



PRE-BUDGET SUBMISSION:

- 1. A VALUE-BASED APPROACH TO JOINT REPLACEMENT**
- 2. A NATIONAL APPROACH TO PROMS & PREMS FOR HEALTH TECHNOLOGY ASSESSMENT**
- 3. A PRODUCTIVITY COMMISSION INQUIRY INTO PRIVATE HEALTH INSURANCE**

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Introduction & Background

Stryker is one of the world's leading medical technology companies and, together with its customers, is driven to make healthcare better. The company offers innovative products and services in Medical and Surgical, Neurotechnology, Orthopaedics and Spine that help improve patient and hospital outcomes.

Stryker employs approximately 40,000 people worldwide, and its products and services are available in over 100 countries. In the early 1970s, Stryker was established in Australia. Headquartered in St Leonards, Sydney, Stryker Australia employs over 850 staff and is represented in every mainland capital city of Australia.

Policies presented in this submission

Currently, states, territories and the public & private healthcare systems take a range of different approaches to assessing the merits of innovative medical technology making it difficult to measure value as part of the assessment.

Stryker proposes that a more consistent and evidence-based approach to health technology assessment will help to drive the adoption of value-based care and in-turn reduce health system costs and improve patient outcomes.

Opportunities to adopt a value-based care approach already exist and this submission outlines 2 ways that the government could support their adoption:

- Firstly, the use of a clinical registry (AOANJRR) to support the uptake of high performing prostheses and associated surgical and hospital practices.
- Secondly, the collection of patient experience and outcome data in relation to health technologies in order to inform and improve the broader HTA process.

Further, Stryker is proposing that a Productivity Commission inquiry be held into how private health insurance can better support a sustainable and high-quality private health system. The inquiry would need focus on increasing the value of private health insurance for consumers and addressing the exodus by young people.

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1. A Value-Based Approach to Joint Replacement

Key recommendation

That the government introduce an evidence-based incentive payment to support improved joint replacement outcomes in order to increase patient well-being and reduce ongoing burden of joint disease on the community.

Opportunity

To use data from the Australian Orthopaedic Association National Joint Replacement Registry (AOANJRR) to support the uptake of high performing prostheses and associated surgical and hospital practices to deliver better outcomes for patients and reduced costs to the health system and broader community.

Context

Joint disease is a major area of health expenditure within the Australian health system. Collectively more than \$1.3 billion per year is spent on osteoarthritis related hospital admissions, with significant flow-on costs due to reduced productivity and quality of life.

Joint replacement surgery is one of the most common and most effective healthcare interventions in improving patient functionality and quality of life. Incidence of joint replacement surgery has grown rapidly, and is projected to continue growing as Australia's population grows and ages.

Outcomes of joint replacements vary due to a range of factors, including the pre-existing health of the patient, the surgeon performing the procedure, the surgical technology used, the hospital environment, the prosthesis used, and the post-operative and rehabilitation care provided.

Improving the outcomes of joint replacement surgery can be achieved through incentivising the use of high performing prostheses in order to deliver better outcomes for patients and reduced costs to the health system and broader community.

Economic case for improving joint replacement outcomes

Based on recent growth, the incidence of total knee replacement and total hip replacement for osteoarthritis is estimated to rise by 276% and 208%, respectively, by 2030. By this time the total cost to the healthcare system would be \$AUD5.32 billion.

The cost of a total knee replacement or total hip replacement procedure in Australia is estimated at \$AUD19 000 to \$AUD30 000 per patient. The cost of revising that replacement earlier than expected would add a further unexpected cost of 2 to 3 times that, as well as additional ongoing rehabilitation costs.

The cost of preventable revisions

Preventable failure of joint replacements increases the need for revision surgery. Revisions for hip and knee replacements are a complex procedure which usually means more money, more pain, and more complications for consumers than the initial surgery.

This also represents a financial burden for both private and public patients and puts pressure on an already stressed public health system, including increasing the need for rehabilitation and other post-operative services.

Reducing the incidence of revision surgery would significantly reduce the economic impact of joint replacement on both the health system and the broader community.

