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RE: Consultation Paper on a Methodology for Determining the Benchmark Price for Prostheses in Australian Public Hospitals

Members Health is pleased to provide the Independent Hospital Pricing Authority with the following response to the *Consultation Paper on a Methodology for Determining the Benchmark Price for Prostheses in Australian Public Hospitals*.

We have been pleased to see the Department of Health and related agencies persist with structural reforms to the Prostheses List (PL), particularly since the 2021-2022 Budget announcements, which targeted clear inefficiencies in the process of procuring medical devices. We welcome the *Consultation Paper* as the latest stage in this process.

Central to Members Health's objectives in this area has long been the requirement for the procurement process of medical devices to become fairer and more transparent so that health insurers – and by extension, consumers – are no longer left to be passive payers of exorbitantly priced items. Applying domestic reference pricing to the current PL is a critical element to achieving this.

Despite previous reform efforts, regulatory failure of the PL remains a persistent and ongoing feature of private health insurance. Australian private health care consumers face among the highest prostheses prices in the world – and many times that experienced in Australia's public hospital system.

Tables 1 and 2 included in Attachment A of this submission illustrate the most recent evidence of high prices charged to private health consumers in Australia, compared with those in the public system or in overseas markets such as France.

Data from the IHPA and Department of Health show that across the country's 30 most common medically implanted devices, Australian families paid upwards of \$780 million more in 2018-2019, compared to what they would have if the devices were priced equal to average prices in the public system. Meanwhile, compared to France, Australians with life-threatening heart conditions, hearing loss or debilitating hip conditions face inflated price-tags – up to and over \$4,000 more – for pacemakers, hearing implants or artificial hips.

The enablers of this conduct are numerous.

Firstly, and fundamentally, the opaque nature of the prostheses procurement value chain (from manufacturer to hospital, to consumer) provides a ripe environment for price exploitation and secretive financial interests and incentives, including substantial rebates (in cash or kind) from prostheses suppliers to private hospitals.

Secondly, the binding, fixed-benefit nature of the PL and lack of regulatory scrutiny applied to new listings leaves health funds and their members with little choice but to pay record benefits for items that are either exorbitantly overpriced or do not justify listing.

This legislated minimum benefit setting eliminates all contract negotiation powers of the payers (health funds), incentivises voluminous listings by device makers and encourages inefficient utilisation. Once listed, prostheses and their listed benefit amounts are not routinely (indeed, rarely) reviewed, as there is no standard mechanism to do so.

Thirdly, there is rampant misunderstanding of the definition of prostheses. Fuelled by lax scrutiny on the clinical effectiveness of many items, this issue has led many device makers to successfully list devices that fall well outside the definition of an implanted medical device.

Given the aforementioned enablers, as well as differences in product data, identifiers, categories and bundles across state-based public health systems, we appreciate that there may be significant barriers to identifying a *fair* price for prostheses across both the public and private sectors.

However, given its expertise and access to both public and private sector prostheses data, Members Health is confident that the IHPA is best equipped to overcome those barriers and deliver substantive reforms to the benefit of Australian consumers.

Our responses to the questions listed in the Consultation Paper are detailed below. We thank the IHPA and the Department of Health for providing industry the opportunity to comment on these important reforms.

Sincerely



MATTHEW KOCE

CEO, Members Health Fund Alliance

**A note on
transparency**

- Institute legislated price disclosure across the full medical devices value chain to improve transparency of costs and fees between manufacturers and hospitals.
- Install numerous reference points across the value chain to ensure manufacturers and hospitals do not seek to game the process or regulators such as IHPA.

Firstly, any and all changes to the Prostheses List (PL) should remain cognisant of the fundamental objective of the reforms. That is, to improve transparency across the entire process of prostheses procurement in order to identify unwarranted and unfair price inflation and reduce costs for Australian consumers.

When it was first established in the 1980s, the core objective of the PL was to improve access and ensure fairer health care costs for private health consumers through an equitable and regulated process. However, as this reform process and many beforehand have shown, the PL has been left on “*set and forget mode*” for too long, with the volume and price of many items left not reviewed for years.

