MEDICAL
DEVICES
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JJM Submission to IHPA Consultation Paper on a Methodology for Determining the Benchmark Price for Prostheses in Australian Public Hospitals

Summary

- Private health insurance is founded on the value of clinical choice. Its value proposition hinges on the privately insured patient choosing their surgeon in discussion with their treating usual clinician, and that surgeon being able to choose the clinical options best suited to that patient without financial barriers or out-of-pocket costs. The PL has been enormously successful in ensuring this arrangement and it is critical that this arrangement is maintained for the benefit of Australian patients.
- Therefore, Johnson and Johnson Medical (JJM) supports using a volume weighted average approach for establishing the public benchmark provided comparisons are applied at a benefit group level and that the public benchmark is accompanied by a private adjustment factor of 20 per cent that accounts for volume guarantees in the public sector and the different service model that supports the private sector.
- We believe it is also appropriate that the public price is mix-adjusted to enable the public benchmark to reflect the product mix in the private market (this is achieved by allowing the billing codes used in the public system to be treated as if their utilisation was equivalent to their private volume).
- Using the lowest price point in the public market as the benchmark would negatively impact access in the private sector and would undermine the core value proposition of private health insurance.
- As the Paper notes, the lowest price in the public market would reflect particular aspects of the public system such as tender pricing and market share awards that are not replicated in the private sector. As a result, setting the PL benefit at this lowest point would make it non-viable for a number of products to continue to be sold on the PL, leading to their removal from the Australian market with a concomitant impact on patient access and surgeon choice.
- The Paper identifies some differences between the public and private sectors that JJM considers legitimate and should be recognised by an upward adjustment from the public price. The most significant of these is the existence of price/volume arrangements in the public that are not and should not be mirrored in setting the PL benefit. The public price needs to be adjusted to remove the impact of these volume arrangements.
- JJM is supporting MTAA to develop a methodology for accounting for these additional costs which it will discuss with IHPA and the Department.

Answers to specific questions in the Consultation Paper

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

JJM strongly endorses the use of MTAA industry-certified data which will be collected and aggregated and then provided to IHPA.

Industry is best placed to match sales and pricing data in the public system to actual billing codes in the public system. State and territories procurement agencies often rely on suppliers themselves to provide them actual market volume and even pricing data. Furthermore, they have limited knowledge of the PL and which billing codes would match to products in their records. There are also confidentiality arrangements between the multiple suppliers and states and territories that would limit sharing of data by the latter. Therefore, industry is a more accurate and efficient source of data.

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

Aggregated data from states and territories could reasonably be used to validate industry data while ensuring confidentiality is not breached.

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

The MTAA industry-certified weighted average price calculation controls for some limitations inherent in DRGs to ensure the private sector value proposition is maintained (procedural mix, product mix, service mix).

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

JJM supports IHPA's proposal to establish a public sector benchmark price provided that it is accompanied by a private adjustment factor that accounts for volume guarantees in the public sector and higher cost to serve in the private sector.

Through this private adjustment factor, the device industry can ensure that it continues to supply to the private sector regardless of actual volume and foregone efficiencies and it maintains the higher service levels that are typical in the private setting

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

No.

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

There are a range of additional costs to service the private sector that do not exist in the public sector. Public systems often assume or break out freight costs, for example by setting up centralised distribution warehouses for some items, as happens in NSW. This means that

the price reflects the fact that suppliers only need to make large quantity shipments to one location, and the state system manages the remaining distribution.

Generally, the public system has larger warehousing and stock management capabilities, meaning that order sizes are larger and ordering frequency is less, lowering overall costs for suppliers. In orthopaedics, instrumentation kits are consigned to public hospitals, while in the private they are typically shipped on loan for every procedure. Furthermore, in the public sector all bad debts are covered by a liability guarantee, but this is not the case in the private sector. There are also instances where accessories are not covered by the PL whereas in the public sector they are explicitly priced.

Collectively, these factors add up to a higher overall service cost in the public sector than in the private sector. These may need to be accounted for when considering the appropriate public benchmark for the PL.

How should the extent of any such differences be quantified?

JJM is supporting MTAA to develop a methodology for accounting for these additional costs which it will discuss with IHPA and the Department.