The Australian Orthopaedic Association National Joint Replacement Registry

The Australian Orthopaedic Association National Joint Replacement Registry (AOANJRR) provides an opportunity to improve joint replacement outcomes through evidence-based incentive payments for the use of high performing prostheses.

The AOANJRR was established in 1999 to provide quality data on the practice of joint replacement surgery in order to improve outcomes and establish a mechanism of audit for hospitals and individual surgeons. This database has been tracking the performance of joint replacement surgery across Australia since 2002, and captures 98 per cent of all procedures performed in public and private hospitals.

AOANJRR data has been used to increase understanding of the factors influencing joint replacement outcomes and to drive improvements in clinical practice and patient outcomes. This has resulted in a 31% decline in revised hip procedures and a 16% drop in revised knee procedures since 2004, resulting in approximately \$600 million savings to the health budget over the past 10 years.

Despite this progress there is still significant variation in joint replacement outcomes¹ and therefore scope for additional reductions in revisions through supporting the use of higher performing prostheses.²

Reducing the revision rate an additional 5% would prevent an additional 3350 hip revision and 2550 knee revisions every year delivering cost savings of \$147.5 million to the health system, based on an average cost of \$25 000 per revision³ (although given revision surgery is often more complex than the original operation with a poorer prognosis, this value is conservative). There would also be significant additional benefits such as increased productivity, community participation and quality of life.

Public vs private joint replacement outcomes

AOANJRR data demonstrates that joint replacements performed in public hospitals achieve better outcomes than those performed in private hospitals due to the restricted choice available to surgeons in a public hospital setting of a small number of (on average) higher performing prostheses.

This demonstrates the potential for driving improvements in outcomes in the private sector through incentivising the choice of a high performing prosthesis.

Superior clinical performance suffix

Until 2019, hip and knee prostheses with demonstrated 'superior clinical performance' (SCP) were eligible for a benefit premium under the Prostheses List when used in joint replacement surgery funded via private health insurance.

To be eligible for this payment these prostheses were required to have:

- a minimum of 10-years follow-up with an appropriate cohort and with an unchanged prosthesis
- peer-reviewed publications showing more than 95% survivorship at a minimum of 10 years
- AOANJRR data on the performance of the prosthesis

The SCP played an important role in supporting the uptake of high performing joint prostheses with significant cost benefits to the Australian community.

¹ <https://aoanjrr.sahmri.com/documents/10180/689619/Hip%2C+Knee+%26+Shoulder+Arthroplasty+New/6a07a3b8-8767-06cf-9069-d165dc9baca7>

² <https://www.arcs.com.au/documents/item/818>

³ <https://www.tandfonline.com/doi/full/10.1080/17453674.2020.1749380>

The SCP was phased out as part of the MTAA's agreement with government over the Prostheses List in 2017. This has reduced the incentive for surgeons and private hospitals to use high performing prostheses despite their clear health and economic benefits.

Proposal

An incentive payment to support the uptake of high performing hip and knee prostheses based on data from the AOANJRR.

This payment would be evenly distributed between the surgeon, hospital and prosthesis manufacturers, reflecting their shared role in joint replacement surgery.

Budget

A capped total of \$24 million per year (based on a \$600 payment per procedure and a total of eligible 40 000 joint replacements) delivering and estimated cost savings of \$147.5 million to the health system and additional flow-on benefits to individuals and the community.

If the number of eligible procedures were to be greater than 40 000, the payment would be distributed on a pro rata basis among surgeons, hospitals and device companies (based on the number of eligible procedures performed).

2. A National Approach to PROMs and PREMs for Health Technology Assessment

Key recommendation

That the government fund a national PROMS and PREMS strategy to support a value-based approach to the assessment and funding of new health technology.

Opportunity

All Australian governments have committed to the development of a more consistent and transparent approach to the assessment and funding of new technologies (under the Addendum to the National Health Reform Act 2020-25).

A value-based approach to health care provides a useful framework for developing a new consumer-centred health technology assessment (HTA) system. A crucial component of this approach is the collection and analysis of patient reported outcomes and experience data (PROMS and PREMS).

