IHACPA - Consultation Paper on Bundling Arrangements for General Use Items

Bupa Submission

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Introduction and context

Bupa strongly supports the reform of prostheses pricing and modernisation of the Prostheses List (PL) which has entrenched heavily inflated prices and inefficiency, resulting in Australian consumers of private health care paying the highest prices for medical devices in the world.

Bupa supports the removal of 494 general items from the PL from 1 July 2023 in line with the findings of the 2020 Review of the General Miscellaneous Category of the Prostheses List (the GM Review) that these items are general consumables and are better funded through case based or bundled arrangements.

Bupa agrees that per-item benefits for such consumable items are a poor way to incentivise cost effective use, with the GM Review citing many examples of over utilization and high wastage including:

- High overall growth and usage per separation - items with high aggregate growth beyond the growth in the number of procedures performed and at a level suggestive of overuse and waste.
- Usage skewed towards more expensive options such as the larger versions of matrices, pliable patches, and some internal adhesives where evidence suggests these are excess to clinical need.

Bupa supports funding mechanisms that give patients access to a wide variety of items that provide real value, with selection based on clinical need and in appropriate quantities for their care. We agree with the submission of Private Healthcare Australia (PHA) that value should be the guiding principle adopted by the Independent Health and Aged Care Pricing Authority (IHACPA) in its development of advice on alternative bundling arrangements. Therefore, a national efficient price framework, as used by IHACPA for their public hospital pricing and activity based funding work, is the most appropriate for the development and pricing of bundles.

National efficient pricing

Bupa believes the methodology for the pricing of bundles should be based on a national efficient price framework. We also support using public system utilisation and volumes as a benchmark because of the implied cost effectiveness threshold for use in that setting. The data held by IHACPA on general item usage in the public sector is likely to provide helpful insights. Low variation between public and private and within private hospitals is likely to be a sign of efficient use, high variation is likely to indicate inefficiency. Given that public sector references are being used for pricing benchmarks, public sector references should also be used for volume benchmarks.

Bundles should be designed in a way that disincentivises the use of higher cost items that perform clinical roles in excess of what is required and/or cost effective. Median usage and costs should be used in preference to averages. A small proportion of procedures done with high-cost consumables (such as orthopaedic procedures using expensive haemostats rather than other techniques to control bleeding) will drive up the average, where the median may be lower (or indeed, zero).

IHACPA should report on the proportion of procedures utilising general items in each category, and (using the median usage, rather than average usage):

- if fewer than half the procedures in a category use general items, then the efficient price would be zero;
- if more than half the procedures in a category use general items, then report the 25th percentile use (which may be zero), the median use and the 75th percentile use.

Funds and hospitals will then have good information on which to base decisions about the funding and procurement of general items.

Utilisation and data sources

The general use items being removed drove significant increases in utilisation and total benefits paid in GM category of the PL each year over the period from FY14 through to FY19. In this period, there was an 11% compound annual growth rate (CAGR) in the number of items used per year and a 9% CAGR in the total benefits paid over the period. This gave rise to an independent review of items in this category.

Bupa submits that IHACPA give appropriate regard to the observations and findings of the GM Review when using current utilisation data and the expected PL scheduled benefits to define and price general use item bundles. These include:

- Above-trend usage growth that can't be explained by increases in the number of procedures or changes in case mix;
- Usage skewed towards more expensive options in groups where similar items have different minimum benefit amounts with little/no clinical benefit over cheaper alternatives;
- Usage skewed to PL listed items over equivalent non-PL items, including large growth;
- Pricing relativities between products that are at odds with their clinical functionality;
- Benefit increases for items already in long-standing use, that had not changed, and unexplained usage increases also followed the increase in benefit amount.

Given the timeframe in which most of the problematic volume and price growth occurred, IHACPA should consider using a longer timeseries to examine variation in item utilisation rates within the bundles.

In relation to the way utilisation is captured and the quality and utility of the proposed data sources Bupa notes that waste is difficult to identify and/or confirm by auditing clinical records and this has exposed all product sub-groups structured in size or volume tiers to significant gaming. IHACPA will need to correct for this gaming in the design of general use item bundles to reduce inefficiencies and wastage.

Additional data and information sources

Public Hospital Admitted Activity Data Collection and National Hospital Cost Data Collection
Bupa supports the use of public hospital admitted activity data with respect to privately insured admitted episodes in public hospitals.

In addition to this IHACPA should also use the Public Hospital Admitted Activity Data and National Hospital Cost Data Collections to compare utilisation rates for general use items in public patient admitted episodes in public hospitals. This will help identify unwarranted variation and utilisation beyond what is clinically and/or cost-effective.

