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## **Social Values, Efficiency and Medicare**

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1. Historical Perspective
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3. Private Health Insurance
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# Ideologies/Social Values

- Liberalism/Libertarianism
  - maximise choice  
+ safety net
- Communitarianism/Solidarity
  - Canadian Medicare is ' far more than just an administrative mechanism for paying medical bills, it is widely regarded as an important symbol of community, a concrete representation of mutual support and concern ... it expresses a fundamental equality of Canadian citizens in the face of death and disease ... As the Premier of Ottawa pointed out ... "there is no social program that we have that more defines Canadianism".'

Evans, R and Law, M. 'The Canadian Healthcare System. Where are we and how did we get here', in Dunlop and Martens, An International Assessment of Healthcare Financing, Economic Development Institute of the World Bank, Seminar Series 1995.

- Communitarianism = different *dimension* ≠ equity  
equity ← funding

# Social Values and Efficiency

**Achieving wrong objectives is not efficient**

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**Achieving wrong objectives is not efficient**

- Private sector diversity (and/or lower cost)
  - ≠ efficient if objective is liberalism
  - \* efficiency may involve higher (\$) cost
- Universal uniformity (and lower cost)
  - ≠ efficient if objective is 'choice'  
(of a particular type)

# Economics, Options and Social Values

<b>Objectives/Social Values</b>	<b>Option which maximises likelihood of success</b>
Equalise – access, outcome	Public
Maximise: choice	Pure private scheme
Choice; diversity = safety net	Mixed public-private

The title is framed by two sets of horizontal lines. Each set consists of a top dashed black line, a middle solid teal line, and a bottom dashed black line.

# Short Run Policies

## Private Health Insurance

# PHI Policies

<b>July 1997</b>	Private Health Insurance Incentives Scheme (PHIIS)	Tax subsidy ...	low income groups
		Tax penalties ...	high income groups without PHI
			single >50,000
			family > 100,000
<b>Dec 1998</b>	'30% rebate'		
	PHIIS replaced		
	flat 30% of PHI		
<b>Sept 1999</b>	(effective from July 2000)		
	Lifetime Community Rating		
	age 30 ... no PHI → life time premium ↑		
<b>2003</b>	PHI to be reintroduced for out of hospital, medical care		

# The Echidna, the Platypus and PHI

Australia's entries into the World  
'Strange but True' contest

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- (i) If income  $>$  \$50,000 single, \$100,000 family  
... price of PHI  $<$  0

Analogy: to support auto industry surcharge  
on wealthy families failing to buy Australian  
car

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- (ii) If use PHI, out of pocket cost  $\uparrow$
- (iii) To sell insurance, increase the risk

# PHI Core Problem

- Self perception - Insurer
  - Funds transfer agent
- Substantive Role
  - Incentives in health sector
  - Medical incomes

# Sensible Options

## Private Health Insurance

- Enlarge scope to comprehensive health cover
  - Finance/management st regulation,  
(ie Managed Competition) → efficiency  
(hopefully)
  
- Allow erosion PHI → ‘safety valve’  
→ inefficiency unimportant

# Long Run Problems/Reforms

# Long Run non-Problem 1

## ■ Cost

- 'Nation' can't afford to pay

False

- Expenditure ← choice
- If  $U(\text{health}) > U(\text{elsewhere})$   
then  $\uparrow$  health

## ■ Caveat

- Expenditure must be efficient

## ■ Options

- Collective or individual financing  
≠ Efficiency issue  
= Issue of choice

# Long Run non-Problem 2

## ■ Cost

- 'Government can't afford to pay'

False: taxes/levy can ↑  
 True iff: taxes – fixed

## ■ Tax

- Do people want Tax ↓ ← Medicare ↓ Withers et al\* ... no
- Will people accept Tax ↑ if desired programs ↑ ... yes

