

Pathology Review
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Review of the Funding Arrangements for Pathology Services

Introduction

The AMA has a wide range of members: those who own pathology companies; those who provide pathology services and those who request pathology services. Accordingly, our submission seeks to address the issues around Government subsidy of pathology services from the perspective of all our members and their patients.

The AMA appreciates that the Government is keen to manage future health outlays. However, from a health policy perspective, it is short sighted to manage total health outlays by taking a siloed approach in managing discrete elements of health funding.

Pathology services are key clinical tools in assessing, diagnosing and treating disease early. If new funding arrangements are implemented purely to force the cheapest “price” for pathology services, there is a risk that many pathology providers will find it difficult to remain viable. A reduction in the number of pathology providers, or the range of services they offer, will consequently impact on access and affordability for patients.

If patient access, affordability, safety and quality of care are affected by changed funding arrangements, costs to the health system will simply be transferred, and added, to other parts of the health system. Hospital admissions will not be avoided, and the Government will ultimately pay for more expensive treatment of late stage disease.

Inevitably in health financing if you make changes to one part of the system there are unintended consequences elsewhere in the system.

It is in this context that we caution the Department in conducting a review of funding for pathology services without first fully understanding how the Australian people and the health care system is served by the pathology sector now and the current financing arrangements.

The review discussion paper has failed to ask the most important question of all: whether (and if so how) changes in the current funding arrangements for pathology services might improve the overall effectiveness of the health system.

Fee for service arrangements have over the years encouraged and enabled an efficient, competitive market of high quality pathology providers to respond to local demand in most areas of Australia. The cost of services is shared between government, third party insurers and patients – all of whom have some influence on the “price” sought by the provider. The amount of Government assistance to patients is a matter for Governments and patients. But, any new arrangements for the way in which the Government pays its subsidies to patients should not have the effect of reducing the number or scope of providers and therefore limit access to these services.

In making a submission to the review, the AMA highlights:

- the clinical importance of pathology in patient care;
- the need for the review to include an analysis of the pathology sector and how it has changed as a result of historical changes to funding arrangements;
- the need to identify the problems that changed funding arrangements seek to correct; and
- the principles for funding pathology services in Australia.

The importance of pathology in patient care

It is not possible to conduct a review of funding arrangements for pathology services without first fully understanding the importance of pathology in patient care and the reasons why there is a demand for pathology services.

Contrary to the statement in the discussion paper that the “review will not focus on issues around the requesting of and demand for services”, the level of demand for pathology services, and the role pathology plays in managing patient care, is a critical factor for Governments in deciding how much it will spend on health and how it will manage health expenditure.

Pathology is a vital element of best practice patient care. It provides crucial information to enable doctors to assess and diagnose a patient’s condition and to determine the best approach for treatment. Early diagnosis provides cost effective treatment and significantly improves patient outcomes.

Once a treatment plan is implemented, many medical conditions require follow-up pathology to determine when treatment has successfully alleviated the condition, or to guide the ongoing treatment and management of the condition.

In chronic conditions, ongoing monitoring through appropriate pathology testing is essential to enable the treating doctor to ensure: that the treatment is appropriate; the response is assessed and reviewed; and also to aid patient compliance with the management plan. The 45% increase in pathology test ordering in the last decade is reflective of the increasing management of chronic conditions.

It is inevitable that the demand for pathology services will increase: not just because of an ageing population, but also because of an increased demand by our society for improved health. A focus on preventative health will increase the demand for pathology services.

Pathology services are integral to cost-effective treatment as well as ongoing patient management. This is the reality of delivering clinically appropriate and cost effective health care.

Patient management and safety and quality of care are optimal when there is clinically appropriate access to the right pathology service at the right time. Treating doctor and patient access to the full spectrum of pathology services must not be compromised by short sighted changes to funding arrangements designed only to reduce outlays on pathology services.

The review process

The task of the review is to advise the Minister on the options for future funding of pathology services to ensure the Government is paying the right amount to support access. However, the AMA is not confident that the review will identify valid options because the objectives of the review have not been clearly articulated. Nor has there been any analysis about whether, under the current funding arrangements, the Government is paying the wrong amount for pathology services, and if so why the current arrangements are not suitable. Without this analysis, it will be impossible to assess whether alternative funding arrangements will improve the overall effectiveness of the health system. Indeed, it may well be that the government's objectives for the health system will be well served by increasing the aggregate expenditure on diagnostic tests. But we won't know this unless the question is asked.

Further, to fully understand what impact different funding arrangements might have on access to and affordability of services, it is necessary to analyse what impact the current financing arrangements and the structure of the pathology sector have on servicing the Australian people now. The review should elicit information about the nature and structure of the pathology sector today: the types of providers; the range of services offered by the different types of providers; their geographical spread; and what those services currently cost overall.

