Australian
Private Hospitals
Association

APHA response to proposed second-tier administrative reforms

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Introduction

The Australian Private Hospitals Association (APHA) is appreciative of the opportunity to make a submission to the Department of Health in response to draft cost recovery implementation statement (CRIS) for the proposed administration of private health insurance second-tier benefits.

The APHA notes that the Department has yet to describe the specifics of the process by which hospitals will make their applications, and the documentation required. We therefore reserve the right to make further comment.

The APHA recognises the Department is seeking with these reforms to reduce the administrative burden of second-tier application processes on hospitals, however the APHA has grave concerns that the proposed reforms will in fact greatly increase the administrative and financial burden for hospital group applicants, due to:

- The Department's request for a separate application for each hospital
- The proposal to align application timing to accreditation

The financial cost to many applicants will also increase due to:

- The removal of a cost-waiving option (previously provided to APHA members)
- No opportunity to bundle applications for multiple hospitals

The APHA is concerned that the Department's proposal is unnecessarily costly and cumbersome, due to:

- Insufficient use of technology in the second-tier application process. The APHA offers to make available the existing online portal, specifically built for second-tier applications, to the Department to streamline the application process and reduce costs for the Department and hospitals.
- Charging to publish application outcomes, which does not appear justified.

The APHA further notes no mechanism is proposed to manage future application fee increases, and to ensure that these will not exceed CPI.

The APHA also requests the Department enforce current legislation requiring insurers to pay second-tier rates for services excluded from contracts.

The APHA reiterates our concerns over suggested changes to second-tier hospital groupings.

APHA concerns

This submission outlines below the key concerns raised by the private hospital sector with the Department's proposed administrative procedures for second-tier benefits.

Specifics of application process

From the CRIS, it remains unclear what elements of the second-tier application would be required to be submitted directly to the Department, what types of evidence are acceptable for each requirement, and via what medium the Department intends hospitals will submit application information.

The current second-tier application medium with the APHA is an online portal, which applicants have found easier than the previous system of physical paper applications in septuplicate. From the administrative side a key advantage to the use of a portal (over paper submission but also over, for example, email submission), is that any additional documents requested before the application is finalised can be easily added to the main application. Assessors also utilise the portal to review and either approve or comment against each one. The use of the online portal medium therefore considerably lightens the administrative burden of second-tier application processing. The advantages of using an online portal for second-tier application processing were outlined to the Department in detail on our meeting of 28 February 2018.

The APHA requests the Department specify what elements of the second-tier application would be required to be submitted directly to the Department, what types of evidence are acceptable for each requirement, and how (through what medium) the Department intends hospitals will submit this information.

Increased administrative burden

Hospital groups will suffer increased administrative burden, due to:

- The Department's request for a separate application for each hospital
- The proposal to align application timing to accreditation

The APHA strongly advocates that hospital groups continue to be permitted to apply for second-tier status with a single application for the hospital group as a whole. Comparable information on multiple hospitals would be provided under the single application, as is currently the case.

Continuing to permit a group application process would result in a common renewal date, again creating a simpler, more efficient administrative system for groups. Such an option would necessarily require groups to identify when an individual hospital changed accreditation status. New facilities would also need to be lodged as a separate application. However, this arrangement would reduce the administration burden for both applicants and the Department.

Increased cost to applicants

Under current arrangements with the APHA, the second-tier application fee of $1,210 (including GST) is waived for APHA members. However, the CRIS states

> The department will not waive the fee in any circumstances (p5)

This loss of a waiving pathway means APHA member hospitals and hospital groups especially will now see increases in their financial cost of applying for second-tier eligibility. For example, an APHA member hospital group containing 20 hospitals would see their second-tier application fee increase from $0, to $24,200 ($850 × 20 hospitals). This enormous cost increase clearly goes against the Department's stated intention with these reforms: to reduce the financial burden on hospitals (p3).

The APHA's member hospitals are understandably displeased to now be exposed to this considerably increased fee from the Department, since there will no longer be a pathway to have their second-tier application fee waived. This is an additional cost imposed on the majority of private hospitals (day and overnight), which are APHA members.

In line with our above proposal to permit hospital group applications to reduce administrative burden on hospitals, the APHA further proposes a group application fee that is discounted from $850 per individual hospital. Since unified applications for each hospital group would be quicker and easier for the Department to assess, the reduced fee for group applications would therefore be justified by the Department's costs being primarily driven by staff time (p3).

