NHCDC Public Sector 2023/24, AR-DRGv11 (IHACPA)
https://www.ihacpa.gov.au/resources/national-hospital-cost-data-collection-public-sector-2023-24

PHDB Benchmark Data 2023/24, AR-DRGv11 (DoHDA)
https://www.health.gov.au/resources/publications/phdb-annual-report-2023-24?language=en

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