Currently in Australia the collection and use of health technology-related PROMS and PREMS is inconsistent and uncoordinated. This creates a barrier to the development of a national, transparent, consistent, and consumer-centred approach to HTA.

This proposal suggests a national approach to the collection of patient experience and outcome data in relation to health technologies in order to progress the broader HTA reform process.

Context

Medical technology is one of the most dynamic and fast-moving sectors in health care. New medical technologies being developed, such as robotics, 3D printing and artificial intelligence, have the potential to profoundly improve clinical outcomes and quality of life for patients across the spectrum of the health system.

However, Australia's current regulatory and reimbursement systems are not fit for purpose to cope with this explosion in medical technology. These systems were designed a generation ago and are mostly based on a pharmaceutical model which is not suitable for the innovations occurring in medical technology today.

As a result, governments and regulatory bodies are increasingly out of step with health technology research and development. This means that Australian patients are missing out on new treatments and Australia is not realising its potential as a world leader in the development, early adoption and manufacturing of new health technologies.

Current regulatory and funding landscape in Australia

Currently all jurisdictions in Australia have different ways of assessing the merits of implementing new health technology. These processes also differ across public and private health systems.

At the federal level there are a number of different groups involved in health technology assessment, including the Pharmaceutical Benefit Advisory Committee (PBAC), the Medical Services Advisory Committee (MSAC), the Independent Hospital Pricing Authority (IHPA), the Prostheses List Advisory Committee (PLAC), the HTA Consumer Consultative Committee and the Health Policy Advisory Committee on Technology (Health-PACT). State and Territory governments also have their own systems to assess and allocate funding for new health technologies.

These different processes are not coordinated or integrated with each other which creates duplication in administrative and regulatory processes and inequities in access across geographical and health sector boundaries. It also results in delays in the adoption of new technologies, leaving Australian consumers years behind those of other developed countries in access to evidence-based treatments.

The Addendum to the National Health Reform Act 2020-2025

Most Australian governments support “in principle” a value-based approach to health care and have implemented some limited reforms to funding methodologies to pay for value, for example, the move to regional commissioning and outcomes-based payments in primary care.

However, thus far these reforms have not focused on the regulation and funding for new technologies or addressed the current inefficiencies and anomalies in HTA processes across sectors and jurisdictions.

The Addendum to the National Health Reform Agreement (2020-2025) signed by all Australian governments provides a good foundation to build on existing initiatives around value-based health care to include a specific commitment to HTA.

The Addendum recognises that “Australia requires a strategic, systematic, cohesive, efficient and responsive national framework for HTA” and that “the current approach to the use of health technology assessments (HTA) to inform investment and disinvestment decisions in Australia is fragmented and does not facilitate coordinated and timely responses to rapidly changing technologies.”

This agreement includes a commitment to “jointly develop a federated approach to health technology assessment, with a view to towards a unified framework in the longer term.”

Value-based health care

Value-based health care provides a framework in which to address Australia’s lack of a systematic and evidence-based approach to health technology assessment (HTA) and funding.

A value-based health care approach to HTA should include a number of elements, including the following:

- **Evidence-based studies** with a focus on clinical outcomes and cost benefit analyses with a long-term focus to encompass the broad impact of technologies on the community.
- Measurement and inclusion of **patient outcomes and experiences** through standardised systems or collections to ensure consumers are at the centre of all HTA processes.
- **Clinical input and leadership** to identify innovative new technologies and guide assessments and data collection.
- **Equity considerations** to ensure technologies are used to address health inequities and deliver maximum benefits across the community.

PROMs and PREMs

PROMs and PREMs are the central mechanism through which patients’ experiences and values can inform HTA policy, regulatory and funding decisions.

These outcomes measures are routinely used in clinical trials of medical technologies to improve the understanding of patient, device, surgeon, and institutional factors contributing to their performance, as well as to better define indications for treatment and evaluate comparative cost-effectiveness based on quality-of-life improvement.

PROMs and PREMs are not routinely collected as part of HTA assessment and funding processes within the Australian health system. However, there are some examples of this occurring, such as the pilot project conducted by the Australian Orthopaedic Association National Joint Replacement Registry (AOANJRR) to include patient experience data into its database on joint replacements.