Offer of portal to reduce application costs

The APHA currently administers the second-tier application system through an online portal. This portal was a significant investment on the APHA's part, but it enables more rapid application administration. The APHA would be willing to donate for free (or sell for $1) this portal to the Department, so that the Department is able to streamline second-tier application processing and so reduce second-tier application fees for hospitals.

Charging to publish the outcome

The APHA notes that the Department's estimated cost breakdown per application (Table 1, p4) includes $156 towards publishing the outcome of the second-tier application. However, this has always been the responsibility of the Department of Health under current arrangements whereby the APHA administers second-tier applications. It is therefore not a new cost, so it is not clear how this is justified as part of the cost recovery.

Moreover, the CRIS states

> The Minister for Health, the Hon Greg Hunt MP, announced a package of reforms to private health insurance on 13 October 2017, including transferring administration of second-tier default benefits to the Department of Health. The announcement was accompanied by a factsheet titled *Private health insurance reforms: Second Tier*

> *administrative reforms*. The factsheet stated that "private hospitals choosing to apply for second-tier eligibility will pay an application fee to cover the cost of assessing their application". (p3)

However, publishing the outcome of an application by definition happens after the application assessment has been completed. It is therefore not part of the cost of assessing the application, which the Minister justified the Department is able to recoup.

The APHA therefore suggests the proposal to charge $156 for publishing the result of each application is neither justified by the Minister's statement, nor based on recovering additional costs not currently incurred by the Department in processing second-tier applications.

Mechanism for future application fee increases

The APHA notes that the CRIS does not include a proposed mechanism for increases to the application fee in future years. On future application fees the CRIS states only

> The department will review its administrative processes and estimated volume of applications each year in order to estimate the cost of the regulatory charging activity for the next financial year. (p5)

This suggests the application fee each year could fluctuate based on the number of applicants, relating especially to any difference between the actual and the expected numbers of applicants. This creates unfair levels of uncertainty for hospital applicants about the future price of applying for second-tier eligibility. The Department states the main cost driver is staff time, yet the possibility remains that application fees could increase unpredictably and/or excessively. This is not acceptable.

The APHA proposes a review of administrative arrangements should be triggered if the Department identifies that fee increases would need to exceed CPI increases.

Services excluded from contracts

The intent of second-tier approval is to protect consumers from high out-of-pocket costs when a hospital does not have a negotiated agreement with the patient's insurer. Second-tier eligibility attaches to an episode of treatment (not a hospital), therefore second-tier benefits are payable when a service is excluded from a hospital's contract with an insurer. This is clearly laid out in legal advice obtained by the APHA (see Attachment A), where it is stated

> if a hospital has been approved as a 'facility' for the purposes of Schedule 5 of the Benefit Rules, and does not have a "negotiated agreement" (as defined above) with the health fund in relation to a particular episode of care, then the hospital should be able to claim the second tier benefit for the episode of care not covered in the HPPA.
>
> Please note that this argument is compelling, however the legislation is complex and should be made clearer. (p7)

The APHA has previously provided this legal advice to the Department, and has been verbally advised by the Department that they agree with this advice, yet no action has ever been taken by the Department to enforce health funds to comply with the regulations. This continues to result in patients paying large out-of-pockets for services excluded from contracts, despite these services being eligible for second-tier benefits.

The APHA requests that the Department enforce existing legislation, and make clear to insurers that they are required to pay second-tier benefit rates for services excluded from contracts with hospitals.

Hospital groupings

The Minister's factsheet on second-tier administrative reforms also states

> Private hospitals will also have confidence that hospitals are grouped consistently for the purpose of calculating and paying second tier benefits.

However, the APHA raised concerns earlier this month over the proposed changes to hospital type classifications for the purposes of second-tier eligibility, in our submission in response to the Department's exposure draft of the Private Health Insurance (Reforms) Amendment Rules 2018. To reiterate, the APHA's primary concern with the reclassification is that the rewording of subclause (g) removes the distinction between day hospitals providing treatments on a same-day basis and hospitals providing treatments that may include an overnight stay but with an overall admission duration of less than 24 hours.

The APHA suggests the event of the overnight stay (with associated specialised requirements and higher recurrent operating costs) should be used for grouping hospitals into similar categories as per the current definitions, rather than the duration of the admission being more or less than 24 hours. In other words, maintain the current wording for subclause (g), to avoid a significant change that will cause disruption to the industry and potential loss of jobs.