## ■ Effects

- May 2003, 77% prefer G ↑ not T ↓ (AC Neilson Poll)
- Will Tax ↑ hurt GDP growth ... no relationship

\*Withers G Throsby G & Johnston K 1994, Public Expenditure in Australia EPAC Commissioned Paper 3

# Cost Effectiveness of Services

## Cost-effectiveness of selected health programs Australia 1992 to 1998

Service/intervention	Cost per life year
drugs submitted for listing on the PBS approved for funding at nominated price 1991 - 96	7 drugs \$5 - \$10,000 5 drugs \$10 - \$20,000 6 drugs \$20 - \$40,000 4 drugs \$40 - \$70,000
primary prevention of NIDDM: behavioural programs	cost saving \$2,400/LY
primary prevention of NIDDM: surgery for serious obesity	\$4,600 - \$12,300
comprehensive diabetes care	< \$1,000/life year saved

Segal L 'The Role of Economics and Health Economics in Environment Research', Workshop on Environmental Health, Department Health and Aged Care, Melbourne April, 2000: Derived from:

Segal L 2000, *Allocative efficiency in health. Development of a model for priority setting and application to NIDDM*, Doctoral Thesis, Monash University.

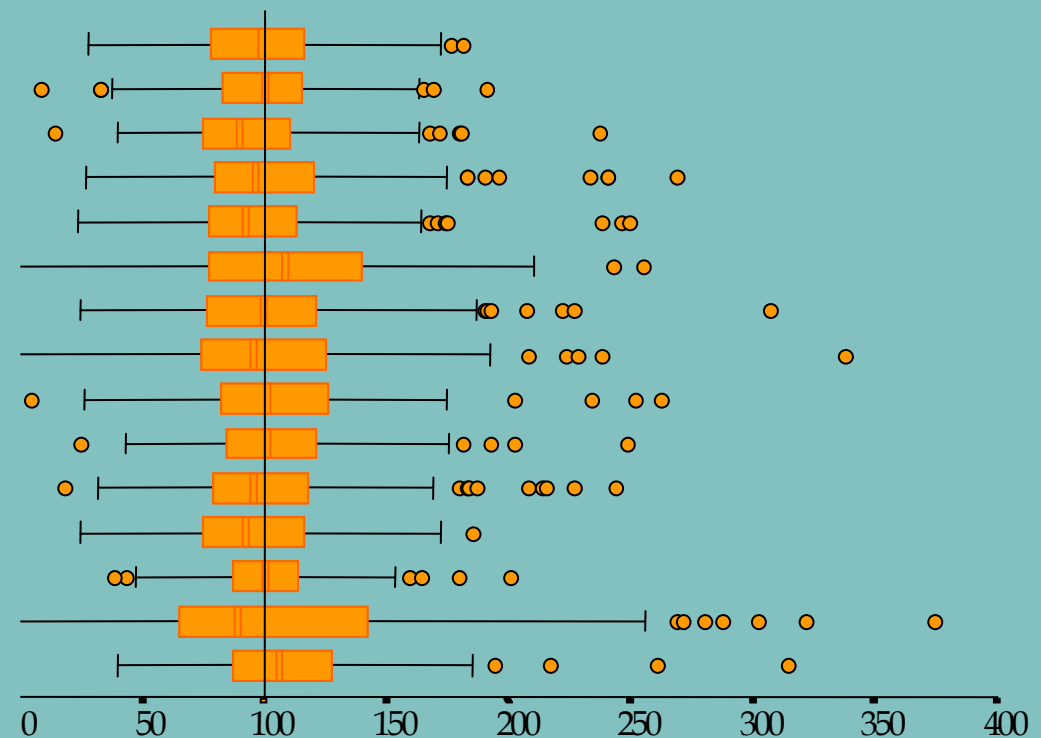
George B, Harris A, Mitchell A 1999, 'Cost-effectiveness Analysis and the consistency of decision making: evidence from pharmaceutical reimbursement in Australia, 1991 to 1996,' *CHPE Working Paper 89* HEU, Monash University.

