CONSULTATION PAPER:
METHODOLOGY FOR DETERMINING THE BENCHMARK PRICE FOR PROSTHESES IN AUSTRALIAN PUBLIC HOSPITALS

Submission by Device Technologies Australia Pty Ltd
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Introduction

Device Technologies presents this submission to the Department of Health following the recent proposed reform of the Prostheses List (PL). This submission will outline our feedback on the Consultation Paper for Determining the Benchmark Price for Prostheses in Australian Public Hospitals compiled by IHPA. Medical technologies are a critical part of the healthcare system, essential to the treatment of many medical conditions. The PL facilitates the availability of medical technologies in the Private sector and whilst we support government reform of the PL to improve efficiency of healthcare spending, it should not be at the expense of the availability of medical technologies.

About Device Technologies

Device Technologies is a privately owned and operated distributor of medical devices. Device distributes a wide range of medical devices, advanced medical technology, and healthcare consumables to Australia, and is the largest medical device distributor in the country.

We are committed to providing patient access to innovative, high quality medical devices at a reasonable price. We maintain that we need to make a fair profit to ensure we can continue to deliver medical devices into the future.

Prostheses List purchasing arrangement in the public and private hospital sectors

Many products in the public setting are purchased via tendering arrangements. These tenders invariably involve some trade-off in price discounts for securing volume. This invariably pushes sponsors who wish to be included to offer some level of discount to gain entry into the public market and this can be prohibitive to a supplier being able to sell their product at such a discount. Device Technologies have from time to time been excluded from public tenders or have chosen not to participate, as the public pricing made it uneconomical to participate. This example illustrates a) why pricing may vary between the public and private sector and b) the potential consequence of using public pricing as a benchmark in the private sector limiting choice and access to technology.

The establishment of prostheses list benefit groups (with weighted average prices per group of products as opposed to price being set at an individual product level) allows for smaller sized medical device companies to partake in the highly competitive Australian environment. This is particularly important for medical device distributors when compared to manufacturers supplying direct to a market who have a greater ability to offer significant discounts. The groupings and benefits on the PL within categories according to similar clinical effectiveness allows clinicians to freely choose the most appropriate clinical treatment for their patient. This clinician choice is not biased by price or existing agreements between the private hospital and the insurance provider.

Detailed Responses to Questions posed in IHPA Methodology for determining public bench price.

DATA SOURCES

Q1. Which data source should IHPA utilise as the primary data source for determining the public sector benchmark price?

Device Technologies supports the Medical Technology Association of Australia (MTAA) position of using sales price data from the medical device industry.

Q2. Are there any other sources of data IHPA should consider for determining the public sector benchmark price?

No specific comment.

Q3. What risks should IHPA consider if DRG level information were to be utilised? Are there alternative approaches IHPA should consider?

Device Technologies mirrors concerns raised by MTAA with regards to using DRG data from the NHCDC. The aggregation of PL benefits paid at a DRG level is inappropriate as a reference setting as it does not take into consideration the clinical differentials within the AR-DRG which the PL benefit group captures.

METHODOLOGY FOR CALCULATING THE BENCHMARK

Q4. Do you support IHPAs proposal to establish the public sector benchmark price using a volume weighted average approach? Please provide rationale.

Device Technologies does not support the approach of using a volume weighted average price. A volume weighted average price is inherently biased towards products with the highest market share which encourages a monopoly. As IHPA has already discussed, lower prices in the public sector are offered when significant market share is guaranteed, such as a tender situation. Therefore, using volume weight average would almost always result in a lower public bench price, even if only 1 major supplier offers a discount whilst none of the others do. This approach favours a monopoly and may discourage suppliers of low-volume high clinical value products.

Q5. Are there any alternative approaches that IHPA should consider? Please provide rationale.

Device Technologies recommends the use of average $ASP by billing code, then averaging all billing code $ASP to set the public reference price. The use of $ASP, I.e., the Total Revenue/Total Q of each billing code will incorporate any volume discounts in the public setting for that specific code. It is then appropriate to expect that the analysis and setting of public reference pricing to be within the group benefit level to assure clinical appropriateness. However, the removal of volume weighted average would ensure that the National Efficient Price is not unduly influenced by volume and gives equal considerations to all suppliers in the market, and to encourage competition.

$$Pbilling\ \text{code} = \frac{\text{Total } Revenue}{\text{Total Quantity}}$$

$$P_{\text{public}} = \frac{P1 + P2 + P3 \ldots . + Pn}{n}$$

p= $ASP per billing code
n= number of billing codes within benefit group

For example, there are 10 companies that provide products at a particular benefit group level. Public benchmark price is simply calculated by adding all 10 x $ASP together then divided by 10 to obtain the average public reference price.

APPROPRIATE ADJUSTMENTS TO ACCOUNT FOR LEGITIMATE DIFFERENCES BETWEEN PUBLIC AND PRIVATE HOSPITAL SECTORS

Q6. What factors, if any, should be considered as legitimate and unavoidable difference between the private and public hospital systems with respect to prostheses pricing?

The following are scenarios that Device Technologies believe present legitimate and unavoidable differences in pricing between the public and private hospital systems:

- Volume discounts
- Trial stocks
- Charitable cases
- Stocks with short expiry
- Damaged stock during transit/operation are provided FOC on good faith.

Q7. How should the extent of any such differences be quantified?

Many of the examples listed in Q6 are products with zero value or products that are sold at a significant discount. These tend to be either one-off instances or only offered over short periods and are not supplied on an ongoing basis. It is our recommendation that these outliers are removed from the dataset.

Summary

- Device Technologies recommends the use of Industry sales price data as the primary data source for determining the public sector benchmark price
- Device Technologies **does not** recommend the use of DRG data from the NHCDC inappropriate as a reference setting.
- Device Technologies **does not support** the approach of using a volume weighted average price due to its inherent bias towards $ASP offered sponsors with significant market share and have a greater ability to offer pricing reductions for volume.
- Device Technologies recommends the use of average price per billing code, followed by averaging the billing codes within a benefit group and ignoring volume, to set the public reference price.