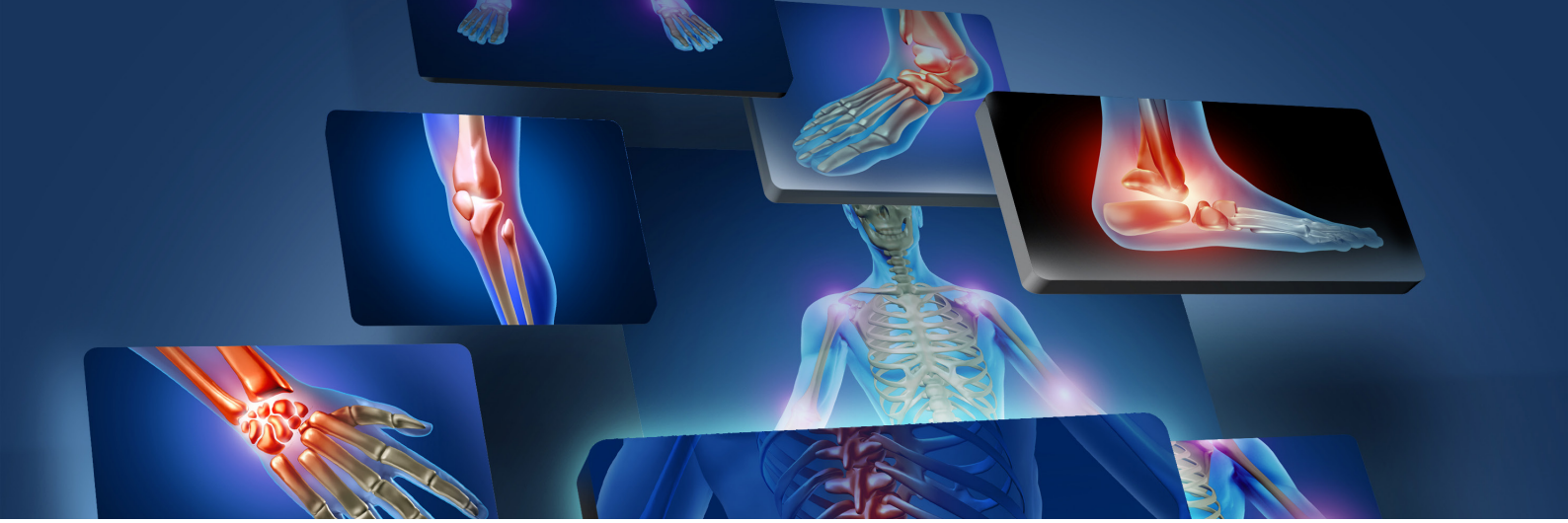

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RESEARCH REPORT
SNAPSHOT

THE CENTRE FOR INDEPENDENT STUDIES

MEDI-VALUE: Health Insurance and Service Innovation in Australia — Implications for the Future of Medicare

Jeremy Sammut

Not Even Half a Solution to Health Costs in Australia

Aspects of the Australian health system resemble a black hole. Many of the billions of dollars of the near 10% of total GDP expended annually on health is spent ineffectively and inefficiently due to health services not being provided in a market environment that delivers the best value for money all necessary care at the highest quality and least cost.

Hence many health experts maintain that in order to improve the affordability of Medicare, Australian governments should expand the provision of lower-cost, 'coordinated' primary care services for chronically-ill patients, to prevent overuse of high-cost hospital services.

But multiple Australian and international studies have shown that publicly-funded, bureaucratically-administered, and centrally planned coordinated chronic disease programs have not achieved the anticipated reductions in use of hospital service.

Nevertheless, a 'top-down', government-driven, primary care-focused health reform strategy has been endorsed by the Turnbull government in the shape of the 'Healthier Medicare' program – a $20 million trial ahead of a national rollout that aims initially to enroll 65,000 chronic patients across 200 GP practices in a 'Health Care Home' to better coordinate their care.