Notes: \* maximum \$68,913 in \$1995-6  
 # LY = life year gain, QALY = quality adjusted life year gain,  
 1 QALY is equivalent to one life year in full health.

## Standardised Rate Ratios for Various Operations in the Statistical Local Areas in Victoria, Compared to the Rate Ratios for All Victoria

**Procedure**                      **Variance**  
**Ex(Variance)**

Coronary Angiography	13.4
Cor Revasc Procedure	5.4
Cataract Extraction	15.4
Tonsils & Adenoids	7.5
Myringotomy	11.7
Carpal Tunnel Release	8.4
Vertabral discetomy	2.1
Decomp laminectomy	1.9
Total Hip Replacement	3.8
Hysterectomy	6.4
Prostatectomy	3.9
Colonoscopy	45.3
Cholecystectomy	5.3
Explorat Laparotomy	1.7
Appendectomy	5.9



## Ratio of likelihood of public patients to private patients in private and public hospitals, 1995/97

	Private Hospital Patients :Public Patients to		Private Patients in Public Hospitals : Public Patients to	
	<i>Angiography</i>	<i>Revascularisation</i>	<i>Angiography</i>	<i>Revascularisation</i>
Within 14 days				
Men	2.20	3.43	1.77	1.53
Women	2.27	3.86	1.57	1.81
Within 3 months				
Men	2.24	3.43	1.53	1.23
Women	2.28	3.34	1.49	1.32
Within 12 months				
Men	2.16	2.89	1.42	0.97
Women	2.22	2.84	1.48	1.10

Source: Victorian Inpatient Minimum Dataset



# **Solutions: Examples of an 'Efficient System'**



# Vignette 1

‘Ethix, a Seattle based Managed Care organisation was asked to establish a health plan for a nearby country town. The scheme included, *inter alia*, detailed utilisation review. Shortly after commencement this detected an unexpectedly high level of spinal injury in youths. Investigation established that the reason for this was a tree stump which had been left in the middle of a popular toboggan run. Young people were crashing into this and injuring their backs. The health plan paid for a bulldozer to remove the tree stump.’

(Summary from a public address,  
Richardson et al 1999)

