

Response to Consultation Paper on the Pricing Framework 2016-17
Submission of Medtronic Australasia Pty Ltd to Independent Hospital Pricing Authority
July, 2015

Introduction

As an active participant in the Australian medical technology environment for more than 40 years, and internationally for over 65 years, Medtronic Australasia welcomes the opportunity to comment on the Draft Work Program 2016-17 that is proposed by the Independent Hospital Pricing Authority (IHPA).

About Medtronic

“To contribute to human welfare by application of biomedical engineering in the research, design, manufacture, and sale of instruments or appliances that alleviate pain, restore health, and extend life.”

Founded in the USA in 1949, Medtronic has grown to become a global leader in medical technology. Conducting business in more than 160 countries, Medtronic is a global healthcare solutions company committed to improving the lives of people through our medical technologies, services, and expertise across the continuum of care.

Medtronic Australasia, headquartered in Sydney, was established in 1973 and employs approximately 800 staff across Australia and New Zealand.

Medtronic is an active member of the Medical Technology Association of Australia (MTAA) and supports the Medical Technology Industry Code of Practice which aims to facilitate ethical interactions with healthcare professionals and others in the medical technology industry.

Comments to the Pricing Framework

Medtronic provides comment in areas where we can substantiate these with expertise and experience; hence our comments focus on important broader issues underpinning the implementation of activity based funding (ABF) in Australia. The comments and subsequent recommendations which follow correspond to the consultation questions raised by IHPA.

The comments in section 9 and 10 should not be considered in isolation, Medtronic sees the combination of both bundled pricing and pricing for quality and quality as key to achieving best value (both clinical and cost) in the Australian healthcare system.

Section 9. Bundled pricing (9.2 Bundled pricing in future years)

- *Do you support IHPAs expanded policy intention for bundled pricing in future years?*

Medtronic supports payment and delivery reform that seeks to focus on prevention and wellness, avoidance of unnecessary and harmful care and the improvement of the care delivered at a lower cost per capita.

Implementation of **value-based payment models**, such as bundled payments, can encourage providers to coordinate patient care across the entire care continuum and increase providers' accountability for delivering high-quality patient care. However, in order to ensure that models of bundled care result in incentives for best outcomes they need to reimburse providers based on their achievement of specified quality and performance measures and also offer financial incentives to providers for reducing spending and improving patients' healthcare outcomes.

- *What services or patient episodes of care would most benefit from this expanded bundled pricing approach?*

Bundled payments are most suited to procedures with an easily defined starting point and an end point that is the same across all patients. As such, Medtronic agrees that uncomplicated maternity care and joint replacements are particularly suited to a bundled pricing/payment approach.

Chronic conditions consume a large proportion of health care spending and would benefit from a funding model that is focused on reducing spending and improving patients' healthcare outcomes, however bundled pricing for chronic conditions will be difficult to achieve because the beginning and ending of treatment for the condition is not necessarily consistent or easy to determine. Medtronic is concerned that, like chronic conditions, stroke will be difficult to appropriately price unless appropriate risk adjustment/high cost outlier measures are put in place to address the differences in stroke severity and levels of care.

- *What issues should IHPA consider prior to implementing a bundled price and how can these issues best be resolved?*

The bundled pricing/payment approach should include the following considerations to ensure the best possible implementation of the funding arrangements.

1. Service inclusion and exclusions. These need to be clearly defined, they should be based on focused care delivery goals or cost-reduction priorities and health service providers should be made aware of why these service inclusions/exclusions have been chosen.

Health service providers are incentivised to affect only the included services and items. So if, for example, readmissions are not clearly included in the bundle, providers will not be responsible for readmissions and also will not be rewarded for reducing them.

2. Risk adjustment. The use of performance metrics should be considered to reflect and account for different types of patients.
3. High cost outliers. An approach to addressing patients with extraordinarily high costs not anticipated in the bundle needs to be developed.
4. New technology/model of care adjustment. An approach to accounting for new, innovative technologies and/or models of care which are not currently accounted for in the bundle needs to be developed. The bundle structure needs to be flexible to allow prompt adjustment otherwise the clinical/cost benefits of new technology/models of care may not be realised. Also related to this is the identification of any perverse incentives that the bundle may create which discourages new ways of providing patient care.
5. Quality monitoring. Metrics to assess provider performance and patient satisfaction are necessary to ensure that care is not withheld to meet bundle targets.