Prostheses procurement and the process of listing on the PL in Australia has long been a deliberately opaque process, involving many stakeholders and vested financial interests.

“The majority of benefit levels were set some years ago in an opaque process when prostheses prices had inflated substantially over a short period of time and seem, at least in some cases, to have been set at levels far in excess of what is paid in the public sector domestically or in comparable countries internationally.”¹

What we know is that privately insured patients are provided medical devices firstly chosen by their surgeon or specialist; purchased by the hospital they are treated in; and finally paid for by a health insurer at the set benefit level.

Through the work of the *2015 Review of Medicines and Medical Devices Regulation (The Samson Review)* and elsewhere, we also know of formalised rebate arrangements established to pay ‘kick-backs’ to hospitals, from device companies, for buying medical devices in bulk or achieving benchmark volumes.² The agreements between device manufacturers and private hospitals, and the value chain of prostheses procurement more broadly, are a tightly kept secret not disclosed to consumers.

Meanwhile, as identified in the Consultation Paper, with states operating their own centralized procurement arrangements, there “is no single price for a given product across the country, and in fact there can be multiple prices for the same product within a single state, depending on the market share discounts applied at different local hospital networks.”

The requirement for legislated transparency in the medical devices value chain was an overwhelmingly present theme of the *2015 Review of Medicines and Medical Devices Regulation (The Samson Review)*. Specifically, it recommended legislated price disclosure through transparent systems and processes, accountability, independent review and audit.

In order for effective reference pricing to be implemented across the PL now and into the future, therefore, it is critical that legislated mandatory price disclosure is applied across the full spectrum of prostheses procurement in Australia. In addition, there should exist numerous verification points across the value chain to ensure manufacturers and hospitals do not game the process or regulators such as IHPA.

¹ The Senate Community Affairs References Committee; [Price regulation associated with the Prostheses List Framework](#); May 2017

² See *ibid* 1.14

**Data
Sources**

- Which data source should IHPA utilise as the primary data source for determining the public sector benchmark price?
- Are there any other sources of data IHPA should consider for determining the public sector benchmark price?
- What risks should IHPA consider if DRG level information were to be utilised? Are there alternative approaches IHPA should consider?

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

From the outset, we firmly believe IHPA is well equipped with the relevant expertise and resourcing to deliver on the promised objective of this reform, and Members Health is confident in their proposed approach.

Moreover, in the spirit of full, mandated price disclosure, Members Health supports the proposed use of sale price data from the medical devices industry as the primary source to determine the public sector benchmark price.

We commend the IHPA for its work compelling the medical device industry to supply disaggregated data by state, relating to the actual price of sales (not nominal book price or recommended retail price), accompanied by related billing codes. Any purchase price data obtained from the public sector, as sought by IHPA and with assistance from states and territories, should be used to verify any sale price data received from industry.

Further, we agree that as a contingency measure, IHPA could utilise National Hospital Cost Data Collection (NHCDC) data, at the DRG level as an alternative approach to determining the benchmark cost of prostheses in the public sector would need to be adopted.

That said, Members Health believes the more benchmarks, the better. If IHPA finds a need or reason to compare one dataset to another for the purposes of realising the true public sector price, Members Health supports its efforts to do so.

We welcome the Minister for Health's efforts to retrieve public hospital data from individual States and Territories. While collation of this potentially rich data source is under way, we wish to note the significant differences and performance between each jurisdiction's medical device procurement systems.

Victoria, for example, through its purchasing authority HealthShare Victoria, has achieved excellent and very cost effective results (*see Consultation Paper Table 1: Average actual sales prices and volume by state*) in terms of public sector procurement of medical devices. HealthShare Victoria's focus on honesty, transparency, fairness and market equality has been critical to its success in achieving:

- Significant savings for health services through economies of scale; and,
- Improved patient outcomes through evidence-based product selection, reduced non-clinically justified variation in product utilisation, and enhanced availability of medical consumables.