The discussion paper has not identified that there are any gaps in patient access to services or the affordability of services. There is no analysis of what impact the previous funding arrangements under the Memorandum of Understanding have had on the structure and diversity of the sector. Consequently, it is not possible to even speculate how different funding arrangements might address particular problems with patient access to quality pathology services when the problems have not actually been identified.

The AMA believes this analysis should be done as part of the review.

The AMA offers the following principles against which the existing arrangements and proposed options should be tested:

- access to pathology services should continue to be based on clinical need;
- safety, quality, access and affordability are paramount;
- sustainability of the industry should be maintained which in turn will support the provision of services right across the country, including in regional and remote areas; and
- any changes should facilitate patient care and convenience.

These principles require service delivery arrangements that:

- do not cap expenditure across the system or for individual patients;
- do not restrict clinically appropriate access;
- do not limit the number of eligible providers; and
- reimburse Point of Care (PoCT) testing in general practice.

Safety and quality

Pathologists play a critical role in the provision of safe, high quality pathology services. At all parts of the testing pathway, the pathologist's professional input is vital, including:

- consultation with the requestor, where appropriate, to determine the best type of test for the patient;
- quality assurance for test processes to ensure tests are carried out according to the highest standard;
- performing tests;
- providing professional advice on test results; and
- conferring with the requestor on treatment and management of the patient.

Pathologists maintain long-standing relationships with treating doctors. This ensures high quality medical care is provided to patients that is informed by expert medical opinion. Pathologists and treating doctors regularly confer on the interpretation of results of tests ordered by the treating doctor. This interaction ensures optimal patient care and facilitates quality pathology referrals. This professional engagement does not attract a Medicare rebate for either doctor.

It is not possible, nor is it clinically appropriate, for the pathologist's professional input to be extricated from the automated part of the pathology test and funded separately, without compromising the safety and quality of the service.

Quality use of pathology

The AMA would support measures to improve the knowledge base about best practice pathology, for providers and requestors. It is appropriate that more studies are conducted to evaluate clinical pathways associated with pathology and to develop best practice

guidelines. This should be done in close consultation with the medical profession and the medical colleges. The National Prescribing Service has received funding in the 2009-10 Budget to support quality pathology ordering and we look forward to the results of this work.

Access and affordability

Access to medical services for many people is dependent upon affordability. The Government has for many years used a blunt instrument to limit its MBS outlays for pathology services by not indexing MBS rebates during the period of the Memorandum of Understanding. Despite this, pathology providers have managed to maintain high levels of bulk billing. However, where services have been patient billed, patient out of pocket costs have steadily increased, with a substantial increase from 2007-08 to 2008-09. It is those patients who have been short-changed by the Government's strategy of zero indexation on MBS fees for pathology.

The risk of Government changes to the funding arrangements for patients is that it will effectively transfer a greater portion of the costs for pathology services to more patients. Further, if funding arrangements such as tendering processes, result in only a few large organisations providing Medicare funded services, reduced competition could have the effect of a departure from relatively high bulk billing rates and/or pathology services may no longer be available locally.

If that is the case, then there is an increased risk that more patients won't access services when they need them. As mentioned previously, poorly managed conditions and/or treating late stage disease leads to increased downstream costs for the health system.

The Australian fee for service model for pathology services has reached a delicate balance that has developed over many years. For example, under the fee for service arrangements, providers cross-subsidise between services – the true cost of very complex and costly services that are not performed very often is not passed directly onto those patients using those services. Providers are able, to some degree, to offset these more expensive, less frequent pathology services with lower cost, but higher volume services. This allows providers to offer the full spectrum of pathology services.

The current fee for service environment provides the best balance of incentives to encourage quality services and competition.

It is the level of the Government rebate that impacts on patient access and affordability. Any new funding arrangements must ensure the gap between MBS rebates and the real cost of providing these services does not grow. It is vital that those less well off and in areas of social disadvantage remain able to access the mainstream health system.

Sustainability of services

A decade of inadequate MBS fees is beginning to reduce the commercial viability of some pathology providers.

The AMA notes that the public system does not have sufficient capacity to meet the demand that would be created by a diminished private pathology sector. Therefore it is very important to ensure the funding arrangements do not undermine the viability and sustainability of private pathology providers.

While MBS fees have remained stagnant, all the costs associated with providing services have increased, e.g. salaries, equipment, consumables and rent. There have been some efficiencies gained from new technologies. The fee for service arrangements has meant providers are in a position to offer the full spectrum of pathology services and can cross subsidise the earnings from certain services to other more expensive services in order to reduce patient out of pockets costs.

At the same time pathology providers offer quick and efficient services. Many providers operate 24 hours a day, 7 days a week, to provide urgent pathology service to underpin the care of critically ill patients, surgical emergencies and emergency obstetrics in the private sector, and to ensure the results of specimens received late one day are available the next day. This responsive service comes at an increased cost, which is currently able to be covered through the fee for service arrangements.

The viability of services in small centres are particularly vulnerable to changes in funding arrangements and structures. As has already been recognised by the Government in its National Health and Hospitals Network policy, additional financial support is necessary for services located in rural and remote areas in the form of special grants or additional loadings.

