Healthcare in Personal Injury Schemes

Summary of preliminary findings for NSW Workers Compensation and Compulsory Third Party schemes

State Insurance Regulatory Authority

Final

11 September 2019

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1. Introduction

1.1 Background and scope

The State Insurance Regulatory Authority (SIRA) has observed increasing trends in service utilisation for medical attendances, private hospital services, orthopaedic surgery, neurosurgery and pain management clinics.

In response, SIRA is seeking to undertake a review of healthcare across the NSW Workers Compensation (WC) and Compulsory Third Party (CTP) personal injury schemes it regulates. The requirement to undertake this work arises from the legislated principle objectives of SIRA in the State Insurance and Care Governance Act 2015 No 19 (the Act) to: minimise cost to the community of workplace injuries and injuries arising from motor accidents; and to promote efficiency, effectiveness and viability of the schemes.

To support this work, SIRA engaged Ernst & Young (EY) in May 2019 to assist with preliminary analysis of the most significant areas of expenditure by volume. This analysis included: an interjurisdictional benchmarking comparison of medical costs fee setting regimes and fee regulation policy; an environmental scan to dimension medical costs in the NSW health system and the relative size of workers' compensation and CTP insurance spend; and analysis of medical spend dynamics.

1.2 Purpose of this document

The purpose of this document is to outline preliminary findings for NSW Workers Compensation and Compulsory Third-Party personal injury schemes for public consultation.

This document summarises key observations from EY's preliminary analysis of WC and CTP schemes including:

i) An Interjurisdictional comparison of fee arrangements between New South Wales, Victoria, Queensland and the Comcare scheme

ii) Dimension of medical spend within the NSW WC and CTP schemes as a proportion of the NSW Government and Non-Government recurrent expenditure based on publicly available data from the Australian Institute of Health and Welfare (AIHW)

iii) Medical cost dynamics including trends, superimposed inflation and variations between providers, insurers and patient cohorts

2. Executive Summary

Preliminary analysis identified the following observations relevant to the NSW Workers Compensation (WC) scheme (see section 4 for additional detail):

1. Interjurisdictional comparison of WC schemes
    - ► Fee schedules in the NSW scheme are linked to the relatively higher AMA rates, with loadings compared QLD and Comcare, which use the AMA rates (with no loadings), and VIC which uses MBS fee schedules
    - ► Prices for public admitted and emergency care services in the NSW scheme are based on ABF and use the National Efficient Price (NEP) compared to other schemes with state-specific models referencing relatively lower prices
    - ► The NSW WC scheme will reimburse 'reasonably necessary' costs as per legislation. Other schemes use differing tests for costs such as 'reasonable and necessary' and provide relatively more guidance in relation to the process to determine where tests for costs are met (e.g., reference to clinical frameworks and guidelines, etc.)
2. Dimension of medical spend
    - ► The market share of total health expenditure in NSW that the scheme commissions is 1.2% of NSW Government and Non-Government recurrent expenditure[1]
3. Medical cost dynamics
    - ► Service utilisation is identified as a key driver of increase in medical expenditure

Additionally, the following observations are relevant to the NSW Compulsory Third Party injury (CTP) scheme (see section 5 for additional detail):

1. Interjurisdictional comparison of CTP schemes
    - ► There are no fee orders but the AMA rates are used as the limit for treatment and care expenses in NSW. The Victorian scheme uses TAC-determined fee schedules that state maximum fees payable. The NSW scheme is estimated to have overall higher fee rates than the Victorian scheme
    - ► Prices for public admitted and emergency care services in the NSW scheme are based on ABF and use the national price compared to other schemes that use state-specific models with referencing relatively lower prices
    - ► The NSW CTP scheme will reimburse 'reasonable and necessary' costs as per legislation. Other schemes provide relatively more guidance in relation to the process and steps in determining where tests for costs are met (e.g., reference to clinical frameworks and guidelines, etc.)
2. Dimension of medical spend
    - ► The market share of total health expenditure in NSW that the scheme commissions is 1.1% of NSW Government and Non-Government recurrent expenditure[1]
3. Medical cost dynamics
    - ► There is limited data available in relation to the new NSW CTP scheme as it has been in effect for 18 months, with claims still developing. Consequently, it has not been analysed to the same depth as the NSW WC scheme at this stage

[1] Based on 2014-15 Australian Institute of Health and Welfare (AIHW) data, this may not be representative of recent trends

3. Summary of key observations for NSW Workers Compensation (WC) scheme

3.1 Interjurisdictional comparison of WC schemes

Key observation: Fee schedules in the NSW scheme are linked to the relatively higher AMA rates, with loadings compared QLD and Comcare, which use the AMA rates (with no loadings), and VIC which uses MBS fee schedules.

