Medical Technology ASSOCIATION OF AUSTRALIA

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Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100 Parliament House
Canberra ACT 2600

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Dear Secretary

Inquiry into Private Health Insurance Legislation Amendment Bill 2018 and related bills

The Medical Technology Association of Australia (MTAA) welcomes the opportunity to provide a submission to the Senate Community Affairs Committee with respect to the following Bills:

- Private Health Insurance Legislation Amendment Bill 2018;
- A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Amendment (Excess Levels for Private Health Insurance Policies) Bill 2018; and
- Medicare Levy Amendment (Excess Levels for Private Health Insurance Policies) Bill 2018

MTAA's Role and Contribution to Australian Healthcare

MTAA is the national association representing 101 companies across the medical technology industry. We represent manufacturers and suppliers of medical technology used in the diagnosis, prevention, treatment and management of disease and disability. Our objective is to ensure the benefits of modern, innovative and reliable medical technology are delivered effectively to provide better health outcomes to the Australian community.

MTAA supports the Government's private health insurance (PHI) reforms and their intent to address the issues of value, affordability, simplification and transparency of insurance policies for Australian consumers. Privately provided healthcare, underwritten through individuals' and families' insurance, helps ensure Australia maintains equitable access to quality care in the public system while providing expanded choices throughout the overall healthcare system. Without these reforms, the current trend of consumers cancelling their insurance policies will continue.

MTAA has already played a significant role in addressing the rising financial burden of private health insurance, particularly in terms of value and affordability. Our industry agreed to a reduction in the benefits paid by insurers for devices on the Prostheses List (PL). These actions resulted in savings to insurers of around $1.1 billion over four years and underpinned the lowest premium increase in 17 years.

As a result of these reforms, on an aggregate level any differences between public and private sector pricing for medical devices has been removed. MTAA members are working hard to ensure that, despite these significant cuts, a wide range of prostheses remain available to consumers with private health insurance. We believe the choice of life-saving medical device to address their condition as selected by their physician is one of the core value propositions of private health insurance.

Enhanced role of the Private Health Insurance Ombudsman

MTAA supports the measure to strengthen the powers of the Private Health Insurance Ombudsman, given complaints to the Private Health Insurance Ombudsman (PHIO) increased by 30 per cent, continuing a trend of increasing complaints (which have risen for the fourth consecutive year). We believe it is important for consumers to have trust in the system and that decisions by insurers about people's coverage are fully auditable and include redress for error and unwarranted exclusion of benefits. To this end, MTAA has been calling for audits that will ensure private health insurers meet their obligations, including passing on every dollar of the $1.1 billion in cuts to the Prostheses List (PL) to keep down insurance premiums for consumers.

Recategorisation of Covered Hospital Procedures

MTAA has reservations regarding the private health insurance product categorisation reforms that are currently being developed – gold, silver, bronze and basic. The objective of this reform is to enable consumers to compare different policies more easily and to understand better what services different products do, and do not, cover. MTAA fully supports the intent and the need to introduce simplified categories of health insurance products.

MTAA is concerned the complexity of product offerings will continue due to the differences in insurance coverage across a large number of hospital treatment categories. The longer and more specific the list of services for inclusion/exclusion in the insurance product tiers, the more complicated the insurance product will be and lead to continued consumer confusion about what they are purchasing.

Further, many of the hospital treatments that are flagged to be exclusive to the gold category are associated with clinical conditions with a high and/or growing prevalence. If insurers do not maintain existing coverage for patients with these conditions who are currently covered by low and mid-tier insurance products, consumers will be required to upgrade their cover to ensure they maintain existing levels of coverage, thereby increasing the cost of premiums at the household level.

This will have the opposite effect of that intended – causing a large number of patients to potentially exit the private health system and receive care through the public system. At the very least it will result in many Australians paying more for services for which they are currently covered.

Should this occur, the flow-on consequences for the public system could be:

a) Increased demand for public hospital procedures, thus leading to longer waiting lists;
b) Insufficient public sector infrastructure available to absorb the number of new patients transferring from the private sector; and
c) Transfer of significant healthcare costs from insurers to State and Commonwealth Governments.