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

While Members Health agrees with the approach, we also suggest that IHPA should endeavor to identify as many touch points as possible to determine a fair benchmark price for items that have very low utilization in Australia's hospital system.

Given the huge price discrepancies revealed by Members Health's research into overseas

markets, it is important that as many (domestic and international) reference points are utilised to establish the fairest benchmark price in instances where domestic comparisons are not readily available.

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

In its submission to the Department of Health on 15 February 2021, concerning the Revised Framework for Setting and Reviewing Benefits for the Prostheses List, Members Health supported Option One, as described in the Consultation Paper. That is:

Consolidate the Prostheses List using the Diagnosis Related Groups (DRGs) model and set benefits with reference to the prostheses price components of relevant DRGs, with administration moved to the Independent Hospital Pricing Authority (IHPA).

As noted by the Revised Benefit Setting and Review Framework Industry Working Group in its final report, Options for a revised framework for setting and reviewing benefits for the Prostheses List report, we view AR-DRG model used in the public system as an appropriate classification system which provides a more clinically meaningful way of relating the number and type of patients treated in a hospital to the resources required by the hospital to deliver that care.

Therefore, development of a parallel ‘private sector DRG model’ to apply to the prostheses component of the episode of care, with benefits to be paid by insurers, we believe was the best opportunity to achieve equitable pricing between the public and private systems.

Members Health believes reconfiguring private health insurance benefits to relate directly to an individual patient’s required treatment (deemed clinically appropriate by their treating doctor) has the potential to have multiple positive impacts for the health system as a whole:

- Medical device companies would be required to price their products more accurately to other settings, such as the public healthcare system; and,
- Medical device companies would no longer be incentivized to sell non-clinically appropriate items in bulk to hospital administrators; and,
- Medical device companies would no longer be incentivized to sell bundle packages inclusive of non-clinically appropriate items to hospital administrators;
- Hospital administrators in consultation with medical practitioners would be incentivised to pursue more cost-effective arrangements for the supply of medical devices and minimise waste and maximise supply efficiency; and,
- The savings made from reduced costs would result in lower premiums for private health insurance members, and potentially lower out-of-pocket costs.

With the above in mind, we do not observe any material risks if DRG level information were to be utilised for the purposes of public system reference pricing.

**Methodology for
calculating the
benchmark price**

- Do you support IHPAs proposal to establish the public sector benchmark price using a volume weighted average approach? Please provide rationale.
- Are there any alternative approaches that IHPA should consider? Please provide rationale.

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

While Members Health suggests existing and highly efficient group procurement systems, such as Victoria's, provide a sound reference point for medical device prices across the health system, we also acknowledge IHPA's rationale for a volume weighted average approach, and agree that there is a requirement to trim (cleanse) device costs that are exceptionally low or high compared to the average price.

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

In the interest of achieving the most accurate benchmark, we reiterate the suggestion that the IHPA endeavor to utilise as many references as possible (domestic and international) to identify the most accurate weighted average for items that have very low utilization rates here in Australia's hospital system.

**Adjustments to
account for
differences between
the public and private
hospital sectors**

- What factors should be considered as legitimate and unavoidable difference between the private and public hospital systems with respect to prostheses pricing?
- How should any such differences be quantified?

It is expected that any factors that result in a legitimate and unavoidable difference between the private and public hospital systems (with respect to and to be accounted for in prostheses pricing) will be exceedingly rare. Furthermore, it is expected that should any factor be legitimately present, it will be sufficiently accounted for by the proposed volume-weighted average approach.

Any factor that IHPA asserts to be a source of pricing difference should be closely scrutinized by examination of supporting, documentary evidence confirming the legitimacy of any assertions made. Additionally, for any assertions made as to pricing differences that go to purported improvements in outcomes or provision of additional services, we encourage IHPA to critically evaluate such claims on two dimensions (among others): 1) the additional health and/or system value delivered, if any; and 2) the extent that the factor is already funded through other existing arrangements (or can be more efficiently funded through other existing arrangements).