Classification systems and bundle design

Bupa supports IHACPA's intention to use the episode of admitted patient care as the basic level of aggregation for defining General Use Item bundles.

As outlined in the consultation paper general use item utilisation varies significantly across product characteristics, clinical and patient characteristics, and hospital characteristics. However not all of this variation is warranted and may be undesirable. Therefore, not all differences in item usage and benefits should be captured or reflected in the defined bundles.

Bupa supports the use of well-established global clinical classification systems including ICD-10-AM/ACHI/ACS, AR-DRG and MBS that are used across Australia's hospital sector. These allow for comparing private and public utilisation as Bupa can see no reason for benefit cost or utilisation to differ substantially between our public and private systems.

The use of hospital type, PL product classification and other clinical or patient classifications should only be used where there is clear justification and patient benefit.

Product characteristics

While some product characteristics may need to be incorporated into the design of General Use Item bundles, use of the pre-existing PL product classifications should be approached with caution due to the many issues and anomalies in product classifications and benefit settings found by the GM Review. Some examples include:

- evidence of items being included on the PL in sections inconsistent with their actual or intended use;
- benefit amount differentials between products which are not explainable by clinically relevant product differences; and
- evidence of gaming including inappropriate comparators and reclassifying existing, unchanged products into higher benefit subgroups or suffix groupings.

Bupa submits that IHACPA should adopt similar organising principles to those being used in regrouping the PL, namely:

- aligned to similar intended use or health outcomes; and
- patient-centred, based on clinical care not product features.

Clinical and patient characteristics

Cost effectiveness depends on the patient population in which the treatment is used. Products should only be listed for use in the patient populations or therapeutic indications for which they are more clinically effective and more cost effective than the alternatives.

Currently, PL items are assessed against the product's indicated use, as put forward by the sponsor in their application. However, the obligation for PHIs to pay benefits results in PL listings that are effectively unrestricted, with many items used for purposes unrelated to their listing and for which they have not been assessed.

For example haemostats should be used as an adjunct to haemostasis for use in patients undergoing surgery, when control of bleeding by standard surgical technique (such as suture, ligature or cautery) is ineffective or impractical. They are cost effective in vascular and neuro indications, but not in joint replacement surgeries where PHA advises they add $2,000-$12,000 to the cost of a procedure, with no evidence they provide a clinically significant benefit over other methods of controlling bleeding.

Hospital characteristics

Bupa agrees with the submission of PHA that it is unclear why similar procedures should use different items depending on the characteristics of a hospital. Using the clinical classification systems discussed above should be enough to account for varying utilisation justified by complexity and case mix. Unless there is clear evidence of patient benefit from differential consumable usage in particular settings, such variation is likely to be undesirable.

For the example, GM Review found that between FY11 - FY19, three large hospital groups had 'items per separation' growth rates of 8% - 10% each, over double the growth rate for all other hospitals in aggregate.

The GM Review also found a preference for larger sized liquid matrix products among private hospital groups that was not replicated in episodes of private treatment within public hospitals. Clinical subject matter resources confirmed there is no obvious reason why private treatments in public hospitals would clinically require smaller sizes, suggesting that clinical need is not driving this preference.

The use of hospital type, specialisation or locality within the formulation of advice on General Use Item bundling arrangements may be useful for identifying such undesirable variation and designing bundles in a way that incentivises its reduction.

Other issues and considerations

Other issues of relevance to the formulation of advice on alternative bundling arrangements include:

Discounting and rebate arrangements

The Senate Inquiry into price regulation associated with the Prostheses List framework in 2017 (the Inquiry) found that prostheses suppliers offer volume-based discounts and rebates to private hospitals who purchase their devices under commercial-in-confidence arrangements. Such arrangements make it unclear what the real price being paid per device is.

Prior to 2007 very similar discounting practices existed in the supply of multi-branded, PBS listed medicines to pharmacies. Price disclosure was introduced to ensure these discounts and rebates were passed on to patients and the Australian Government. Bupa strongly supports the introduction of a similar mandatory disclosure regime of all discounts and rebates paid to hospital providers for prostheses, along with transparency for other indirect incentives such as sponsorships and educational events where hospitality and entertainment is provided. Disclosure requirements could easily be modelled on those already in place for the pharmaceutical industry.

Prior alternative funding arrangements

Many general use items were in use and funded through case-based payments, theatre band charges and other hospital-insurer funding structures for several years prior to being added to the PL. The GM Review found multiple examples of such items including internal adhesives, foam haemostatic items and at least one of the staples, reinforcer items.

Theatre fees are intended to include consumables and disposable instruments as well as a contribution towards building and equipment costs.