The end result of such recategorisation will be a substantial number of Australians in need of urgent medical treatment not receiving it in a timely or effective manner, while the financial situation of insurers would be stable or enhanced.

1. <u>Orthopaedic:</u>

MTAA understands that joint-replacements will be categorized as gold, which will have the likely impact of limiting patient's access to this procedure and pushing people onto the public waiting list. AIHW data[1] indicates that, the proportion of patients (compared to the total population) with total hospital insurance cover reduced from 65 per cent in 55-59 year old's to 27 per cent in those aged 85 or over. This is presumably an affordability issue. Many of the conditions that will be limited to gold tier insurance products predominately affect older Australians who are more sensitive to increases in the price of their policies.

Based on 2017 Australian Orthopaedic National Joint Replacement Registry data, osteoarthritis is the principal diagnosis for all five types of partial knee replacements (at 98.9 per cent) and primary total knee replacement (at 97.6 per cent of cases). The AIHW reports that in 2014-15, 2.1 million Australian had osteoarthritis, with the prevalence of the condition rising sharply after the age of 45, and being greatest in patients aged 80 and over. There was a rise of 38 per cent in total knee replacements from 2005-06 to 2015-16.[2]

The patients most likely to require insurance for knee replacements are those most likely to be unable to afford the ongoing purchase of a private health insurance policy that meets their needs, particularly if low and mid-tier policy coverage of these conditions is removed. Patients on existing low-medium tier insurance policies will need to either upgrade to gold coverage or be left with no alternative but to join the waiting list for treatment in the public system.

2. Weight Loss Surgery

Restricting certain hospital treatments to gold only may also result in reduced access to some treatments not generally provided through the public sector potentially resulting in worse health outcomes. This issue is pertinent to weight loss surgery and insulin pump availability.

The vast majority (90 per cent) of weight loss surgeries between 2005-6 and 2014-15 occurred in private hospitals and in 2014-15, there were 22,700 hospital separations. Around two-thirds of the adult Australian population are overweight or obese, with the lowest socioeconomic groups experiencing rates of overweight or obesity 2.3 times those of the highest socioeconomic groups.[3]

Removing low and medium tier coverage for weight loss surgery could result in significantly increased healthcare costs arising from the complications of obesity in a patient population that is likely to be very sensitive to increases in private health insurance costs. It could also result in worse health outcomes.

3. Diabetes Treatment

Insulin pump therapy enables better glycaemic control, reduced frequency of severe hypoglycaemia requiring hospital presentation or admission, as well as improving health status and quality of life.

Around 10 per cent of the 110,500 patients registered under the National Diabetes Supply Scheme (NDSS) with type 1 diabetes used insulin pumps (noting that this number increased to 118,776 at end

[1] AIHW Private Health Insurance Use in Australian Hospitals 2006-07-2015-16 , page 15
[2] https://www.aihw.gov.au/reports/arthritis-other-musculoskeletal-conditions/osteoarthritis/contents/hospitalisation-and-the-treatment-of-osteoarthritis
[3] https://www.aihw.gov.au/reports-statistics/behaviours-risk-factors/overweight-obesity/overview

March 2018).[4] Around 90 per cent of patients purchased insulin pumps through private health insurance arrangements. There is almost no public subsidy for insulin pumps.

Limiting insulin pumps to only gold tier insurance products runs the risk that many patients with type 1 diabetes will not be able to afford to manage their diabetes, leading to increased healthcare costs associated with poor glycaemic control.

Whilst these new arrangements will set the minimum product requirements for the relevant product category and will allow for insurers to cover additional services within each product category, in the case of weight loss surgery and insulin pump therapy, it is unlikely that insurers would choose to offer these services in silver or bronze as they will want to avoid adverse selection.

4. Chronic Pain Management

MTAA has concerns with the proposal to limit chronic pain management options to gold only. Such a move would have the effect of curtailing access to a clinically effective treatment option for many Australian private health consumers.

Given the nation-wide recognition by Governments for the need to tackle opioid addiction, limiting access to therapies such as spinal cord stimulators for the management of chronic pain acts against the Government's declared intent to pursue all available solutions to address opioid dependency among Australians suffering chronic pain.

