Summary of the second meeting of the Private Health Ministerial Advisory Committee – Contracting and Default Benefits Working Group, 9 February 2017, Department of Health offices (Scarborough House), Canberra

Attendees

Members	
Steve Somogyi, Chair	
Andrew Sando, Australian Health Service Alliance	Cindy Shay, HCF
Luke Toy, Australian Medical Association	Jenny Patton, Healthe Care
Michael Roff, Australian Private Hospitals Association	Matthew Koce, hirmaa
Darryl Goldman, Catholic Negotiating Alliance	Scott Bell, Nexus Group
Jane Griffiths, Day Hospitals Australia	Dr Rachel David, Private Healthcare Australia
Jennifer Solitario, HBF	Allan Boston, The Bays Healthcare Group Inc.
Secretariat	
Charles Maskell-Knight, Secretariat	
Susan Azmi, Secretariat	
Vanessa Sheehan, Secretariat	

Apologies

Jamie Reid, Finity Actuaries

1. Welcome, apologies and introductions

- The Chair opened the meeting and welcomed Mr Boston to the Working Group. The Chair noted one apology for this meeting.
- The Chair reminded the Working Group that its consideration of issues is confidential. He advised that each Working Group member's commitment to retaining confidentiality is important to ensure the Working Group can have a meaningful open discussion.
- Mr Boston shared his experience and role in the contracting environment and provided a summary of his views on contracting and the second-tier default benefit arrangements.

2. Declaration of Conflict

- Members did not declare any new conflicts of interest.

3. Member presentations and discussion on data

- One member presented a paper to the Working Group on second-tier eligibility of independent private overnight rural and regional hospitals. The paper showed that not all potentially eligible hospitals were actually eligible for second-tier default benefits. The Working Group discussed possible reasons hospitals may choose not to apply for second-tier eligibility.
- Members discussed that most of the data available to Working Group members is commercial in confidence and not able to be shared with the Working Group.
- Members also asked if the Secretariat could share Hospital Casemix Protocol (HCP) data with members. The Secretariat advised that it could not provide HCP data directly to members. Members undertook to provide the Secretariat with specific data analysis requests to allow the Department to undertake analysis and report de-identified, high level results back to the Working Group where possible.
- Members discussed a range of issues important to each sector and provided some detailed scenarios.

4. Contracting

- Members discussed the complexity and variation in contract funding models, for example contracted rates may be episodic or per diem. Individual insurers and hospitals may operate with a range of funding models. Members generally agreed that funding model variations complicated the calculation of second-tier default benefit schedules and may also complicate

data analysis and reporting. Members also agreed that variation in contracting can act to encourage/recognise innovation.

- Members discussed whether consumers, if faced with a possible out-of-pocket hospital charge, utilise health insurance portability arrangements to move to an insurer that contracts with their preferred hospital, and if so whether this influences health insurer contracting decisions.

5. Second-tier default benefit

- Members discussed whether the original policy intent of the second-tier default benefit was to protect rural and regional hospitals or any uncontracted hospital, and whether or not the original intent still applies in a contemporary private health sector.
- Members generally agreed that consideration of the second-tier default benefit arrangements should not be about protection/benefit for particular parts of the sector, but about protecting consumers from high out-of-pocket costs.
- Members discussed whether consumers generally face higher out-of-pocket costs for hospital episodes funded by second-tier default benefits, or if competitive market forces limit the gap hospitals can charge. The Secretariat undertook to provide high level analysis of consumer hospital out-of-pocket costs under second-tier arrangements for the Working Group's consideration.
- Members had a range of contrasting views on the impact of the second-tier default benefit in a contemporary market including whether the second-tier arrangements:
  - protect consumers by providing access to a range of facilities irrespective of health insurer contracting status and ensuring competition in the market; or
  - skew market dynamics by removing normal barriers to market entry, leading to inefficient facilities entering the market.
- Members also had differing views on whether the second-tier arrangements impact health insurance affordability for consumers overall, not only those receiving services eligible for second-tier default benefits.
- Members discussed whether/how the existence of second-tier arrangements may impact each party's contracting decisions. Members had a range of views on whether the impact differs in times of short-term contract dispute compared with when a hospital and insurer have been uncontracted long term, or when a new facility opens and contract negotiations commence.
- Members discussed the second-tier hospital eligibility criteria and generally agreed that the criteria were out-dated and should be reviewed.
- Members agreed that the process for grouping hospitals for the calculation of the second-tier default benefit is problematic and agreed to consider alternative categories including Australian Institute of Health and Welfare - Australian Hospital Peer Groups. This may prove a more consistent and impartial set of definitions and independent of contract negotiated arrangements.
- Members discussed issues around the calculation of second-tier default benefits, including how contracts with low or no volume procedures may skew the average calculation, and whether the calculation should exclude/be weighted for these items.
- Members considered whether there may be alternatives to basing the second-tier default benefit on health insurers' hospital contracts, including the possibility of basing the second-tier calculation on an input cost model. The Secretariat will invite the Independent Hospital Pricing Authority to speak about possible pricing models at the next meeting of the Working Group. This may enable a more independent and transparent basis for funding.

6. Next Meeting

- The Working Group noted that its next meeting is scheduled for Tuesday 21 February 2017.