



Australian Government

Department of Health and Aged Care

Prostheses List Reforms – Consultation Paper N° 5

Prostheses List – Bundling of Benefits for General
Use Items



Context for the consultation paper

In the 2021-22 Federal Budget, the Australian Government committed \$22 million over four years for the [Modernising and Improving the Private Health Insurance Protheses List measure](#). Following extensive consultation over recent years, this consultation paper will canvass views on proposed implementation of improvements to the Protheses List (PL) as announced in the Budget. The Government considers these improvements are necessary to benefit consumers, because a number of reviews of the system have consistently found a high variance in the prices on the PL compared to prices paid in the public hospital system, with a limited ability for market forces to exert a downward pressure that would benefit consumers.

This consultation paper builds upon the [previous consultations](#) and furthers the Government reforms to the PL, with improvements to reduce the cost of medical devices used in the private health sector.

This consultation paper needs to be considered in conjunction with the [IHACPA Advice on Bundling Arrangements](#).

Purpose

A key element of the structural reforms to the PL is to improve definitions for items that qualify for listing and therefore providing greater clarity and certainty over what products can be included. Consequently, a group of around 500 general use and consumable products (General Use Items (GUIs)) have been identified for removal from the PL because they either do not meet the current criteria or will not meet the new definition ([Protheses List Reforms – Consultation Paper No 1](#)). From 1 March 2023, there will be a scheduled reduction in the PL benefit for these items ([Memorandum of Understanding for the policy parameters of the Protheses List Reforms](#)).

The Department engaged the Independent Health and Aged Care Pricing Authority (IHACPA) to develop advice on appropriate bundling arrangements for around 500 GUIs that have been identified for removal from the PL from 1 July 2023.

The IHACPA advice on bundling of GUIs is defined so that the overall benefits paid remains consistent with benefits paid for GUIs specified on the PL prior to their removal.

The [Minister agreed](#) to require the GUIs to be funded by insurers under the *Private Health Insurance (Benefit Requirements) Rules 2011* (the Benefit Requirements Rules), similar in concept to minimum benefits for theatre and accommodation paid by insurers to hospitals.

The Benefit Requirements Rules is a legislative instrument made under the *Private Health Insurance Act 2007* (PHI Act), that sets up requirements in relation to provision of minimum benefits paid by private health insurers.

The purpose of this paper is to provide options for this new arrangement which will require GUIs to be funded by insurers under the Benefit Requirements Rules. The Department is seeking feedback on the options outlined below, including any related evidence or data.

New arrangement: GUI Bundles

A transitional arrangement will be implemented to facilitate the removal of the GUIs from the PL. This arrangement will temporarily require GUI Bundles to be funded by insurers under the Benefit Requirements Rules. Minimum Benefits for the GUI Bundles, based on [IHACPA's work](#), will be included in a new schedule of minimum benefits under the Benefit Requirements Rules.

Inclusion of the GUI Bundles in the Benefit Requirements Rules will result in all declared hospitals (public and private) being eligible to receive the regulated payments. The payments would be:

- in addition to other regulated hospital payments (i.e. minimum accommodation benefits)
- linked to broad 'product class' descriptions that would cover both products currently on the PL and new general use products not currently in the PL (where they meet those descriptions)
- Subject to the same 'no gap' arrangements as benefits under the PL and the same application of excess as benefits under the Benefit Requirements Rules
- Subject to contracting arrangements, where they exist
- A transition arrangement to support the move to funding of GUIs in contracts between insurers and hospitals for a period of two years, anticipated to lapse no later than 20 June 2025
- Fixed for the term of the transition period.

The outcomes are expected to be similar to regulating payments for the products included in the GUI bundles under the Protheses List.

IHACPA has produced a GUI bundling software tool to assist stakeholders to identify the appropriate bundles and benefits. The tool also enables stakeholders to analyse the payments under the bundling arrangements compared to existing arrangements under the PL, including information on variation from the average in both benefits and utilisation. Evaluation of the GUI transition arrangements will form part of the broader evaluation of prostheses reforms. The Department intends to commission IHACPA to undertake further data collection and analysis to see if the reform results in significant changes in benefits or utilisation.

Mandated minimum benefits

IHACPA's advice defines three types of GUI Bundle variants by the classification of GUI products in 24 'product classes' based on the existing classification structure of the PL. These three bundle variants capture different sources of variation in the utilisation of GUIs and their associated PL benefits.

For each of the 24 GUI product classes, a GUI Bundle is defined as the collection of all items from the product class used within an individual 'episode of admitted care'. It is possible for multiple GUI Bundles to be identified against a single admitted episode. This occurs in cases where items across multiple product classes are used within the same episode. However, a single episode cannot have multiple GUI Bundles charges raised for a single GUI product class. Therefore only one bundle type can be applied per product class per 'episode of admitted care'.

For the purposes of GUI Bundle benefits, an episode of admitted care is proposed to be defined in the Benefit Requirements Rules as the period of admitted care between a formal or statistical admission and a formal or statistical separation characterised by only one care type, consistent with HCP data reporting by hospitals to insurers.

To help demonstrate the benefits of each bundle variant type, Table 1 (below) details the complete set of variants associated with the 'Matrix' GUI product class from the IHACPA report '[Advice on Bundling Arrangements for General Use Items on the Protheses List – December 2022](#)'. For more information and precise details on the bundle types, please refer to this report.

