



RESEARCH REPORT SNAPSHOT

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MEDI-VATION: 'Health Innovation Communities' for Medicare Payment and Service Reform

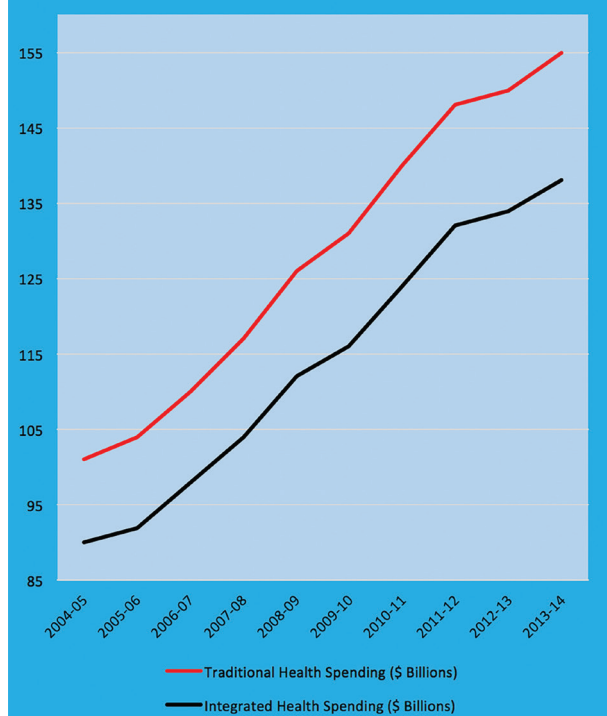
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The Trouble with Health Reform

- Conservative estimates suggest that structural inefficiencies in the \$155 billion Australian health system cost the nation \$17 billion annually — 11%.
- Based on this estimate of the level of inefficiency in the health system, the aggregate 'healthcare cost gap' attributable to cost-ineffective health spending over the decade since 2004 is \$140 billion – a sum sufficient to have nearly halved what in 2014 was Australia's \$320 billion national debt (See Figure 1.)
- While we are wasting 11% of the total national health spend each year, lack of reform at the systemic level prevents service redesigns that could deliver better value for money and more cost-effective healthcare for Australians.
- Under both the Medicare and private health insurance systems, the bulk of health funding is locked up in inflexible 'fee for service' payment models that principally reward doctors for providing one-off services that entail unintegrated sets of either medical (mainly GP) care or hospital care.
- The rigid public health system and the regimented private insurance system both prohibit the development of alternative models of integrated healthcare — especially for chronically ill patients — covering the full service spectrum and full cycle of care.

Figure 1: HEALTHCARE COST GAP.
Traditional Health Spending &
Integrated Health Spending*,
Australia 2004-2014

*Based on 11% efficiency gap estimated in *Health Reform: Higher Quality, Lower Costs. A Port Jackson Partners Limited Report to Private Healthcare A*



- The existing service systems also provide no incentive, and limited assistance, for individuals to take responsibility for their own avoidable health risks; while providers are rewarded irrespective of the results — rather than on overall improvements in health status and wellbeing.
- ‘Big Bang’ reforms of the existing architecture of the health system would entail enormous dislocations of current practice, carry the risk of unintended consequences and are likely to be stymied by political obstacles (typified by the recent ‘Medicare’ federal election campaign).

HICs – Politically-Feasible Health Disruption

- The way to avoid these impediments and pitfalls — but still allow for disruption and innovation in health — is by establishing Silicon Valley-style ‘Health Innovation Communities’ (HICs – See Box).
- HICs are similar to free trade zones that relax restrictive practices and laws; removing disincentives that impede commerce and prevent new ways of doing business.
- HICs would make it legal for organisations, both public and private, to develop more efficient and sustainable models of care that would improve health outcomes.
- HICs would maintain the core principles of fairness at the heart of Medicare — that is: taxpayer-funded, access to high quality health services irrespective of means — but would make it legal for consumers to opt-in to a publicly-funded alternative to the current Medicare scheme.

Silicon Valleys for Health

- HICs would operate as hubs for research and development with a plurality of different providers creating novel health products and solutions.
- HICs would, for the first time, put the needs of chronic patients at the centre of the health system, as cost-effective ICPs are developed that provide continuity of care and ensure chronic patients receive the full cycle of all necessary care to properly manage and maintain their conditions, and minimise use of expensive hospital services
- By opening up opportunities for diversity of payment and service innovations, HICs would allow for new ways to be developed to use our increasingly scarce health dollars to provide better and more sustainable health services to Australians. By demonstrating the financial and health benefits of doing things differently in health, HICs will potentially create broader community support for releasing the shackles on innovative models of healthcare across the entire health system.
- A national health innovation policy that establishes HICs can ameliorate the toxic, innovation-killing politics of health. In each catchment area, ICPs will only apply to those consumers who voluntarily consent to opt-in to the new system. However, the good examples and real world (as opposed to trial quality) evidence of better practice and outcomes that will be rapidly generated — by weeding out unsuccessful from successful ICPs — will establish functioning models and workable blue prints for systemic change.

Box: Key HIC Design Specs

- Within the 3 to 5 geographic areas that would be declared HICs — such as the catchment area for Westmead Hospital in Western Sydney, the Hunter region in mid-north coast of NSW, and the state of Tasmania — healthcare providers would apply for exemptions from existing health legislation and regulations to allow for the use of alternative payment and service delivery models that are currently banned.
- Integrated Care Plans (ICPs) would require inter-governmental and health sector agreements to ‘pool’ existing public and private sources of health funding (depending on the insurance status of each volunteer) on a capitation basis. This is necessary to support genuinely integrated care, and give providers the ability, flexibility, and financial incentive to develop new, cost-effective care pathways
- HIC-exempt providers who are approved and registered by a joint government and industry-led HIC Commission — including companies, start-up entrepreneurs, charities, private health funds, and federal and state government health agencies — would accept and recruit individuals who want an alternative to the existing public and private health systems and who voluntarily choose to opt-in to an ICP.
- Customers would have the right to break the ICP service contract, and return to default Medicare and private insurance arrangements, in exceptional or egregious circumstances as arbitrated by an HIC Ombudsman.
- Customers would also continue to access emergency care outside the HIC from traditional Medicare and private health insurance providers, and would also default back to Medicare when ICP providers fail — meaning no one will ever miss out on access to essential healthcare.

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