The data/metrics identified can also be used to drive best practice and consistency in cost/outcomes across health service providers.

Section 10. Pricing for safety and quality

For this section Medtronic has assumed that pricing for safety and quality will be linked to the bundled payment approach, as it is key to achieving best value (both clinical and cost) in the system.

- *If feasible, would you support a best-practice pricing approach for hip fracture care in future years?*

Yes, as discussed in section 9, Medtronic supports payment and delivery reform that seeks to focus on prevention and wellness, avoidance of unnecessary and harmful care and the improvement of the care delivered at a lower cost per capita. However when implementing a best-practice approach for hip fractures Medtronic suggests IHPA follow the suggested steps below to ensure the system provides shared savings and incentivises the coordination of care across the entire healthcare continuum.

- *What implementation issues should IHPA consider when further investigating the feasibility of applying a best-practice approach in future years?*

Medtronic believes that the key to developing best-practice (or value-based) bundled payment, is to begin by identifying meaningful medical conditions and disease states suitable for these types of bundles. Once the conditions and diseases are defined, disease-specific timeframes, outcome measures, and payment amounts based on best practice care pathways can be established.

The following are key steps in the process of implementing best-practice (value-based) bundled payments:

1. Identify the specific medical condition or disease state. Health care spending is highly concentrated among patients with certain chronic and complex medical conditions. Therefore, value-based payment bundles should be focused on high impact, high cost medical conditions and disease states instead of focusing on bundles surrounding single procedures or abbreviated treatment episodes.
2. Define the payment bundle based on timeframes for disease-specific care pathways. Define meaningful timeframes and outcome measures which have a clear rationale based on broad stakeholder consultation. The measures should be based on a care pathway specific to and appropriate for the disease (in order to ensure that the bundles are value-based, these timeframes and outcomes need to be specific to the disease and not applied arbitrarily across many diseases).
3. Balance inclusion and exclusion criteria for services contained in the value-based payment bundles to satisfy the needs of payers and providers. Generally, under bundled payment arrangements, health funders want very broad criteria for inclusion of services in the bundle, since such bundles will typically be easier to administer. Meanwhile, hospitals/health service providers will seek narrower inclusion criteria to mitigate the inclusion of potential outliers and the possibility of taking on too much risk that cannot be directly influenced by hospitals. To balance the needs of both stakeholders, bundles should be risk stratified to include care for common disease-specific complications and comorbidities, but should not for treatments unrelated to the medical conditions.

4. Ensure adequate volume under the bundle. Where a hospital does not have a statistically significant number of patients within each episode, this can lead to wide variation in patient-severity and thus cost. The creation of broader value-based payment bundles based on specific medical conditions and disease states (versus specific procedures) may help to ensure more adequate volume of patients included under each bundle, thereby mitigating issues associated with the variation in low-volume, procedural-based bundles.
5. Build a disease-specific best practice care pathway. Under a best-practice pricing approach it is critical that a disease-specific best practice care pathway is developed for each focus area. These care pathways should be developed to ensure the provision of effective, efficient and consistent care that leads to little variation in practice patterns.

The development of the care pathways should be done with broad stakeholder consultation and should include agreement of what is considered best practice for the disease state.

6. Build the bundled payment amount based on best practice care pathways, not historical estimations of costs. Historical estimations of costs, which may reflect systematic over or underutilisation of health care services, should not be used as a basis for payment. In addition, the baseline financial targets on historical data that cannot anticipate emerging technology/model of care innovations that may improve patient outcomes and bring value to the healthcare system. Therefore, the disease-specific best practice care pathway should serve as the basis for establishing payment for best-practice bundles, rather than the use of historical cost data.
7. Provide for frequent updates to the payment amount based on changes in innovation, best practices, as well as incentives for savings. The process for calculating financial targets in the current funding reforms, which is based on historical estimations of costs, creates disincentives for hospitals/health service providers who are early adopters for new technologies that may cost substantially more, but have the potential to deliver value over the longer term. Linking payment the use of up-to-date best practice care pathways, allows providers to utilise emerging medical innovations that may improve patient outcomes and bring value to the health care system.

Conclusion

Medtronic supports a transparent activity based funding system which is designed to foster clinical innovation and supports the rapid uptake of value adding new technologies that encourage hospital efficiency, the provision of best practice health care and the best possible clinical outcomes for patients.

We thank you for the opportunity to respond to the Pricing Framework 2016-17.