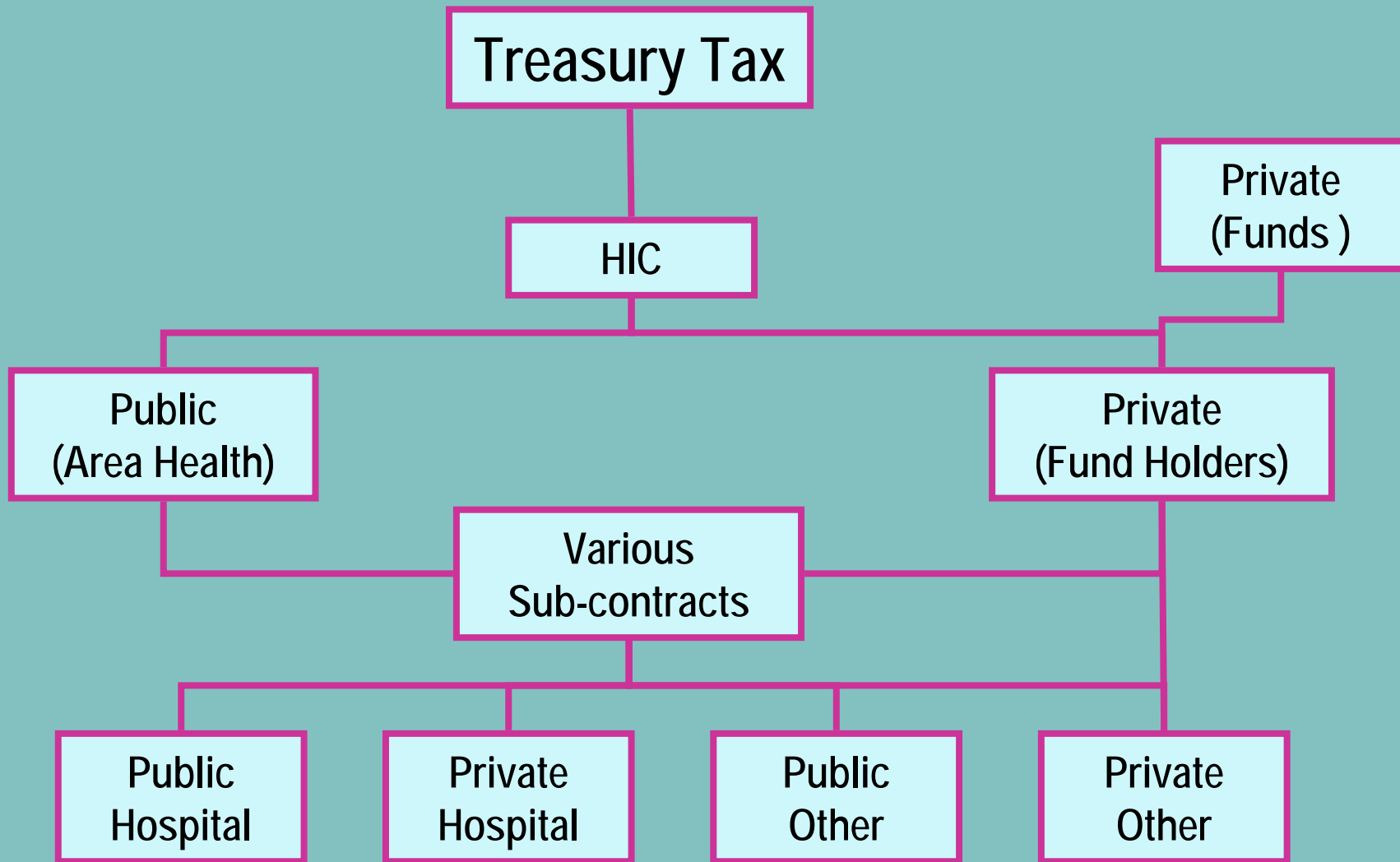
# Key Element

- Flexibility of funds
  - 'single payer'
  - No cost shifting
- Information systems
  - Health Service Review/Research

