

**AUSTRALIAN ASSOCIATION OF
PATHOLOGY PRACTICES Inc.**

AAPP

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25 June 2003

Mr Elton Humphery
Secretary
Select Committee on Medicare
Suite S 130
Parliament House
Canberra ACT 2600

Dear Mr Humphery,

The Australian Association of Pathology Practices Inc (AAPP) is the industry body representing the interests an estimated 85% of private pathology practices in Australia. We appreciate this opportunity to bring to the attention of the Committee issues surrounding the potential introduction of the measures contained in ‘A Fairer Medicare’ package.

Although the Terms of Reference focus on general practice, the links between efficient and effective primary healthcare and the availability of affordable, quality and cost effective medical services such as pathology are inseparable.

The Committee will be aware that the AAPP and the Royal College of Pathologists of Australasia are co-signatories to a “Quality and Outlays Agreement” which caps the annual funding commitment of the Government to subsidise patient rebates towards the cost of pathology services under Medicare. At the end of the fourth year of our second agreement, (a total of seven years under capped funding) outlays are within \$300,000 of the \$4 billion plus target of the current agreement (\$8 billion over the 7 years). Shortly, we will begin negotiations towards a third funding agreement to commence on 1 July 2004.

The achievement of Government expenditure targets has delivered massive savings to the government but at a cost to pathology providers. Of all Medicare services, pathology is the only specialty where, to date, the level of bulk-billing has not fallen in recent years, although it has plateaued. However, this has only been possible through industry consolidation and huge efficiencies which have been delivered to the Government without any additional financial impost on patients. This situation cannot continue. An article published in a recent edition of *The Medical Observer* summarising the dilemma facing the industry (and Government) is attached as Appendix A for the Committee’s reference.

In approaching any new funding agreement, the profession will be cognisant of what impact any changes to Medicare overall might have on capped outlays for pathology. The funding agreements contain provisions which allow for changes in the funding cap where it can be demonstrated that changes in Government policy have modified the demand for and utilisation of pathology services.

To assist us in calculating any potential impact the proposed package might have, we submit the following questions which we believe require clarification and substantiation. We would be pleased if the Committee were able to provide this information through the Inquiry process.

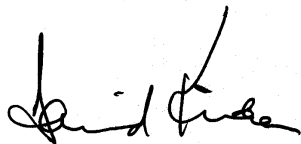
Questions of clarification

1. What is the estimated impact of the "Fairer Medicare" package on outlays and demand for Medicare Pathology services annually?
2. What is the expected impact on different population groups, eg the aged, etc?
3. Is increased availability of direct billed GP services to concession card holders likely to lead to more and/or longer consultations and greater demand for pathology services?
4. What is the estimated Pathology component of the expected cost of the 'stronger safety nets' for Commonwealth concession cardholders?
5. Can it be confirmed that the additional outlays for the Pathology services contribution to this cost will be funded entirely outside the Agreement?
6. Is a \$500 "safety net" threshold likely to result in increase in demand for Pathology services once the threshold has been exceeded?
7. Why has the concept of participating practices/doctors been limited to GPs when issues of bulkbilling and gaps also apply to Pathology services?
8. Is the Government not concerned that the expected shortfall in revenue in participating practices will be met by higher gaps for others including the non insured or cost shifted to private health insurance?
9. Can it be confirmed that the proposed Private Health Insurance proposals cover all Pathology services that attract the 85% Medicare rebate?
10. What monitoring arrangements are to be introduced to assess the impacts of the proposed changes?
11. What mechanisms will be available under the funding agreement to take into account increased costs as a result of this policy initiative?

Answers to these question will help clarify the impact and potentially unforeseen consequences of the proposed package.