PROMs and PREMs support the role of consumers and patients as important stakeholders in HTA processes as contributors of valuable first-hand experiential knowledge of living with a particular health condition and the health technology under assessment.

Their inclusion in HTA, purchasing and funding processes on a routine basis would add transparency, legitimacy and fairness in decision making and enhance public trust and acceptance of the resulting decisions. It would also support a broader value-based national HTA system which promotes the funding of health technology aimed at delivering maximum benefits to the community.

Proposal

This proposal builds on existing activities being undertaken throughout the health system to incorporate PROMs and PREMs in areas relevant to health technology. It suggests the establishment of a consumer-led working group to lead the development of a national approach to the collection of PROMs and PREMs to support the development of a value-based approach to health technology assessment, regulatory, policy and funding decisions.

The working group should include membership from:

- Consumers, including representation from Aboriginal and Torres Strait Islander Australians, people with disabilities, people from diverse linguistic and cultural backgrounds and people with lived experience of health conditions impacted by technologies
- Federal and state/territory governments, including regulatory and purchasing bodies
- Medical and data researchers and experts
- Clinicians with expertise in relevant health technologies
- Hospitals and health services
- The medical technology industry

The group should advise the government on the following:

- Principles for a national approach to PROMs and PREMs.
- Identification of best practice example of the use PROMs and PREMs both in Australia and internationally.
- Gaps in current approaches to PROMs and PREMs relating to health technology.
- Mechanisms to ensure the inclusion of under-represented and marginalised consumer groups in the collection of PROMs and PREMs.
- Options for using PROMs and PREMs to inform a value-based approach to health technology regulatory, policy and funding decisions.

Budget

The proposed budget (below) totals \$650 000 (over three years) and includes the following components:

- Scoping project to identify existing PROMs and PREMs activities and gaps
- Research funding to address identified gaps
- Consumer consultation (with a focus on marginalised and vulnerable groups)
- Support for consumers and clinicians to participate in the group

Scoping project	\$35 000	\$0	\$0
Research funding	\$0	\$180 000	\$180 000
Consumer consultation	\$60 000	\$30 000	\$30 000
Clinician and consumer support	\$45 000	\$45 000	\$45 000

3. A Productivity Commission Inquiry into Private Health Insurance

Key Recommendation

That the Government commit to a Productivity Commission inquiry into the efficiency, effectiveness, and sustainability of private health insurance.

Introduction

Private health care is an essential component of Australia's health system and provides choice, diversity, and competition for consumers.

Without a viable private health sector, consumers would have a reduced choice of health care provider and there would be additional stress placed on our already over-burdened public health system.

Private health insurance is an important mechanism through which consumers pay for private health care by assisting them to manage high and unexpected costs. Keeping private health insurance affordable will support Australians to access care in the private health sector.

Australia's private health insurance industry has been under increased stress over the past two decades and is currently facing significant challenges.

This is due to a range of factors, including increased consumer demand from our ageing population and the consequent increasing prevalence of chronic disease. New developments in treatments and technologies are also driving higher health care costs in Australia, as in most developed countries.

These factors have led to a steady increase in private health insurance premiums, making insurance less affordable for many consumers. Over the past decade, premiums have risen faster than average weekly earnings, the Consumer Price Index and overall health inflation.⁴

Rising premiums have led some consumers, often those at lower risk, to drop their insurance. This increases the risk pool of those retaining their insurance which in turn drives premiums higher and leads to another group of consumers leaving.

Successive governments have attempted to address this cycle of increasing premiums and decreasing membership with regulatory changes, government subsidies and other strategies. But none of these have prevented the ongoing exodus of younger and lower risk consumers from the private health sector.

Stryker strongly supports the retention of private health insurance as a mechanism to support consumers to access private health care. However, we believe it is time for some major reforms which will support the long term sustainability of the sector and ensure that private health insurance remains affordable for average Australians.

This proposal calls for an independent inquiry into private health insurance in Australia to develop a long-term reform agenda for this sector in order to address current challenges and ensure a sustainable future for private healthcare in Australia.

