LifeHealthcare

26 May 2015

General Manager
Small Business, Competition and Consumer Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir / Madam

Competition Policy Review Final Report

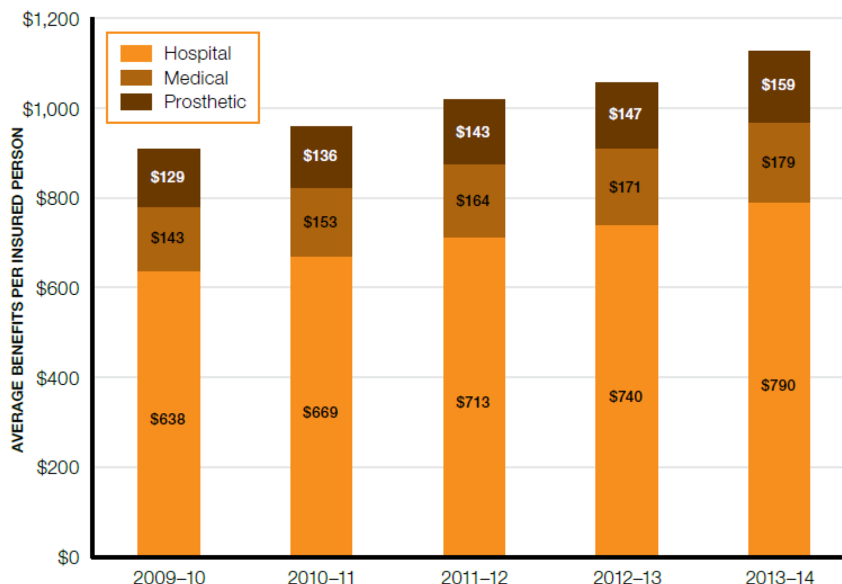
Lifehealthcare is a totally Australian owned importer and distributor of medical goods to the Australian and New Zealand Market, with an estimated turnover for this finanical year of over $90 million dollars.

Lifehealthcare operates in a number of market sectors including Ultrasound, Spinal Implants, CT Scanners , Orthopaedic Implants, Neurophysiology and Interventional Cardiology. We are a rapidly expanding local Australian company that has no specific ties to any single multi-national.

We wish to make the following comments on the section of the Harper report concerned with Private Insurance and the Prostheses List (pp 150-152)

1. *The Growth in Private Health Insurance expenditure on prostheses is being driven by utilisation of devices, not from an increase in implant benefit amounts.*

   As shown in the graph below (Private Health Insurance Administrative Council: Operations of the Private Health Insurers Annual Report 2013-14 p32) prosthetic costs per insured persons is 14% of total cost in 2013/14, and has stayed constant since 2009/10.



This is a constant cost and has not shown any change in percentage contribution to private insurance costs since 2009/10.

2. *We believe that the Prostheses List should be maintained as:*
    a. *It has a structure through product grouping for a consistent price across all companies for similar products, irrespective of the relative negotiating power of the respective parties,*
    b. *It removes the inefficiencies of having to negotiate individual contracts between each medical device supplier and each insurance company or alliance. Note historically industry has funded the additional staffing costs to facilitate negotiation, and on average implant negotiated pricing was higher under this free market.*
    c. *It removes the need for a hospital to maintain multiple prices for the same item in their database for each insurance company, which again increases costs.*
    d. *The Prostheses List allows a surgeon to choose a prosthesis based on patient needs, not on insurance company mandates.*

3. *The prostheses list does however have a number of areas where reform is needed:*
    a. *Inconsistent approach to coding between the various specialist Clinical Advisory Groups.*

    b. *The current rebate group prices were based on the average price of the most frequently used items in that group.*
    When this pricing scheme was established industry was assured that the intent was for group prices to move to match clinical evidence of effectiveness. However there has been no price negotiation for over 5 years.

    c. *The introduction of a mechanism to take into account at least CPI changes in the operational costs for the suppliers. Rebate pricing has been frozen while the insurance companies have been granted increases in excess of the CPI.*

    d. *The mandatory conditions for an item to be given a rebate code have not kept pace with technology:*
        i. *New technology can allow a non-implantable external device to fully match the safety and efficacy of a traditionally implanted product:*
            1. *Pulsed Electromagnetic bone growth stimulators have the same efficacy as implantable bone growth stimulators . But as the patient does not have to be admitted to a hospital for them to be used, they do not get any funding.*
            2. *Similarly external vagal nerve stimulators can be a better option for patients with intractable migraines than any other treatment, but because it is not implanted, and not a pharmaceutical it has no funding pathway despite being safe and efficacious.*

        These examples show how the current system encourages surgical intervention over alternate, and cheaper total cost non invasive options, that currently have low adoption due to high patient out of pocket costs.
        ii. *Product grouping tends to be by physical characteristics of the product, not by intended use or function. While physical grouping is simple and easier to implement it creates significant drawbacks and stifles product innovation.*
        iii. *The need to support patients who have had ' orphaned' orthopaedic hip, knee and shoulder joint systems implanted that are not being upclassified as they are not currently used. With patients living longer the need for a revision surgery can*

occur 10-15 yrs after implantation. Under the current prostheses list these revision operations will not be funded as the items will be supplied under the special access scheme, and will only have a TGA approval for a specific patient.

iv. *Manufacturing developments allow for implants to be made with geometry or mechanical properties that exactly match the patient's anatomy. This allows for a faster operation with improved matching of patient anatomy and physiology, but under current Prosthetic Rules cannot be funded. These products can only be funded by requesting an ex gratia payment. The benefits of the PLAC submission - an independent review, known funding, and an ability to plan admission times - are lost.*

4. *Global pricing is already being used as part of the consideration of the current Prostheses system through the Health Economic Working Group.*
   a. However comparable pricing must be from comparable markets with the same level of support and investment in Health Care Professional education. International pricing should consider the full supply chain with respect to efficiencies in the size of the market, labour costs, service level expectations, professional education, logistics and multiple office costs.
      Additionally Australian reimbursement pathways have continued to increase supplier costs with significant investment being required in clinical study costs over and above CE markets.
   b. Market size affects the supplier base as no consideration is given for low volume sets that are needed and the expectation of immediate supply.

5. The Harper report included as justification for the review of prosthetic prices comments from the submission made by Applied Medical (page 151). However Applied Medical have extrapolated their cost base for disposable items onto all prosthetic devices, including capital intensive systems such as heart valves, hip joints and pacemakers.

David le Cheminant
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