

EXTENDED MEDICARE SAFETY NET REVIEW OF CAPPING ARRANGEMENTS REPORT 2011

**A REPORT BY THE CENTRE FOR HEALTH ECONOMICS
RESEARCH AND EVALUATION**

CONTEXTUAL OVERVIEW

OVERVIEW PREPARED BY THE DEPARTMENT OF HEALTH AND AGEING.
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Introduction

The Extended Medicare Safety Net Review of Capping Arrangements Report 2011 (the ‘Capping Review’) was prepared by the Centre for Health Economics Research and Evaluation (CHERE) at the University of Technology, Sydney as an independent evaluation of the introduction of caps or upper limits on benefits payable through the Extended Medicare Safety Net (EMSN). CHERE were engaged to undertake the Capping Review following an open tender process.

EMSN benefit capping was introduced on 1 January 2010 to enact the following measures announced as part of the 2009-10 Budget:

- Medicare Benefits Schedule – capping Extended Medicare Safety Net benefits for items with excessive fees
- Medicare Benefits Schedule – capping Extended Medicare Safety Net benefits for items with excessive fees – obstetrics

Section 10C of the *Health Insurance Act 1973* (‘the Act’) requires that the Minister must cause an independent evaluation of the impact and operation of EMSN capping.

This is an accompanying statement to the Capping Review.

Extended Medicare Safety Net (EMSN) prior to capping

The EMSN provides additional benefits for out of hospital Medicare services once an annual threshold in out of pocket costs for out of hospital services has been reached. Once a single or family has qualified for the EMSN, the Medicare benefit is increased to cover 80 per cent of the out of pocket costs for out of hospital services, except for some items where there is a maximum limit, or EMSN benefit cap in place.

On 1 January 2010 EMSN benefit caps were applied to obstetric services, including some pregnancy ultrasounds, assisted reproductive technology (ART) services, one type of cataract surgery, one type of varicose vein treatment and hair transplantation for the treatment of alopecia.

The Government introduced EMSN caps based on the findings of an earlier independent review of the EMSN in 2009 conducted by CHERE. The 2009 Review showed that the EMSN had led to fee inflation in some areas of the Medical Benefits Schedule (MBS), with “considerable leakage of government benefits towards providers’ incomes, rather than reduced costs for patients”¹. The 2009 Review found that in some areas for every EMSN dollar that the Government spent, 78 cents was going to the provider in the form of increased fees and 22 cents was going to the patient to reduce their costs.

Prior to the introduction of capping, the EMSN was growing at more than 20 per cent per annum. From 2004 to 2009 EMSN expenditure grew by 133 per cent from \$231.2 million in 2004 to \$538.6 million in 2009, three times the rate of growth of MBS expenditure. The Capping Review proposes that “at this rate of growth, EMSN expenditure would have been greater than overall Medicare expenditure by 2044”². This growth was unsustainable.

The Government introduced capping to put the EMSN on a more sustainable footing into the future and to prevent the program from being used as a mechanism to underwrite the excessive fee increases of some doctors.

¹ Centre for Health Economics Research and Evaluation (CHERE). 2009. Extended Medicare Safety Net (EMSN) Review Report 2009. pg vi.

² CHERE. 2011. Extended Medicare Safety Net (EMSN). Review of Capping Arrangements Report 2011. pg.35.

Key findings of the EMSN Capping Review

The Capping Review shows that the introduction of EMSN capping has put the EMSN on a more sustainable footing, reducing EMSN expenditure to \$311.8 million in 2010. In 2009, before EMSN capping, 55.8 per cent of EMSN benefits went to obstetric and ART services. This reduced to 27.1 per cent in 2010. The Capping Review found that the reduction in EMSN expenditure in 2010 has made an important contribution to restricting growth in expenditure and reducing the financial risk to Government resulting from increases in provider fees.

The introduction of EMSN capping has not significantly impacted on the number of people receiving a benefit from the EMSN, with more than 960,000 people receiving an EMSN benefit in 2010, a two per cent reduction from 2009 figures. CHERE note that the reduction “may be explained by the incomplete 2010 data but it may also be explained by a change in behaviour on the part of patients”³. EMSN capping does not change the way that people qualify for the EMSN.

Distribution of EMSN benefits by socioeconomic area

The introduction of capping does not appear to have changed the distribution of EMSN benefits by socioeconomic or regional area. However, the reduction in EMSN expenditure has been relatively greater in wealthier areas and major cities, compared to lower socioeconomic and regional areas.