- NSW scheme's fee schedules are linked to AMA rates (with loadings) and item numbers for most medical and surgical procedures
- This compares to fees in other jurisdictions:

	NSW	QLD	VIC	Comcare
Reference rate for maximum fees	AMA (with loadings)	AMA	MBS	AMA

- The item numbers and billing rules in the NSW fee schedules are also linked to the AMA schedule, with MBS rules adopted for some services e.g., spine surgery., This compares to Victoria, Queensland and South Australia which use the MBS items, explanations, definitions and rules

Key observation: Prices for public admitted and emergency care services in the NSW scheme are based on Activity Based Funding (ABF)[2] and use the National Efficient Price (NEP)[3] compared to other schemes with state-specific models referencing relatively lower prices

- The NSW scheme uses the National Efficient Price for public hospital service fees compared to the other schemes that use state-specific models

	NSW	Victoria	Queensland	Comcare
Comparison of fee-setting methods for public hospital services	Admitted care: $NWAU_{18}$[4] (1-11%) x $NEP_{18\text{-}19}$ of $5,012	Admitted care: WIES25[5] x Base WIES $Price_{2018\text{-}19}$ of $5,029 Emergency care: $270	Inpatient care: Fee varies by hospital, diagnosis and length of stay (e.g., $7,359 x DRG cost weight for an inlier	Critical care: $3,934.95 (first 21 days) $1,720.95 (over 21 days)

[2] Method of funding public hospital services outline in Independent Hospital Pricing Authority Pricing Framework for Public Hospital Services 2019-20, https://www.ihpa.gov.au/publications/pricing-framework-australian-public-hospital-services-2019-20

[3] National Efficient Price for public hospital services determined by the Independent Hospital Pricing Authority, refer https://www.ihpa.gov.au/publications/national-efficient-price-determination-2019-20

[4] The National Weighted Activity Unit (NWAU) is the national unit for counting hospital service activity, based on the complexity of patients and legitimate variations in costs. The 'average' hospital service is equivalent to one NWAU.

[5] The Weighted Inlier Equivalent Separation is part of the Victorian Department of Health's funding model and represents the cost weight of a separation that is adjusted for time spent in hospital.

	NSW	Victoria	Queensland	Comcare
	Emergency Department non-admitted care: $NWAU_{18}$ x NEP_{18-19} of $5,012 Rehabilitation & other fees apply.	Rehabilitation & other fees apply.	separation in Hospital A category) Emergency care & other fees apply.	Other inpatient: $1,916.75 (first 21 days) $1,067.00 (over 21 days) Other fees apply.

- Key observation: The NSW WC scheme will reimburse 'reasonably necessary' costs as per legislation. Other schemes use differing tests for costs such as 'reasonable and necessary' and provide relatively more guidance in relation to the process and steps in determining where tests for costs are met (e.g., reference to clinical frameworks and guidelines, etc.)

- The NSW WC scheme's tests for costs compares to the other jurisdictions as follows:

	NSW	QLD	VIC	Comcare
Test for reimbursing costs in the scheme	Reasonably necessary	Reasonable and necessary	Reasonable	Appropriate

- The criteria that underlies each of the tests differs, for example, the Comcare and Victorian schemes specify the consideration of endorsed clinical frameworks

3.2 Dimension of medical spend

Key observation: The market share of total health expenditure in NSW that the scheme commissions is 1.2% of NSW Government and Non-Government recurrent expenditure[6]

- Analysis of recent claims data from SIRA over the financial years 2014-15 to 2017-18 indicates a trend increase in expenditure observed in the scheme over those years. The trend points towards an emerging risk that the scheme will overtake the growth in the rest of the healthcare sector and experience an increase in market share.
- Historical healthcare expenditure within the scheme increased at a steady annual rate of approximately 0.9% from 1996-97 to 2014-15[6]
- Despite the increase in historical expenditure, its market share of NSW Government and Non-Government recurrent healthcare expenditure steadily declined from 2.2% in 1996-97 to 1.2% in 2014-15[6]. However, as per above, there may be a risk of this trend reversing
- Relatively larger growth in healthcare expenditure has been observed within the public and private healthcare systems (including in private health insurance), suggesting that the scheme has, historically, partially mitigated the utilisation and expenditure pressures*

