



Australian Government

Department of Health

Memorandum of Understanding for the policy parameters of the Prostheses List Reforms

The Honourable Greg Hunt MP, Minister for Health and Aged Care of the Commonwealth of Australia

and

Medical Technology Association of Australia Limited

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Memorandum of Understanding

Dated 14 March 2022

Parties

Name	The Honourable Greg Hunt MP, Minister for Health and Aged Care of the Commonwealth of Australia
Short name	Minister
Name	Medical Technology Association of Australia Limited
Short name	MTAA

Background

- A. On 20 May 2021, an investment of \$22 million over 4 years was announced as part of the *2021-22 Budget – Modernising and Improving the Private Health Insurance Prostheses List* to reduce the cost of medical devices used in the private health sector, improving affordability and value of private health insurance for Australians (**Measure**).
- B. The Measure aims to modernise and improve the Prostheses List, better aligning the level of benefit set for medical devices on the Prostheses List for private providers with the prices paid for the devices in the public hospital system. The Measure includes initiatives to realise savings for insurers, and ultimately consumers, as well as structural reforms to better focus the Prostheses List for the future on high cost and innovative medical devices.
- C. The parties have a shared commitment to adopt, to the greatest extent possible, the revised implementation approach for the Prostheses List reforms set out in this MoU and to further discuss in good faith specific matters, including:
- C.1 the Department's policy, set out in section 2.3.2, not to list comparable General Use Items; and
 - C.2 the Department's proposal, set out in section 2.7.2, regarding future pricing of prostheses.
- D. The changes to the multi-year reforms are anticipated to deliver total savings of around \$800-900 million, recognising a lesser amount will be delivered in the first year.

1. Definitions

In this MoU, unless expressed or implied to the contrary:

CIEDs means Cardiac Implantable Electronic Devices.

Department means the Australian Government Department of Health.

General Use Items means the items that the Clinical Implementation Reference Group has endorsed for removal from the Prostheses List.

Measure has the meaning given in paragraph A of the Background to this MoU.

MoU means this Memorandum of Understanding between the Minister and the MTAA.

MSAC means the Medical Services Advisory Committee.

Prostheses List means the list of medical devices for which private health insurers are required to pay a benefit when a member has the relevant coverage, as provided for under the *Private Health Insurance Act 2007*. **Prostheses Listings** are medical devices included on the Prostheses List.

Weighted Average Price means the relevant benchmark price for prostheses in Australian public hospitals, as determined by the Independent Hospital Pricing Authority in accordance with the methodology set out in Schedule 1.

2. Prostheses List reform implementation elements

The parties agree to the implementation elements to facilitate the Prostheses List reforms required to support the Measure as set out in this section 2 and, further, to discuss in good faith the Department's policy in section 2.3.2 (not to list comparable General Use Items) and the pricing proposal in section 2.7.2.

2.1 Schedule of price reductions

2.1.1 Prostheses Listings are to have their benefit levels referenced to the respective public prices from 1 July 2022 until 30 June 2026. Under this approach:

- (a) Prostheses List benefits for devices with a small gap between the Prostheses List benefit and Weighted Average Price, judged to be less than 7 percent above the Weighted Average Price, would not be reduced; and
- (b) Prostheses List benefits for devices with a gap of more than 7 percent above the Prostheses List benefit and the Weighted Average Price would not reduce below 7 percent above the Weighted Average Price. The 7 percent floor for all products is to remain for the period of the reforms specified in this section 2.1.1 and not to be contingent on any review.

2.1.2 The Prostheses List benefits for devices with a benefit level of more than 7 percent above the Weighted Average Price are to be reduced by:

- (a) 40 percent of the difference between the Prostheses List benefit and the Weighted Average Price on 1 July 2022;
- (b) 20 percent of the difference between the Prostheses List benefit and the Weighted Average Price on 1 July 2023; and

- (c) 20 percent of the difference between the Prostheses List benefit and the Weighted Average Price on 1 July 2024,

taking account of the 7 percent “floor” for all products.

- 2.1.3 This element set out in section 2.1 is conditional on implementing the reform elements specified in sections 2.2, 2.3.1, 2.3.3, 2.4, 2.5 and 2.6, and noting that the parties will hold good faith discussions in relation to the items referred to in sections 2.3.2 and 2.7.2.

2.2 Fourth year price reductions

- 2.2.1 The parties agree that no reductions to Prostheses List benefits are to occur in year 4 of the reforms, between 1 July 2025 and 30 June 2026, effectively providing a 20 percent private adjustment factor on the initial gap between the Weighted Average Price and the Prostheses List benefit.

- 2.2.2 The element in section 2.2.1 above is not to be contingent on a review.

- 2.2.3 The element in section 2.2.1 does not relate to the CIED category, which is to be deferred by one year as per section 2.4. This category will receive the final benefit reduction of 20 per cent on 1 July 2025.

2.3 General Use Items

- 2.3.1 General Use Items will receive a reduction of:

- (a) 60 percent of the difference between the Weighted Average Price and the Prostheses List benefit from 1 July 2022 (this includes the eight topical skin adhesives which will no longer take a benefit reduction on 1 March 2022); and

- (b) 40 percent from 1 March 2023,

before being removed from the Prostheses List on 1 July 2023 when bundling arrangements are intended to be implemented.

- 2.3.2 The parties note that applications for listing of comparable items to the items in section 2.3.1 are not being accepted in the interim, recognising that MTAA does not agree with that policy.

- 2.3.3 Applications for listing of comparable items to the items in 2.3.1 that have been considered and deferred by the Prostheses List Advisory Committee (**PLAC**) will be reconsidered by the PLAC specifically to assess the patient impact, if these items are not available in the private hospital system.