This is not even half a solution to the real problems associated with the high and rapidly increasing cost of healthcare in Australia.

Integrated Care and Alternative Payment Models

Overseas experience has shown that health reform initiatives must aim to bridge the institutional divide between non-hospital and hospital-based health services, which exists due to traditional fee-for-service payment systems that financially reward providers for inefficient practice and encourage over-servicing. Hence, innovative private insurers — mainly in the United States — have developed integrated 'managed care' payment models that combine all health funding into one bundled payment.

This is also aptly known as 'value-based contracting'. Insurers enter into contracts with health management companies, who provide all the healthcare of patients funded from an agreed global budget, and retain all or part of the savings made by more efficient use of health resources.

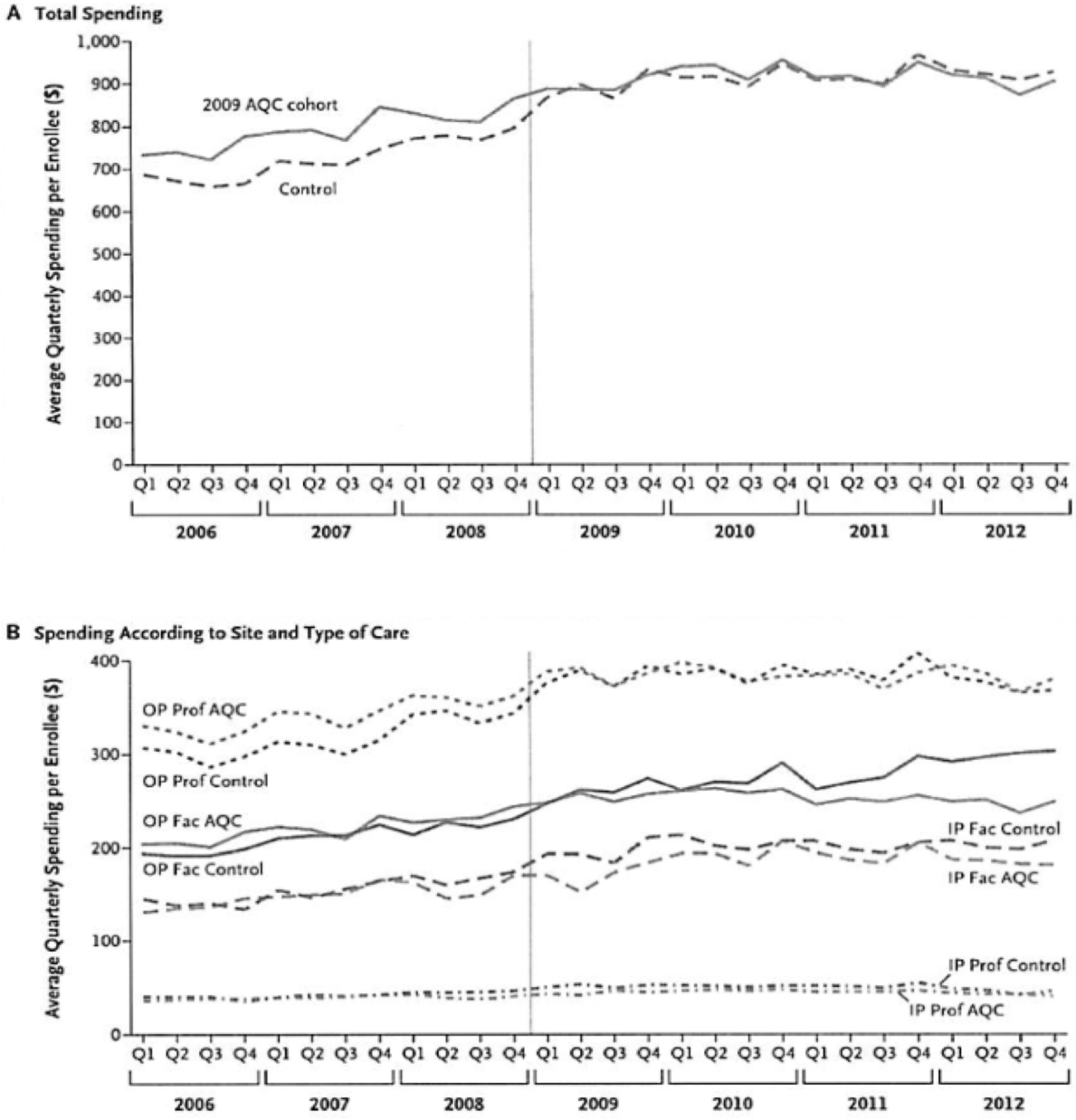
These providers thus have a financial incentive to innovate—to change traditional patterns of care and efficiently manage the full pathway of patient care—and deliver all necessary and effective care in the most economical fashion.