## Vignette 2

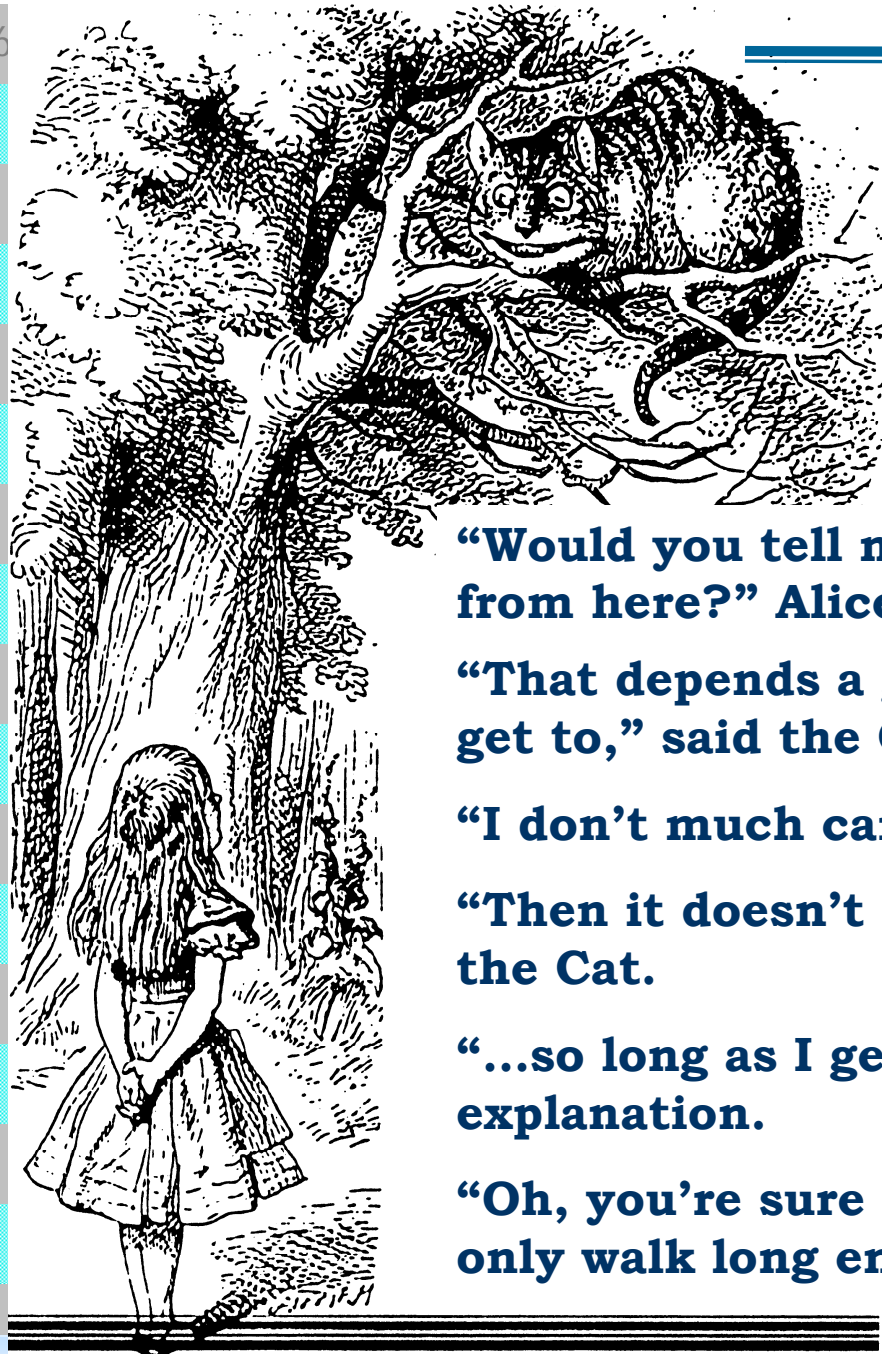
‘A woman with dizziness is concerned about her health. She rings the state call centre which advises her to visit her local health team. She is able to see the GP quickly who asks her a series of questions from the relevant research based protocol and undertakes a clinical examination. The GP emails the results to a local specialist... who orders some further investigations consistent with the state research based care path... Advice of (an) impending admission is automatically conveyed electronically to the GP and the social worker in the referring health team. The social worker contacts the hospital to discuss discharge planning... The specialist... suggest a number of sources for information about the patient’s condition. The patient contacts the call centre for further information... The case is randomly selected by the hospital audit committee for quality review. The committee suggests some slight changes to the state-wide protocol committee.’

# Scotton/Enthoven Managed Competition



# Principles of Managed Competition

- Single Fundholder
  - Maximise flexibility
  - No cost shifting
- Equity
  - ← (Tax) financing
- 'Competition'
  - Between Fundholders
  - Between Providers
- Regulation
  - Open enrolment
  - Premium levels
  - Minimum service package



## *Where Do I Go From Here?*

**“Would you tell me, please, which way I should go from here?” Alice asked the Cheshire Cat.**

**“That depends a good deal on where you want to get to,” said the Cat.**

**“I don’t much care where...” said Alice.**

**“Then it doesn’t matter which way you go”, said the Cat.**

**“...so long as I get somewhere”, Alice added as an explanation.**

**“Oh, you’re sure to do that,” said the Cat, “if you only walk long enough”.**