The Capping Review shows that since the introduction of the EMSN, those living in the higher socioeconomic areas have received the greatest proportion of EMSN benefits, with those in the most advantaged areas receiving 54.1 per cent and people in the least advantaged areas receiving 3.3 per cent of EMSN benefits. The introduction of capping has had little impact in changing this distribution with those in the most advantaged areas receiving 53 per cent of EMSN benefits and those in the least advantaged areas receiving 3.7 per cent of EMSN benefits in 2010⁴.

Distribution EMSN benefits by remoteness area

The distribution of EMSN benefits is heavily skewed to those living in major cities. In 2008 EMSN benefits paid per capita in rural areas was \$8.82 compared with \$28.23 in major cities. The introduction of capping in 2010 did not change this trend, with \$6.63 in EMSN benefits paid per capita in rural areas and \$19.03 in major cities⁵.

Remaining areas of risk

The Capping Review found that opportunities remain for providers to shift their billing practice in order to avoid caps, for example charging high fees for uncapped items. CHERE identified that the fee charged at the 90th percentile for out of hospital anaesthetic for lens surgery increased by more than 400 per cent since the introduction of capping for the associated cataract surgery procedure, suggesting the possibility of provider fee sharing between anaesthetists and ophthalmologists as an explanation⁶. Further, substantial EMSN benefits are being paid for some major surgical procedures, such as medically necessary breast reduction, being billed as out of hospital services⁷. This means that the EMSN arrangements are potentially encouraging doctors to provide surgical services out of hospital, which may not be the safest or most efficient setting.

³ CHERE. 2011. EMSN. Review of Capping Arrangements Report 2011. pg.22.

⁴ CHERE. 2011. EMSN. Review of Capping Arrangements Report 2011. pg.32.

⁵ CHERE. 2011. EMSN. Review of Capping Arrangements Report 2011. pg.30.

⁶ CHERE. 2011. EMSN. Review of Capping Arrangements Report 2011. pg.71.

⁷ CHERE. 2011. EMSN. Review of Capping Arrangements Report 2011. pg.28.

Capped items

Assisted Reproductive Technology (ART)

Before capping:

- The 2009 Review of the EMSN found that since the introduction of the EMSN average fees charged for ART services increased by 10.3 per cent per annum.
- Between 2003 and 2008, average fees decreased by 9 per cent for in hospital services and fees for out of hospital services increased by 62 per cent⁸.
- EMSN expenditure on ART increased from \$32.1 million in 2004 to \$147.0 million in 2009, an increase of more than 400 per cent.
- In 2009, EMSN expenditure on ART represented 27 per cent of total EMSN expenditure.

After capping:

- The Capping Review found that EMSN expenditure decreased to \$63.8 million in 2010, but this was offset by an increase in out of hospital Medicare benefits of \$13.8 million.
- In 2010, EMSN expenditure for ART services was more than any other group of items and still represented 20 per cent of total EMSN benefits.
- On 1 January 2010 the Medicare rebates for a typical stimulated cycle increased by around \$1,000 following a restructure of ART items agreed with the ART profession.
- The review did not find large increases in the fees charged between 2009 and 2010 for patients in the sample.
- Analysis by the Department shows that the fees charged by doctors increased by more than the increase in the rebates. For example, the rebate for item 13200 (ART service in an initial stimulated cycle) increased by \$1,000, yet Medicare data shows that the fee charged for this one item increased from \$3,700 in 2009 to over \$6,000 in 2010 (an increase of more than 60 per cent).
- For the most common type of cycle, the review finds that out of pocket costs increased by around \$1,000 at the median fee between 2009 and 2010.
- The review highlights that the fees charged by doctors to people living in lower income areas increased significantly.
- The Capping Review showed a reduction in the number of cycles between 2009 and 2010 based on a sample of ART patients in June and October. However, this reduction may have been partly due to patients having treatment before the introduction of EMSN benefit caps.

Obstetrics

Before capping:

- The 2009 Review of the EMSN found that since the introduction of the EMSN average fees charged for services increased by 7.4 per cent per annum.
- Between 2003 and 2008, average fees decreased by 6 per cent for in hospital services and fees for out of hospital services increased substantially⁹.
- EMSN expenditure on obstetrics increased from \$49.2 million in 2004 to \$153.8 million in 2009, an increase of more than 300 per cent.
- In 2009, EMSN expenditure on obstetrics represented more than 28 per cent of total EMSN expenditure.