The Changing Role of Private Health Insurance

The proposed inquiry into private health insurance is important to investigate how the role of private health insurance has changed over time and whether the current system is "fit for purpose" to meet the needs of Australians today.

Private health insurance was originally set up as mutual not-for-profit organisations to help members share the cost of medical and health expenses.

But over time this focus has changed. The health insurance market is now dominated by large corporate entities, many of which are multi-nationals, which are owned by shareholders rather than members. These shareholders are often large

⁴ <https://www.ama.com.au/media/ama-prescription-private-health>

multinational merchant banks and investment funds which are focussed on driving profits to their shareholders, not delivering high quality care to Australian patients.

This change, driven by both changes in the market as well as government decisions (such as the sale of Medibank in 2014) have resulted in a sector which is very different from its “friendly society” and not-for-profit origins. Modern day private health insurance funds are sophisticated corporations with highly paid Boards and executives and large budgets for advertising and promotion.

This evolution has occurred over a long period of time without a broader community debate over whether the changes serve the interest of consumers. The proposed inquiry would be an opportunity to examine whether the corporatisation of the private health insurance market should continue to be supported or whether a different market structure would provide greater benefits to the community.

Previous Reports and Inquiries

Another major focus of the proposed inquiry should be to analyse the findings and recommendations of previous inquiries and reports into private health insurance in the light of current challenges.

Problems with private health insurance are not new. There have been a series of inquiries and reports into this sector over the past two decades (and beyond) which have identified issues facing this sector and called for a range of policy and regulatory changes. Some of these recommendations have been adopted by governments but many others have been ignored.

Some of these are outlined below:

- The 1997 Industry Commission Inquiry into Private Health Insurance⁵
- The 2012 report from Deloitte Access Economics (commissioned by Medibank) The Future of Private Health Insurance Premium-Setting: Seeking Integrative Solutions⁶
- The report of the 2017 Senate Community Affairs References Committee inquiry into the value and affordability of private health insurance and out-of-pocket medical costs.⁷
- The 2019 report from the Grattan Institute Saving private health 2: Making private health insurance viable⁸
- The 2019 report by AlphaBeta, “Keeping Premiums Low: Towards a sustainable private healthcare system” commissioned by the Medical Technology Association of Australia⁹
- The report of the 2021 Australia’s Health Panel survey into health insurance by Consumers Health Forum of Australia¹⁰
- Annual report cards on private health insurance from the Australian Medical Association¹¹
- Annual reports from the Australian Competition and Consumer Commission¹²

COVID-19 and Private Health Insurance

In addition to the broad range of private health insurance issues addressed in the above inquiries and reports, the COVID-19 pandemic has added an additional impetus to the need for an inquiry into this sector.

COVID-19 has placed stress on many areas of Australia’s health system but for insurers it has been financially rewarding. In fact, the 2020/21 financial year was the insurers’ most profitable ever.

⁵ https://www.pc.gov.au/_data/assets/pdf_file/0006/156678/57privatehealth.pdf

⁶ <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/finance/deloitte-au-deloitte-access-economics-medibank-private-report-november-2012-0112.pdf>

⁷ https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Privatehealthinsurance/Report

⁸ <https://grattan.edu.au/report/saving-private-health-2/>

⁹ https://alphabeta.com/wp-content/uploads/2019/08/mtaa_keepingpremiumslow2-1.pdf

¹⁰ <https://chf.org.au/media-releases/health-funds-not-meeting-expectations>

¹¹ <https://www.ama.com.au/articles/ama-private-health-insurance-report-card-2021>

¹² <https://www.accc.gov.au/publications/private-health-insurance-reports>

As state governments were forced to cancel elective surgery and non-essential allied health, insurers continued to collect premiums from members for services which they could not use.

The insurance regulator, the Australian Prudential Regulation Authority, found that last year insurers made a record profit of \$1.8 billion in the twelve months to September 2021, an increase of 212.4%.¹³

While some insurers have agreed to return a portion of these profits to members, the Australian Competition and Consumer Commission identified scope for more efforts to be made to return unspent funds to members.