Current spinal cord stimulators use novel waveforms that are paraesthesia-free, meaning patients can drive and sleep with the therapy. This has led to improvements in functional outcomes such as returning to work and quality of life measures. Spinal cord stimulation is a viable alternative to spinal fusions and the latest evidence shows significant improvements in long term patient outcomes for back and leg pain.[5]

A January 2017 study sponsored by Abbott[6], which develops and manufactures spinal cord stimulators, found average daily opioid use declined or stabilised for 70 per cent of chronic pain patients who received a stimulator, compared to opioid use before the implant.

Restricting insurance coverage for this proven therapy, which can restore Australians with chronic pain to productive life, undermines the value of private insurance for consumers, particularly for Australians in physical jobs who do the responsible thing and insure themselves against the risk of chronic injury.

Role of the Prostheses List

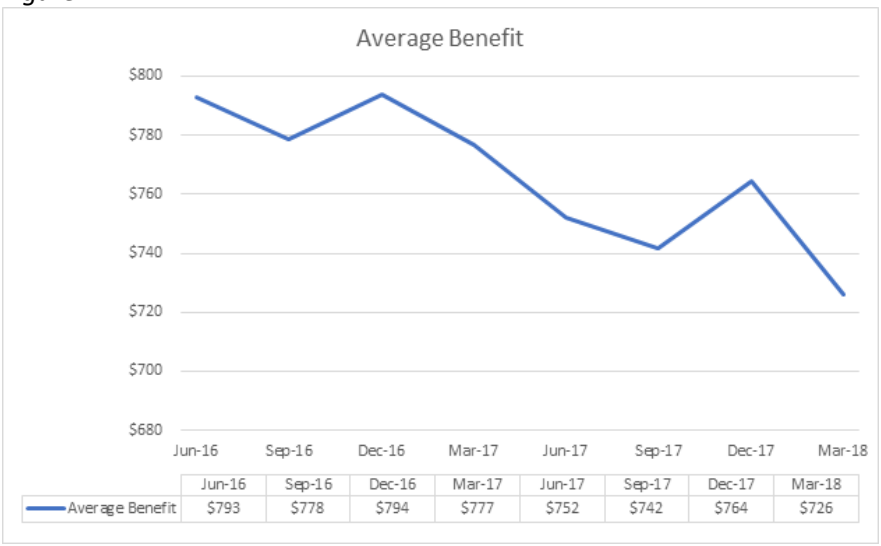
Despite its very small contribution to the proportion of the total private health insurance spend (11 per cent), the PL contributes significantly to one of the key value propositions of PHI for consumers over the public hospital sector – choice. The PL provides privately insured patients certainty of access and cost (currently nil) to a wide range of prostheses in the private sector compared to the public sector and the choice of prostheses the surgeon can make for his/her patient is not constrained.

[4] AIHW Insulin Pump Use in Australia 2012
[5] https://www.ncbi.nlm.nih.gov/pubmed/28961366
[6] https://www.mddionline.com/spinal-cord-stimulation-may-reduce-opioid-use

The PL has also contained inflation in the level of the average benefit for device-related treatments, thereby assisting in reducing private health insurance costs below the level they would have been without the PL. Recent claims from private health insurers the cost of medical devices *"was already over budget this year"* does not reflect reality as shown below (*Figure 1*) the benefits on the PL continues a downwards trajectory and will continue to do so as the full impact of the $1.1 billion cuts to the PL becomes a reality. The increase in utilization of prostheses is principally related to our ageing population and earlier identification of chronic diseases.

Recent quarterly figures by Australian Prudential Regulation Authority figures show the total benefits paid for prostheses decreased by 13 per cent in the March quarter 2018 compared to the December quarter 2017, this represents a $72 million saving to private health insurers.

Figure 1:



	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Average Benefit	$793	$778	$794	$777	$752	$742	$764	$726

Source: APRA Private Health Insurance Quarterly Statistics

It is therefore important that any future reforms to insurance do not diminish the consumer perception of PHI value through reduced choice or increased out of pocket costs, in order to avoid a further exodus of members from PHI towards the public waiting lists.