The AAPP looks forward to consideration of the above issues by the Committee

Yours sincerely



David Kindon
Chief Executive Officer
25 June 2003

Pathology feels the pinch



Appendix A

DAVID KINSON

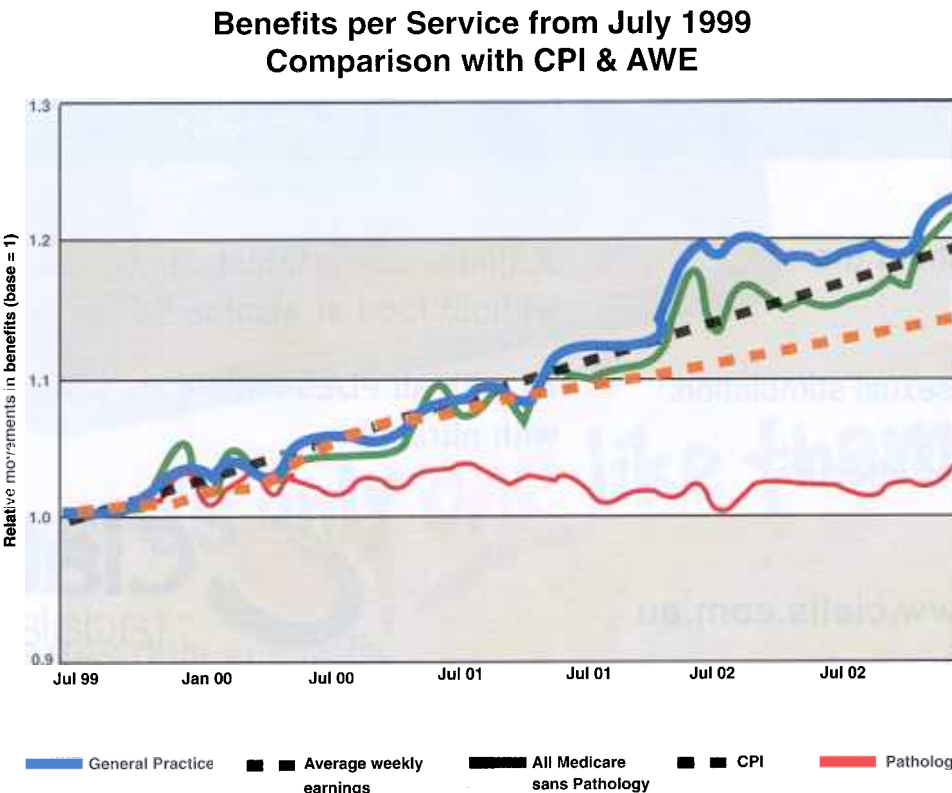
Higher costs put pathology bulk-billing in jeopardy

OPINION

IN the debate over the rapid and accelerating decline in patient bulk-billing under Medicare, pathology has long stood out as the exception to the trend.

However, in the opinion of the private pathology industry body, the Australian Association of Pathology Practices Inc, this trend is likely to be reversed in the near future. This is regardless of any impact the new Medicare package may have on the ordering of pathology services.

Through the many reforms relating to the provision of pathology services in the past 15 years, successive governments, both Coalition and Labor, have benefited from savings of more than \$1 billion in Medicare pathology outlays. These have occurred through reforms and



capped funding arrangements targeted at controlling government expenditure.

The impact of these measures means the average cost of a pathology test has declined in the period 1999/2003 and that through the high incidence

of bulk-billing, the cost of providing these efficiencies in service delivery has fallen squarely on the providers of pathology. The graph above, comparing a pathology benefit with rises in other medical and economic indicators, illustrates the situation clearly.

In this period, while cost increases have been absorbed and government outlays have been constrained, patients have been protected through high pathology bulk-billing rates.

However, the costs of providing pathology ser-

vices have increased to the point where it is inevitable that something has to give for the system to continue to provide the high standard of pathology services demanded by doctors and patients.

The profession has been subjected to several cuts to Medicare rebates to keep government expenditure on track. To date, these reductions have not been passed

Cost escalation has been borne to date totally by pathology providers.

on to patients by way of patient gaps.

A study of cost increases in both public and private pathology practices indicates that during the current funding agreement, practice costs have risen by a weighted average of 14% (labour 8.3%, non-labour

16.5%) against a notional cost escalation of less than 6% allowed through the whole five-year agreement.

The position is exacerbated by the growth in demand for pathology services having exceeded the total allowed for under-capped funding arrangements.

Growth has exceeded the allowance for both activity and price adjustment, meaning cost escalation has been borne to date totally by pathology providers.

The government has reaped significant efficiency dividends generated through pathology industry rationalisation. The efficiencies delivered through mergers, acquisitions, take-overs and corporatisation cannot be repeated.

Pressures generated now through increased costs and demand for pathology services will have to be paid for either by the government through higher Medicare rebates, or through a combination of lower bulk-billing and higher patient gaps.

Mr Kinson is CEO of the Australian Association of Pathology Practices Inc.