The potential impact on spiraling US health costs is suggested by the promising results of the 'shared-risk' Alternative Quality Contract (AQC) developed by Blue Cross Blue Shield of Massachusetts. The AQC experiment has bent the cost curve down and yielded cost-effective savings by reducing use of procedures, images and tests, and by directing patients away from high-cost hospitals towards alternative, lower-cost, community-based facilities for specialist procedures (Figure 1).

Figure 1. Cost Savings in Blue Cross Blue Shield ACQs

Unadjusted Spending in the 2009 Alternative Quality Contract (AQC) Cohort versus the Control Group, 2006–2012.

Panel A shows the total unadjusted spending. Panel B shows the results according to site of care (inpatient [IP] or outpatient [OP]) and type of claim (facility [Fac] or professional [Prof]). The control group comprised commercially insured enrollees in employer-sponsored plans across eight Northeastern states: Connecticut, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. The vertical line at the start of 2009 indicates the start of the AQC period.



Source: Z. Song, et.al, "Changes in Health Care Spending and Quality 4 Years into Global Payment', New England Journal of Medicine, 371, 18, 2014.

Implications for Structural Health Reform in Australia

The insights gained from the American experience suggest major savings on the cost of hospital care are more likely to be made by managing ultilisation. This is especially significant to the health reform debate in Australia, given very high rates of hospital use here compared to other OECD nations — including the US and UK — and given that the rising cost of health to government budgets is being largely driven by the increasing cost of hospital care.

The further implication is that for integrated payment and service delivery models to flourish, there needs to be a real market for health services in Australia. There must be system-wide innovation of the way Australian healthcare is insured and financed.

Replacing Medicare with a publicly-funded, privately-operated health insurance scheme is one of the reform options that could potentially create a more dynamic health economy. The 'Medicare Select' national health reform proposal would see all Australians receive taxpayer-funded, risk-adjusted health insurance vouchers to fund the purchase of private health plans.

Under Medicare Select, health funds would hold the full financial risk for members' healthcare needs across the full service spectrum, and would act (on their members' behalf) as active purchasers of health services from competing providers.

To limit premium and benefit costs, funds would use integrated payments to ensure health resources are used as efficiently as possible, and to ensure patients receive the most appropriate and cost-effective care, including all beneficial primary care and outpatient specialist care to avoid expensive hospital admissions.

A Value-Based National Health Innovation Agenda

Calls to increase the rate of the GST, and/or other tax increases to pay for the rising cost of health to government budgets threatens to prop up latently inefficient hospital-based health services. This is antithetical to Prime Minister Malcolm Turnbull's statement that he wishes to lead a government committed to innovation and economic reform.

What the Turnbull government must consider — going well beyond its limited primary healthcare 'reforms' — are the structural changes to the architecture of the health system, such as Medicare Select, that can transform the way health services are insured, purchased and provided.

A truly innovative national health reform agenda should explore ways of emulating the private sector managed care and alternative payment models that could deliver the best value healthcare — and potentially reduce the cost of health by effectively and efficiently controlling the use of hospital services.

Related CIS publications

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PM114 Jeremy Sammut, *How! Not How Much: Medicare Spending and Health Resource Allocation in Australia* (2011)

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