Regarding the first dimension of any claims to additional health and/or system value delivered, IHPA could refer such questions to the Health Technology Assessment process of PLAC and other bodies for the purposes of testing the veracity of such claims and quantifying any differences.

Regarding the second dimension of the extent of any alternative existing or potential funding arrangements, IHPA can consult with public and private funding entities.

Attachment A, Table 1: Prostheses Price Comparison - Australian public versus private healthcare sectors



AR-DRG v9 code ¹	AR-DRG v9 description	PHDB 18/19 ²		NHDC Pub 18/19 ³		Results			
		No. of Private Sector Separations	Avg Private sector prostheses charge	No. Public Sector Separations	Avg Public sector prostheses charge	Total Private Charge	Private Charge if Public Cost	Potential Savings	Reduction in Private Charge if Public Cost ⁴
I04B	Knee Replacement, Minor Complexity	34,155	\$7,397	14,453	\$5,775	\$252,648,975	\$197,245,450	\$55,403,525	22%
I33B	Hip Replacement for Non-Trauma, Minor Complexity	22,168	\$9,654	9,315	\$6,153	\$213,999,231	\$136,389,784	\$77,609,447	36%
I09C	Spinal Fusion, Minor Complexity	7,228	\$14,350	1,925	\$7,836	\$103,719,704	\$56,635,987	\$47,083,717	45%
K11Z	Major Laparoscopic Bariatric Procedures	24,979	\$3,791	1,475	\$1,285	\$94,702,383	\$32,092,043	\$62,610,340	66%
F01B	Implantation and Replacement of AICD, Total System, Minor Complexity	2,231	\$41,473	2,197	\$10,997	\$92,525,170	\$24,533,323	\$67,991,847	73%
F24B	Interventional Coronary Procs, Not Adm for AMI, Minor Comp	22,126	\$4,067	12,115	\$1,343	\$89,979,804	\$29,724,311	\$60,255,494	67%
I10B	Other Back and Neck Procedures, Minor Complexity	17,227	\$4,779	3,572	\$736	\$82,323,182	\$12,675,396	\$69,647,786	85%
F12B	Implantation and Replacement of Pacemaker, Total System, Minor Complexity	7,064	\$11,484	5,431	\$3,205	\$81,120,786	\$22,641,320	\$58,479,467	72%
I09B	Spinal Fusion, Intermediate Complexity	3,518	\$19,403	1,198	\$10,083	\$68,257,995	\$35,471,743	\$32,786,252	48%
I16Z	Other Shoulder Procedures	31,541	\$1,695	6,644	\$1,034	\$53,475,242	\$32,597,978	\$20,877,264	39%
C16Z	Lens Procedures	85,472	\$610	73,378	\$354	\$52,178,947	\$30,242,162	\$21,936,785	42%
I05B	Other Joint Replacement, Minor Complexity	5,071	\$9,675	1,821	\$7,291	\$49,060,049	\$36,970,347	\$12,089,701	25%