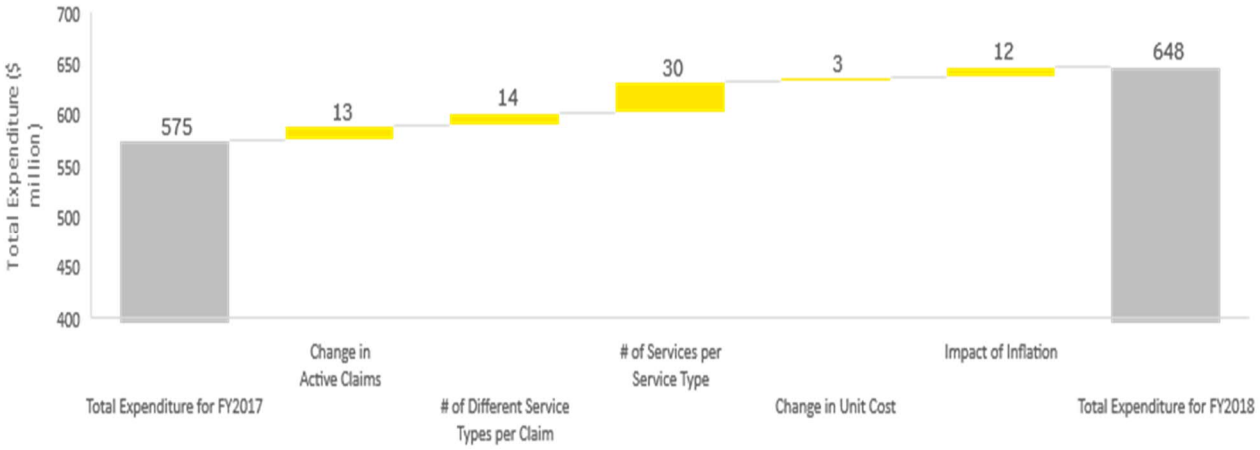
[6] This is based on 2014-15 Australian Institute of Health and Welfare (AIHW) data and may not be representative of more recent trends

3.3 Medical cost dynamics

Key observation: Service utilisation is identified as a key driver of increase in medical expenditure

- In FY2017-18, the increase in superimposed inflation is predominantly attributed to service utilisation growth
- The growth rate of service utilisation is at 7.7%, compared to 0.5% increase in unit cost
- The increase in service utilisation is due to both an increase of the breadth of services paid to a claimant and an increase in the frequency of service payments for a given service type
- The decline in unit costs is influenced by the slight decline in certain medical cost categories (e.g., surgery and private hospital services)

Figure 1 Cost driver analysis for in-scope medical expenditure for FY2016-17 to FY2017-18



4. Summary of key observations for NSW Compulsory Third Party (CTP) scheme

4.1 Interjurisdictional comparison of CTP schemes

Key observation: There are no fee orders but the AMA rates are used as the limit for treatment and care expenses in NSW. The Victorian scheme uses TAC-determined fee schedules that state maximum fees payable. The NSW scheme is estimated to have overall higher fee rates than the Victorian scheme

- The Motor Accident Guidelines specify the AMA rates as the maximum amount payable for treatment and care in NSW although there are no fee schedules, compared to the Victorian scheme with TAC-determined fee schedules that state maximum fees payable
- The NSW scheme is estimated to have overall higher fee rates than the Victorian scheme

Key observation: Prices for public admitted and emergency care services in the NSW scheme are based on ABF and use the national price compared to other schemes that use state-specific models with referencing relatively lower prices

- The NSW scheme uses the National Efficient Price for public hospital service fees compared to the other schemes that use state-specific models

	NSW	Victoria	Queensland
Comparison of fee-setting methods for public hospital services	Admitted care: $NWAU_{18}$[7] (1-11%) x NEP_{18-19} of $5,012 Emergency Department non-admitted care: $NWAU_{18}$ x NEP_{18-19} of $5,012 Rehabilitation & other fees apply.	Admitted care: WIES25[8] x Base WIES $Price_{2018-19}$ of $5,700 Emergency care: $451 Rehabilitation & other fees apply.	Funded by MAIC grant to Queensland Health based on an apportionment of the MAIC Hospital & Emergency Services levy.

[7] The National Weighted Activity Unit (NWAU) is the national unit for counting hospital service activity, based on the complexity of patients and legitimate variations in costs. The 'average' hospital service is equivalent to one NWAU.

[8] The Weighted Inlier Equivalent Separation is part of the Victorian Department of Health's funding model and represents the cost weight of a separation that is adjusted for time spent in hospital.

Key observation: The NSW CTP scheme will reimburse 'reasonable and necessary' costs as per legislation. Other schemes provide relatively more guidance in relation to the process and steps in determining where tests for costs are met (e.g., reference to clinical frameworks and guidelines, etc.)