After capping:

- The Capping Review found that EMSN expenditure decreased to \$20.8 million in 2010, but this was offset by an increase in out of hospital Medicare benefits of \$24.9 million.
- The Government invested over \$157 million (over four years) to increase the base rebates for obstetric items. The in hospital rebates for delivery items were increased by \$250 to \$280, resulting in a net increase in base Medicare benefits paid in 2010 of over \$40 million.

⁸ CHERE. 2009. EMSN Review Report 2009. pg 63.

⁹ CHERE. 2009. EMSN Review Report 2009. pg 63.

- The Capping Review found that fees at the high end decreased, but increased slightly at the low end between 2009 and 2010.
- The Capping Review finds that for a patient charged at the median fee, out of pocket costs increased by \$1,000 between 2009 and 2010. This is for out of hospital antenatal care, including general practitioner consultations.
- Using Medicare data, the Capping Review concluded there was a four per cent reduction in the number of private confinements in 2010 compared with 2009, however, it is likely that the Capping Review overstates the change as the claims data is still incomplete for 2010 due to the short period between the introduction of the caps and the Capping Review.
- Due to the timing of the Capping Review it was not possible to assess whether there was any change in the number or proportion of deliveries in the public sector.

Cataract surgery (item 42740)

Before capping:

- The 2009 Review found that cataract surgery item 42702 was in a group of items where for every EMSN dollar spent, 78 cents went to the provider in the form of higher fees and 22 cents went to the patient to reduce their costs.
- The average fee charged for an out of hospital service in 2009 increased by 62 per cent since the introduction of the EMSN in 2004.
- Less than five per cent of claims for cataract surgery are claimed as out of hospital services.

After capping:

- For the capped cataract surgery item, the percentage of services provided out of hospital reduced from 4.3 per cent in 2009 to 3.6 per cent in 2010.
- The Capping Review found that the total number of services provided in hospital and out of hospital reduced by an average of 7.5 per cent for the capped cataract surgery item, after increasing by 9.9 per cent between 2008 and 2009.
- Provider fees for services provided out of hospital decreased and out of pocket costs increased between 2009 and 2010.

Varicose Vein treatment (item 32500)

Before capping:

- The 2009 Review found that this varicose vein item was in a group of items where for every EMSN dollar spent, 78 cents went to the provider in the form of higher fees and 22 cents went to the patient to reduce their costs.
- Between 2003 and 2008 the average fee charged increased by 116 per cent.

After capping:

- For varicose vein treatment the Capping Review found nine per cent fewer procedures were performed out of hospital between 2009 and 2010.
- There was a 39 per cent increase in services being provided in hospital, and a 91 per cent increase in the number of out of hospital services for another uncapped varicose vein item procedure.
- Fees charged by doctors above the median decreased slightly.
- Patient out of pocket costs increased above the median fee charged.

Hair Transplant (item 45560)

Before capping:

- Very small numbers of hair transplantations are funded under the MBS, at less than 200 procedures a year.
- The out of hospital fee was more than two times higher than the in hospital fee and increased by more than 300 per cent between 2003 and 2008.

After capping:

- The number of services funded under the MBS has decreased.
- Out of pocket costs have increased.
- Fees charged have decreased to 2005 levels.

Background and Methodology for the Capping Review

The Capping Review examines the impact of EMSN benefit capping through an analysis of MBS data, including services provided up to 31 December 2010 and processed by 28 February 2011. The review provides analysis by geographic area and socioeconomic status of areas based on the postcode of patients as registered with Medicare Australia.

The Capping Review notes that EMSN benefit capping was only introduced on 1 January 2010 and it was not possible to determine the long term impact of capping on provider fees or the use of services, particularly as there was a large increase in the number of services provided in late 2009 to avoid the imposition of the caps.

The Extended Medicare Safety Net Review Report 2009 was a review of the whole EMSN program that was conducted with Medicare data extracted in calendar year 2008. The figures in the 2009 Review were inflated to 2008 real terms using consumer price index (CPI).

The Capping Review is a review which is restricted to examining the operation and impact of EMSN capping. This review uses data extracted in the 2011 calendar year and adjusts figures to 2010 real terms using CPI. For this reason the figures provided in the 2009 and 2011 reports cannot always be directly compared.