I01B	Bilateral and Multiple Major Joint Procedures of Lower Limb, Minor Complexity	3,265	\$14,928	794	\$11,621	\$48,740,214	\$37,943,136	\$10,797,078	22%
B03C	Spinal Procedures, Minor Complexity	3,763	\$9,166	1,406	\$2,061	\$34,491,319	\$7,754,660	\$26,736,659	78%
F04C	Cardiac Valve Procedures W CPB Pump W/O Invasive Cardiac Invest, Minor Comp	2,628	\$12,903	1,642	\$9,173	\$33,908,742	\$24,105,592	\$9,803,151	29%
I06Z	Spinal Fusion for Deformity	866	\$33,829	576	\$23,900	\$29,295,715	\$20,697,556	\$8,598,159	29%
I13C	Humerus, Tibia, Fibula and Ankle Procedures, Minor Complexity	13,698	\$2,097	11,833	\$968	\$28,729,911	\$13,262,655	\$15,467,257	54%
I20B	Other Foot Procedures, Minor Complexity	15,898	\$1,697	6,352	\$728	\$26,984,152	\$11,573,720	\$15,410,432	57%
J06B	Major Procedures for Breast Disorders, Minor Complexity	18,426	\$1,400	6,279	\$467	\$25,789,398	\$8,608,621	\$17,180,777	67%
G10B	Hernia Procedures, Minor Complexity	34,561	\$687	25,858	\$301	\$23,756,195	\$10,390,890	\$13,365,305	56%
I32B	Revision of Knee Replacement, Minor Complexity	2,331	\$9,949	647	\$9,192	\$23,191,678	\$21,425,989	\$1,765,689	8%
F14C	Vascular Procedures, Except Major Reconstruction, W/O CPB Pump, Minor Complexity	7,711	\$2,880	7,242	\$1,094	\$22,204,904	\$8,434,901	\$13,770,003	62%
I19B	Other Elbow and Forearm Procedures, Minor Complexity	8,544	\$2,519	12,771	\$1,502	\$21,521,823	\$12,831,652	\$8,690,172	40%
I33A	Hip Replacement for Non-Trauma, Major Complexity	2,142	\$9,755	1,856	\$6,215	\$20,894,632	\$13,313,188	\$7,581,444	36%
I29Z	Knee Reconstructions, and Revisions of Reconstructions	12,982	\$1,558	5,318	\$1,304	\$20,230,240	\$16,925,577	\$3,304,663	16%
D01Z	Cochlear Implant	834	\$24,222	638	\$25,072	\$20,200,965	\$20,910,268	-\$709,303	-4%
F17B	Insertion and Replacement of Pacemaker Generator, Minor Complexity	1,876	\$10,499	1,577	\$2,843	\$19,695,411	\$5,334,264	\$14,361,147	73%
F04B	Cardiac Valve Procedures W CPB Pump W/O Invasive Cardiac Invest, Intern Comp	1,481	\$12,886	1,624	\$7,761	\$19,084,418	\$11,493,431	\$7,590,987	40%
F12A	Implantation and Replacement of Pacemaker, Total System, Major Complexity	1,501	\$11,921	2,830	\$3,791	\$17,893,361	\$5,690,435	\$12,202,926	68%
I09A	Spinal Fusion, Major Complexity	595	\$27,651	557	\$14,615	\$16,452,065	\$8,695,771	\$7,756,294	47%
Top 30 AR-DRGs		395,882	318,923	223,324	178,697	\$1,687,056,612	\$906,612,148	\$780,444,464	47%