2.4 Cardiac Implantable Electronic Devices (CIEDs)

- 2.4.1 To ensure continued access for patients for CIEDs, the commencement of all benefit reductions (40/20/20) for the CIED benefit structure on the Prostheses List is to be deferred by one year to 1 July 2023, to allow for MSAC deliberations on the value of the technical support services.

- 2.4.2 MTAA will take all reasonable steps to ensure that cardiac companies that produce CIEDs commit to engage with MSAC (expected no later than March 2022) and provide MSAC during its deliberations described in section 2.4.1 with company data relevant to the MSAC process.

2.5 Regrouping of Prostheses List

The new grouping structure under the Measure is not to be an additional source of savings on top of the overall reference pricing savings described in this section 2.

2.6 Modernised pathways

Principles for new Prostheses List listing pathways will be co-designed by MTAA and the Department, for approval by the Minister.

2.7 Pricing to hospitals

2.7.1 The Government's intention is that, under the Measure, there would be no additional out-of-pocket costs for consumers on an ongoing basis.

2.7.2 Future consultations would discuss the proposed introduction, as a part of the Prostheses List application process, of a declaration by companies that there will not be extra charges for listed and necessary ancillary products beyond the Prostheses List benefit, with penalties for false declarations, to ensure no out-of-pocket expenses for consumers.

3. Timeframes

Subject always to the impact of matters beyond their reasonable control, it is the parties' intention to continue consultations in a timely manner and to use all reasonable efforts to achieve the reform implementation elements described in section 2 and to hold good faith discussions in relation to the other items referred to in sections 2.3.2 and 2.7.2.

4. Status

4.1 This MoU is not intended to create legal relations or constitute a legally binding contractual agreement between the parties.

4.2 Notwithstanding section 4.1, the parties will, to the greatest extent possible, comply with the terms of this MoU.

Schedule 1 – Methodology for calculation of weighted average price and public price referencing under Prostheses List reforms 1 July 2022 to 30 June 2026

Weighted Average Price (WAP)

The Weighted Average Price will be calculated by the Independent Hospital Pricing Authority using the most appropriate data, including sponsor-supplied data for financial year ended 30 June 2021 as the primary data source.

The Weighted Average Price will be calculated based on existing Benefit Groups on the Prostheses List (PL) defined as:

- All billing codes sharing the same category, sub-category, product group, sub-group, suffix and benefit level on the PL

The Weighted Average Price for a Benefit Group is calculated as follows:

- Average public price for all devices included under the billing codes in the Benefit Group weighted by private volumes

New listings of products joining an existing Benefit Group will receive the same benefit level as the other billing codes in that Benefit Group, regardless of the stage of reductions phasing, and incorporating the 7% floor.

Examples of application of the 7 percent floor and the 40:20:20 phasing and no reduction in year 4:

Weighted average public price = 100					
	Current	1 July 2022	1 July 2023	1 July 2024*	1 July 2025*
EG 1:					
PL	105	105	105	105	105
Differential	5%	5%	5%	5%	5%
EG 2:					
PL	115	109	107	107	107
Differential	15%	9%	7%	7%	7%
EG 3:					
PL	200	160	140	120	120
Differential	100%	60%	40%	20%	20%

* **Note:** 1 July 2024 and 1 July 2025 would be subject to any changes that may result from the pricing review, as outlined below

Pricing review

IHPA will conduct a pricing review during the 4-year reform period.

IHPA will recalculate the Weighted Average Price based on data for 1 July 2022 to 30 June 2023 (FY23 WAP).

IHPA will compare the recalculated FY23 WAP to the FY21 WAP (calculated using data for 1 July 2020 to 30 June 2021). Any change in the FY23 WAP will be capped to a 5 per cent movement up or down.

If the FY23 WAP differs from the FY21 WAP, the PL benefit reductions that apply on 1 July 2024 for Prostheses Listings will be in accordance with section 2.1 and 2.2 using a Revised WAP.

This Revised WAP will be:

- If the FY23 WAP differs from the FY21 WAP by 5 per cent or less, the Revised WAP will be the FY23 WAP;
- If the FY23 WAP is less than the FY21 WAP by more than 5 per cent, the Revised WAP will be the FY21 WAP reduced by 5 per cent
- If the FY23 WAP is greater than the FY21 WAP by more than 5 per cent, the Revised WAP will be the FY21 WAP increased by 5 per cent.

For clarity these reductions will be calculated as follows:

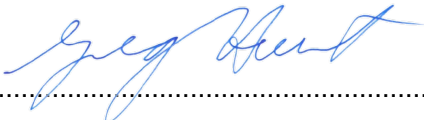
- IHPA will calculate the gap between PL benefits and FY23 WAP and determine the reductions to PL benefits that will apply on 1 July 2024, in accordance with section 2.1 and section 2.2;
- PL benefits for devices with a benefit level more than 7 percent above the FY21 WAP are to be reduced on 1 July 2024 by 20 percent of the difference between the Prostheses List benefit and the Revised WAP, provided the benefit is not reduced below the FY21 WAP plus 7 per cent, and devices with a gap between the PL benefit and the FY21 WAP of 7 percent or less will not be reduced;
- The PL benefits used to determine this gap will be the benefits applying on 30 June 2022;
- No reductions to PL benefits are to occur in year 4 of the reforms, between 1 July 2025 and 30 June 2026.

Signing Page

Dated 14 March 2022

**Signed by the Honourable Greg Hunt MP,
Minister for Health and Aged Care**

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**Signed for and on behalf of Medical Technology
Association of Australia Limited by Maurice Ben-
Mayor, Chair**

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