MTAA notes that actuarial modelling released by the Private Health Ministerial Advisory Committee assumes maintenance of private health insurers margins under planned reforms. Indeed, APRA data shows that insurers' margins have been steadily increasing in recent years, with the March 2018 data showing that profit before tax increasing by 24 per cent over the last two years.

As MTAA has noted, our members worked with the Government to deliver savings and help drive reform. The Private Health Insurance industry must also play its part and adapt to new circumstances rather than protect their significant profits and retained capital.

Non-Implantable devices

As we have outlined in previous Senate inquiries, MTAA believes opportunities to improve the value of PHI through expanding the PL to allow technologies which support contemporary medical practice should be made available to patients. For example, atrial fibrillation (AF) is a major health issue

impacting 460,000 Australians. AF is considered a major cause of stroke in Australia at around 6,000 strokes annually. Heart failure results in more than 60,000 hospitalisations annually. The result is a direct healthcare cost of $1.6 billion to the community.

Recent findings published by the prestigious New England Journal of Medicine found that patients with AF benefited more from catheter ablation over drug treatment.[7] Currently, privately insured patients are not eligible for this treatment because the prostheses list does not provide for the reimbursement of non-implantable devices. Thousands of privately insured patients must join the already crowded public hospital waiting lists for this life changing treatment. This is an issue acknowledged by the Government in its Prostheses List Agreement with MTAA.

As well as promoting reimbursement of catheter ablation for AF, the same case has been made more recently for clot retrieval devices for stroke. In their evaluation of mechanical thrombectomy the Medical Services Advisory Committee (MSAC) noted the following:

> *"MSAC noted that the clot retriever devices are not implanted but are removed from the body along with the clot. This means they are not eligible to be included on the Prostheses List and private health funds will not be required to cover the fees for them. MSAC expressed concern this could result in unexpected out-of-pocket expenses for patients or unacceptable delays to treatment. MSAC noted that the cost of the clot retriever should not be a barrier to treatment and suggested the department and the Prostheses List Advisory Committee (PLAC) explore ways to address this issue."*

The Federal Government Budget measures included funding for a new mechanical thrombectomy MBS service for the treatment of acute ischaemic stroke due to a large vessel occlusion, as identified by diagnostic imaging. While most procedures could be expected to be conducted in public hospitals under emergency circumstances, it cannot be ruled out that a private hospital may also need to do so. This procedure should be available through all insurance product categories (from Basic to Gold) because the community cost of not doing so will be too high.

Coverage of Services Related to Medical Technologies: Out-of-hospital

Just as non-implantable devices with proven health economic outcomes should be included for reimbursement by PHI policies, the incentives need to be changed for increased access to services outside of the hospital environment. As innovation such as remote monitoring and telehealth continue to enable patients to be treated outside of the hospital setting it is important funding barriers are addressed to allow patients to access treatments that maximise outcomes and help the economic sustainability of the healthcare system.

We note that funding for the delivery of remote monitoring services for implanted cardiac devices is being considered by an industry working group (IWG) established under the Government/MTAA Agreement. Assured and stable funding mechanisms for ongoing services supplied related to implantation of a medical device are essential to ensure Australians obtain the optimal health benefit from life-critical implanted devices.

Patient focused technology has the ability to fill a void created by the healthcare system in the non-hospital setting. The issue of market access and reimbursement streams through private healthcare

[7] https://www.nejm.org/doi/full/10.1056/NEJMoa1707855?rss=mostViewed&page=8&

of medical technologies that assists patients better manage chronic disease in the home should be incentivised. Private health insurance does not routinely cover medical services that are provided out-of-hospital.

MTAA thanks the Committee for undertaking this review of legislation. MTAA recognises the public health system pressures and the important role that private health insurance has in alleviating these, particularly in light of the increasing burden of chronic disease and ageing population.

Should you have any questions regarding this submission, please contact Polo Guilbert-Wright, our Government Relations and Communications Manager - [redacted] (02) 9900 0600.

Yours faithfully,

Ian Burgess
Chief Executive Officer