In its 2021 annual report¹⁴, ACCC deputy chair Delia Rickard called for insurers to return all benefits from procedures that were not performed and are not expected to be performed later and specifically mentioned the need for unspent funds to be returned for extras treatment and in geographic areas that were subject to extended lockdowns.

The favourable financial impact of the pandemic on the insurance sector further highlights the importance of a rigorous review of the sector to ensure it does not financially benefit from the hardships experienced by members.

A Broad Approach

Stryker stresses the need for the proposed inquiry to focus on a broad range of options for strengthening the sustainability and efficiency of private health insurance. While Stryker supports the need for sensible changes to prostheses funding which ensure medical device pricing reflect changes in the broader market, we reject the narrow focus of some representatives of the private health insurance sector on prostheses cost as a driver of premium increases. Stryker acknowledges that all private health stakeholders have a contribution to make in creating a more sustainable private health system.

Stryker also believes that it is important that the private health insurance sector focus on identifying internal cost savings, either through increasing efficiency or reducing costs, in areas such as advertising and management.

This would put downward pressure on premiums without the negative impact on the value of insurance that would result from reducing cover for innovative devices and medical technologies.

Other opportunities to increase value include ensuring that insurance products are designed to maximise the broad and longer term benefits of health care, rather than on minimising short term costs. For example, Stryker has proposed reinstating payments for 'superior clinical performance' within the Prostheses List framework to support use of higher performing and therefore higher value prostheses.

Improving the value of insurance will help reverse the exodus of younger people encourage more low risk people to take it up and thus improve the overall sustainability of the sector.

Principles and Issues

Stryker recommends that the proposed inquiry focus on how private health insurance can achieve the following:

- A value-based health care model to achieve the best outcomes at the lowest cost.
- An evidence-based, quality focus
- Improved access and equity
- Improved efficiency
- Improved accountability and responsiveness.

Specific issues that Stryker recommends the inquiry address include:

- Whether the more than \$6 billion Australian Government subsidy for private health insurance could be more effectively used in other parts of the health system.

¹³ <https://www.apra.gov.au/sites/default/files/2021-11/Quarterly%20private%20health%20insurance%20statistics%20highlights%20September%202021.pdf>

¹⁴ <https://www.accc.gov.au/publications/private-health-insurance-reports>

- Whether ancillary cover should be out of scope for the private health insurance rebate, particularly noting the 25% gross margins that insurers make on these products.
- The management efficiency of private health insurance funds, specifically given the increase in management expenses.
- The need for further restrictions on the ability of funds to cover non-evidence based “alternative” therapies
- The effectiveness of current policies aimed at encouraging the uptake of private health insurance
- The potential for micro-economic reform within the private health insurance market to deliver improved efficiencies without reducing competition
- Recent moves towards vertical integration by some insurers who also deliver dental and other and preference their own services over other providers.
- The corporate and tax structures of insurers to identify opportunities to reduce management expenses and prevent tax minimisation by shifting profits offshore.

The Productivity Commission

Stryker supports calls from several groups, including the Australian Medical Association, Consumers Health Forum of Australia, the Australian Consumers Association, and the Public Health Association of Australia for the Productivity Commission to undertake the proposed inquiry.¹⁵

We also acknowledge that this was a key policy commitment of the Australian Labor Party prior to the last federal election.

We believe that the Productivity Commission is the appropriate body to undertake such an inquiry as it has the appropriate skills, independence, and experience to investigate whether the current structures, levers and incentives are delivering the best possible health outcomes.

An inquiry of this depth would be a step forwards towards a healthcare system that works for all Australians.

Conclusion

Stryker urges the Government to conduct a Productivity Commission inquiry into the efficiency, effectiveness, and sustainability of private health insurance and would welcome the opportunity to be involved in the proposed inquiry or other processes aimed at increasing the value of this important funding mechanism for private health care.

¹⁵ <https://www.painaustralia.org.au/static/uploads/files/joint-letter-calling-for-a-pc-inquiry-into-private-health-insurance-wfaagqhmtyx.pdf>