Total policies at Jun 30 2019 ⁴	6,677,469
Potential savings per policy from top 30 AR-DRGs	\$116.88

1. AR-DRGv9 (Australian Refined Diagnosis Related Groups) - See Independent Hospital Pricing Authority: <https://www.ihipa.gov.au/what-we-do/ar-drg-classification>
 2. Private Hospitals Data Bureau Annual Report 18/19, AR-DRGv9, Australian Government Department of Health
 3. National Hospital Cost Data Collection, Public Sector Round 23, AR-DRGv9 - See Independent Hospital Pricing Authority: <https://www.ihipa.gov.au/what-we-do/nhcdc>
 4. APRA Operations of Private Health Insurers 2018-19

Attachment A, Table 2: Prostheses Price Comparison - Australian private system versus France prices

Prostheses Price Comparison 2021:

Australia Prostheses List vs French (FR) Medical Device Products List and Benefits 2021

Company	AU Product Name	Total AU Price (including all FR set items)	Total FR Price Euro (€)	Total FR Price in AUD \$ (FX 26 April 2021)	Price Difference (\$): AU v FR	Price Difference (%): AU v FR
PACEMAKERS						
Boston Scientific Australia Pty Ltd	ACCOLADE MRI SR	\$5,398.00	€ 2,822.80	\$4,406.04	\$991.96	23%
Biotronik Australia Pty Ltd	Edora 8 SR-T	\$5,398.00	€ 2,822.80	\$4,406.04	\$991.96	23%
ABBOTT MEDICAL AUSTRALIA PTY LTD.	Assurity MRI PM1272	\$5,398.00	€ 2,822.80	\$4,406.04	\$991.96	23%
Medtronic Australasia Pty Ltd	Azure XT SR MRI SureScan	\$5,398.00	€ 2,822.80	\$4,406.04	\$991.96	23%
Medtronic Australasia Pty Ltd	Azure XT DR MRI SureScan	\$9,296.00	€ 3,281.79	\$5,122.46	\$4,173.54	81%
Boston Scientific Australia Pty Ltd	ACCOLADE MRI DR SL and EL	\$9,069.00	€ 3,281.79	\$5,122.46	\$3,946.54	77%
Biotronik Australia Pty Ltd	Eluna 8 DR-T	\$9,069.00	€ 3,281.79	\$5,122.46	\$3,946.54	77%
ABBOTT MEDICAL AUSTRALIA PTY LTD.	Assurity PM2240	\$9,069.00	€ 3,281.79	\$5,122.46	\$3,946.54	77%
Medtronic Australasia Pty Ltd	Percepta MRI SureScan CRT-P	\$10,454.00	€ 4,700.00	\$7,336.12	\$3,117.88	43%
Boston Scientific Australia Pty Ltd	VISIONIST X4 CRT-P, VISIONIST CRT-P	\$10,454.00	€ 4,700.00	\$7,336.12	\$3,117.88	43%
Biotronik Australia Pty Ltd	Edora 8 HF-T	\$10,454.00	€ 4,700.00	\$7,336.12	\$3,117.88	43%
ABBOTT MEDICAL AUSTRALIA PTY LTD.	Allure RF PM3222	\$10,454.00	€ 4,700.00	\$7,336.12	\$3,117.88	43%
ABBOTT MEDICAL AUSTRALIA PTY LTD.	Quadra Allure MP RF PM 3262	\$10,454.00	€ 4,700.00	\$7,336.12	\$3,117.88	43%
HEARING IMPLANTS						
Cochlear Limited	Cochlear™ Baha® BIA400 Implant with Abutment	\$2,087.00	€ 917.85	\$1,429.58	\$657.42	46%
Cochlear Limited	Baha® BI300 Implant	\$1,028.00	€ 428.33	\$667.16	\$360.84	54%
Cochlear Limited	Baha BIA300 implants with abutments	\$1,916.00	€ 917.85	\$1,039.13	\$876.87	84%
Cochlear Limited	Baha BA210 Abutment	\$850.00	€ 489.52	\$762.49	\$87.51	11%
Cochlear Limited	Baha BA300 abutment.	\$889.00	€ 489.52	\$762.49	\$126.51	17%
Cochlear Limited	Cochlear™ Baha® BIM400 Implant Magnet	\$1,059.00	€ 527.50	\$821.68	\$237.32	29%
HIP REPLACEMENT COMPONENTS						
Lima Orthopaedics Australia Pty Ltd	H-Max M Femoral Stem Ti6Al4V	\$2,954.00	€ 746.83	\$1,163.41	\$1,790.59	154%
ADLER ORTHO AUSTRALIA PTY LTD	Hydra Hip Stem	\$3,609.00	€ 746.83	\$1,163.41	\$2,445.59	210%
Zimmer Biomet Pty Ltd	Alpha Durasul Insert	\$973.00	€ 251.94	\$392.36	\$580.64	148%
MICROPORT ORTHOPEDICS PTY LIMITED	Profemur L	\$3,609.00	€ 746.83	\$1,163.41	\$2,445.59	210%

Sources:

Australia Prostheses List - Part A, at 1 March 2021

Liste des produits et présentations remboursables

<https://www.health.gov.au/resources/publications/prostheses-list>

<https://www.ameli.fr/sites/default/files/Documents/729249/document/lpp-07042021.pdf>