Capital costs

The AMA understands that the Department considers that Medicare rebates are somehow over remunerating capital costs for pathology services. It is not clear how the Department could reach this conclusion in light of recent cuts to MBS fees for pathology services and zero indexation for more than a decade.

The AMA recommends that the Department take advice from the pathology providers on this issue. However, we would point out that the frequency with which pathology practices replace capital equipment with new equipment depends on a number of factors including costs, quality, patient care, and previous investment. These factors interact with each other in complex ways, impacting on a provider's decision on whether and when to replace equipment. In addition, the costs of some equipment are cross-subsidised by others in the same way as some services are; cheaper, older machines that are used more frequently subsidise the cost of more expensive, modern machines used less frequently. Consequently, it will be difficult to draw a uniform industry position on the cost of capital.

Introducing the payment of rebates on the basis of specific depreciation time limits is not supported because of the potential perverse incentives it could encourage. For example, too short a depreciation period might disadvantage a pathology provider who invests in top of the line equipment that can produce good pathology results for a long period with regular upgrades, and instead encourage a provider to purchase cheaper equipment that produces poorer quality results but that can be replaced more often.

There is a risk that sellers of pathology testing equipment would change their behaviour to match funding changes. For example, servicing of equipment might cease after depreciation time limits, thereby forcing pathology providers to buy new equipment unnecessarily.

The Government has already introduced accreditation arrangements as a requirement for pathology services to be covered by Medicare rebates. This ensures the entire pathology service, including the pathology testing equipment complies with the highest standards. Given that compliance with the accreditation requirements comes with administrative and financial costs to the pathology provider, it is reasonable to conclude that these costs can be partly attributed to any capital component within the MBS fee.

Increasing MBS fees would not only enhance sustainability overall, but also support practices to deliver high quality services. It would help encourage new entrants to the market, who can be deterred by the high cost of equipment and other set-up requirements, and therefore increase competition – one of the Government's objectives.

Coning

As the discussion paper states, patient episode coning was introduced in 1995 to address the concerns about inducement of referrals for unnecessary tests. However, episode coning is another method the Government uses to curb pathology expenditure to the detriment of the sustainability of pathology providers.

Now that the Prohibited Practices legislation is in place there is no justifiable reason why the episode coning arrangements should continue.

Enhanced patient care and convenience

The AMA supports the role that PoCT can play in assisting General Practitioners (GP) in managing their patients' chronic disease. PoCT contributes significantly to the effective management of chronically ill patients by enabling GPs to make more timely clinical decisions. PoCT also improves patient engagement by facilitating discussion at the time of consultation about treatment progress and, if required, modifications of the patient's management plan. This builds trust and understanding by encouraging patients to make regular visits to their GP for monitoring and treatment of their condition.

The AMA believes that Medicare rebates for PoCT will better support general practice in the front-line management of patients with chronic conditions, and would be consistent with the Government's focus on improved primary care services.

Alternative funding arrangements

The Department has not provided any evidence to demonstrate that alternative funding arrangements would work better than the fee for service model, or that any alternative arrangements would improve patient care and affordability.

Tendering

It is important to note that tendering of pathology services in New Zealand has been less than successful and detrimental to patient care. There have been reports of patients receiving test results meant for others, extended waiting times for patient results, poorly trained staff and the withdrawal of pathology services from particular areas. It is likely that some of this has occurred because a highly quality, viable pathology service cannot be sustained at the lowest possible price.

In light of this experience, the AMA cannot support tendering of pathology services in Australia.

Extending the ordering of pathology outside the medical profession

The extension of Medicare rebates to pathology services requested by nurse practitioners and midwives is one health policy that will add to Medicare expenditure.

In the United Kingdom, nurses practising in extended roles in the primary care setting use more tests and investigations than general practitioners¹. If Australia is to avoid the additional cost of unnecessary services it is critical that nurse practitioners and midwives work in a collaborative care model with medical practitioners.

Conclusion

From a clinical perspective, pathology tests are one of the greatest weapons against disease and cost blowouts in other parts of the health system. The Government's funding arrangements for these services must not impact on access and affordability of these services. Patients and their doctors must continue to have access to clinically relevant information to ensure disease is assessed, diagnosed and treated early and effectively.

¹ *Advanced nurse roles in UK primary care.* Sibbald, Laurant, Reeves. MJA 2006;185 (1):10-12.

Government funding of pathology services going forward must correct the gap between MBS rebates and the real cost of providing these services. It is vital that the less well off and those in areas of social disadvantage remain able to access the mainstream health system. They should not be disenfranchised from essential health care because of high out of pocket costs for pathology. Funding arrangements should encourage a sufficient number of providers:

- so that patients have timely access to services;
- to ensure there is sufficient geographic spread of services; and
- to create a competitive market.

The fee for service arrangement has delivered these outcomes for the Australian people and should continue to be supported by the Medicare benefits arrangements.

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