Table 1. GUI Bundles and Benefits – Matrix GUI Product Class

Product Class	Variant Type	Bundle Variant	Bundle Benefit
A45 Matrix	A Product Only	A45A1 Matrix	\$698.62
	B Facility Type	145B1 Matrix – Private Overnight Facilities	\$700.89
		A45B2 Matrix – Private Day Facilities	\$440.11
		A45B3 Matrix – Public Facilities	\$634.20
	C Major Diagnostic Category Grouping	A45C1 Matrix – Very High MDC Grouping	\$833.05
		A45C2 Matrix – High MDC Grouping	\$750.51
		A45C3 – Moderate MDC Grouping	\$628.50
		A45C4 Matrix – Low MDC Grouping	\$453.37

To determine the preferred bundle variant type, the Department has considered the following factors:

- impact on consumers;
- alignment with current payments; and
- ease of implementation and administration.

As noted by IHACPA, under all GUI Bundle variant options some hospitals will see a relative increase in benefits, while other hospitals will see a relative decrease. Similarly, some insurers will see relative increases or decreases.

Preferred option: bundle variant B (Facility Type)

Bundle variant B splits each of the 24 GUI product bundle variants based on the facility in which an episode occurs; that is, a private overnight, private day, or public hospital facility. This facility classification is based on the Commonwealth Hospital Declaration for each facility, which indicates whether a facility is a private or public facility and, for private facilities, whether it is a private overnight or private same day facility. There are a total of 72 facility-type GUI Bundles (i.e. 24 product classes split into three facility types). However, it may be the case that some GUI product classes are limited in their use to only one or two facility types (e.g. a given GUI Bundle may have no observed occurrence within private day facilities).

Implementation of this option would be slightly more involved than implementing bundle variant A (see below), however, it is relatively simple, as it is based on well understood hospital categories and the impact on consumers would be limited as benefits are in line with facility pricing currently used in the PL.

Anticipated impact on stakeholders

Consumers – limited impact as benefits will be similar to current benefits and no gap arrangements apply.

Private health insurers – limited impact as benefits will be similar to current benefits.

Private and public hospitals – limited impact as benefits will be similar to the current benefits received. Hospitals currently receiving greater than average benefits for GUI bundles will experience overall reductions in benefits this is offset by the reduced complexity of claiming.

Bundling variant B (by facility type) is the preferred option of the Department as it strikes a balance between ease of implementation and alignment with current payments. This form of bundling aligns with current facility type pricing as reflected in the PL and would cause the least amount of change for insurers and hospitals.

Alternate option: bundle variant A (Product Type)

Bundle variant A is defined by the classification of GUI products into 24 product classes based on the existing classification structure of the PL.

This would be the simplest approach, as it is based on well understood product classes and is the easiest to implement. However, in many instances insurers will be paying higher benefit amounts than currently due to the overcompensation of some facilities. This would have a negative impact on consumers through increases in premiums.

Anticipated impact on stakeholders

Consumers – may have higher premiums as a result of increased benefits paid by insurers.

Private health insurers – in many circumstances, would have to pay higher benefits than they are currently.

Private and public hospitals – some facility types, especially private day facilities, would be receiving greater benefits than they would otherwise.

Alternate option: bundle variant C (Major Diagnostic Category Grouping)

Bundle variant C splits each of the 24 GUI product bundle variants into up to five classes based on the Major Diagnostic Category (MDC) of the episode. MDCs are a classification of admitted episodes that form part of the Australian Refined Diagnosis Related Groups (AR-DRG) classification, and IHACPA has used AR-DRG Version 10 in the development of its advice on this variant. The splitting of each GUI product bundle variant into MDC-based variants is dependent on observed variation in GUI utilisation across clinical characteristics. In particular, the more variation that is observed, the greater the number of

splits, and where no variation is observed, there is no split, and the resulting MDC-based variant is identical to the product bundle for that GUI product class. There are a total of 54 MDC-based GUI Bundles across the 24 GUI product classes.

This option is the most complex to implement because it is based on AR-DRGs which are not universally utilised by insurers or hospitals. However it is the best option in terms of the nuance in benefits consistent with current individual listed prostheses benefits and would likely have a positive impact on consumers through reduced premiums over time. This option would be difficult to mandate as it requires the determination of a threshold for sufficient clinical information. It would also require hospitals and insurers to update their systems to use AR-DRG Version 10 which may involve changing the current contracts and is therefore not a viable option for a transitional arrangement.

Note that there is the potential for bundle variant C (Major Diagnostic Category Grouping) to support contract negotiations between the insurer and hospital even in the absence of it being implemented as a regulated payment.

Anticipated impact on stakeholders

Consumers – may have positive impacts through downward pressure on premiums.

Private health insurers – would potentially reduce benefits if there is sufficient evidence of variation in GUI utilisation. Systems would need to be updated to use AR-DRG Version 10.

Private and public hospitals – would potentially need to collect and report more clinical data to determine the correct grouping but would better incentivise efficiency. Systems would need to be updated to use AR-DRG Version 10.

What we invite you to do

The Department asks that stakeholders provide submissions on the proposed arrangement under the Benefit Requirements Rules via the Department of Health's Consultation Hub.

The Department intends to publish the submissions so stakeholders should clearly identify commercial in confidence information preferably under a separate attachment.

In preparing a submission, stakeholder feedback is sought on the following matters:

1. Reasons for a preferred bundle variant and why the alternative bundle variants are not preferred
2. The use of AR-DRF (version 10) in establishing bundle variant C
3. The proposed settings across all bundle variants:
 - a. No gap requirement;
 - b. Excesses can apply;
 - c. Contracting for GUs permitted and overrides bundle benefits;
 - d. Transitional arrangement for two years commencing 1 July 2023; and
 - e. Bundle benefits fixed for transition period.
4. Defined terms:
 - a. 'episode of admitted care'; and
 - b. Product class descriptions
5. The business readiness implications of implementing the new bundling arrangements effective 1 July 2023.

Submissions are due through the Consultation Hub by COB 27 March 2023.