- The NSW scheme's tests for costs compares to the other jurisdictions as follows:

	NSW	QLD	VIC
Test for reimbursing costs in the scheme	Reasonable and necessary	Reasonably and appropriately incurred	Reasonable

- The criteria that underlies each of the tests for either costs or services differs, for example, the and Victorian scheme specifies the consideration of the principles of the endorsed clinical framework when considering whether the treatment is reasonable and appropriate

4.2 Dimension of medical spend

Key observation: The market share of total health expenditure in NSW that the scheme commissions is 1.1% of NSW Government and Non-Government recurrent expenditure[9]

- Healthcare expenditure within the scheme has increased at an annual rate of approximately 4.1% from 1996-97 to 2014-15*
- Despite the increase in expenditure, its market share of NSW Government and Non-Government recurrent healthcare expenditure has remained relatively constant between the late 1990s and 2014-15 at around 1.1%*
- Relatively larger growth in healthcare expenditure has been observed within the public and private healthcare systems (including in private health insurance), suggesting that the scheme has, historically, partially mitigated the utilisation and expenditure pressures*

*This is based on 2014-15 Australian Institute of Health and Welfare (AIHW) data and may not be representative of more recent trends

4.3 Medical cost dynamics

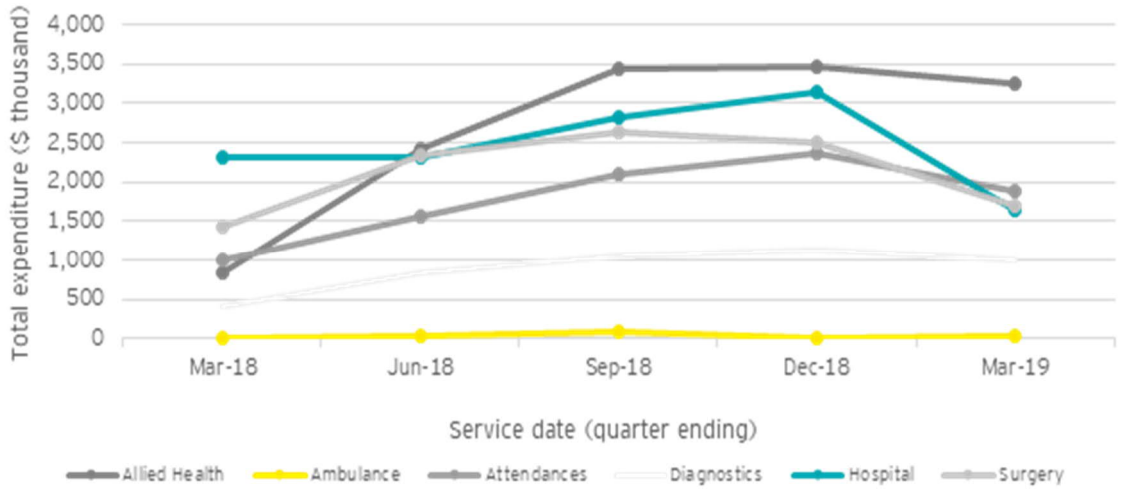
Key observation: There is limited data available in relation to the new NSW CTP scheme as it has been in effect for 18 months, with claims still developing. Consequently, it has not been analysed to the same level of depth as the NSW WC scheme at this stage.

- The top 3 sub-categories of expenditure are physiotherapy services ($10 million), specialist surgeons ($6 million) and specialist attendances ($5 million) over the period January 2018 to March 2019

[9] This is based on 2014-15 Australian Institute of Health and Welfare (AIHW) data and may not be representative of more recent trends

- An illustrative chart is included of the trend in medical expenditure from January 2018 to March 2019 for all medical cost categories
- However, the trends should be viewed with caution until the claims within the new scheme have developed sufficiently to facilitate detailed analysis of medical expenditure

Figure 2 Historical total medical expenditure in the NSW CTP scheme by medical cost categories



Appendix A Glossary

Term	Definition
ABF	Activity Based Funding
AIHW	Australian Institute of Health and Welfare
CTP	Compulsory Third Party
NEP	National Efficient Price
NWAU	National Weighted Activity Unit
SIRA	State Insurance Regulatory Authority
WEIS	Weighted Equivalent Inlier Separation
WC	Workers Compensation

Appendix B Reliance and limitations

Ernst & Young ("EY") was engaged on the instructions of the State Insurance Regulatory Authority ("Client") to conduct a review of healthcare in personal injury schemes, including an environmental scan to dimension medical costs in the NSW health system and the relative size of Workers Compensation and CTP insurance spend, and conduct interjurisdictional benchmarking for the in-scope medical cost categories ("Project"), in accordance with the statement of work signed and dated 7 June 2019 and the Contract Agreement SIRA//6358/2016 between EY and SIRA dated 20 April 2017. In a subsequent phase of work, EY has been engaged to undertake preliminary stakeholder engagement with NSW WC and CTP insurers as part of the second phase of review, in accordance with the statement of work signed and dated 17 July 2019, and further analysis of healthcare trends in accordance with the amendment to the statement of work signed and dated 21 August 2019.

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