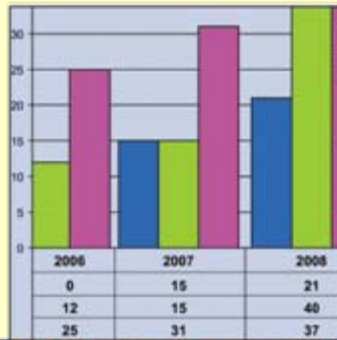


Threshold Pricing for Orthopaedic Prostheses

Smart Choices

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Aim

- The Threshold Pricing Project aims to:
 - Increase efficiency in the use of resources
 - Decrease overall expenditure
- It is envisaged that the reduced cost of the prostheses can be used to:
 - fund more surgery Increase efficiency in the use of resources
 - Provide surgeons with improved equipment
- This would increase access, which will reduce the number of patients on surgical waitlists

Nature and Extent of the Problem

- Expenditure on orthopaedic prostheses is one of the largest costs borne by hospitals in SSWAHS
- Over the last 12 years joint replacement surgery has increased by 100.5% (AOA 2007)
 - Australia's growing ageing population is expected to cause an increase in demand and expenditure for joint replacements and health services (Productivity Commission 2005)
- A review of prosthetic prices within SSWAHS over a period of 6 months found that:
 - the cost for the same prostheses varies between hospitals within SSWAHS depending on surgeon preferences with individual vendors

Nature and Extent of the Problem

- A review of prosthetic prices within SSWAHS over a period of 6 months found that:
 - The cost for the same prostheses varied between hospitals within SSWAHS depending on surgeon preferences with individual vendors
 - Average unit costs for knees varied from \$5,180 to \$8,135 and average unit costs for hips varied from \$6,983 to \$9,597
 - Individual unit costs for knees varied from \$5,000 to \$19,752 and individual unit costs for hips varied from \$3,260 to \$34,289
 - Although there was dramatic variance in the price of prostheses, no clinical justification was required for implanting a higher priced prosthesis

Strategic Importance

- Health expenditure is expected to be significantly affected by: Australia's ageing population
 - New technologies
 - Increased demand (Productivity Commission 2005)
- As healthcare costs continue to rise there will be greater emphasis placed on the way in which funds are spent
- To better utilise resources and create sustainability, funding decisions regarding interventions and services will need to consider:
 - Efficiency
 - Equity
 - Evidence

Planning & Implementing Solutions

- In 2007 the CE of SSWAHS ratified threshold pricing for all SSWAHS hospitals that performed orthopaedic surgery.
 - The Project was based on the orthopaedic threshold program developed at Fairfield Hospital in 2005
 - That program identified that large savings could be made if a ceiling price was set for joints.
- Threshold prices for knees and hips were set following consultation with orthopaedic surgeons and the CE
- Threshold prices were set at:
 - \$5700 for prosthetic knees
 - \$6500 for prosthetic hips

Planning & Implementing Solutions

- Major vendors were advised of the preapproved prices and were able to negotiate with surgeons to ensure suitable devices were with threshold
- Broad clinical guidelines were developed using data from the Australian Orthopaedic Association National Joint Registry
- Flowcharts were designed to illustrate the communication and approval process
- Each hospital selected a manager or clinician to act as a gatekeeper
- Surgeons were able to use their prosthesis of choice if it was at or below the threshold price
 - Prostheses higher than the threshold could be requested if clinical justification was provided

Outcomes & Evaluation

- The Project has achieved consistency in prices for prostheses across SSWAHS
- Price variances for prostheses have been reduced
- Compliance with threshold prices is improving, particularly for knees
- Hospitals that had higher average unit costs for prostheses prior to the introduction of threshold pricing have achieved larger savings
- Greater savings could be achieved with better rates of compliance
 - Compliance has fluctuated more dramatically for hips than for knees

Outcomes & Evaluation

Comparison of the Unit Costs of Prostheses Before and After the SSWAHS Threshold Pricing Project

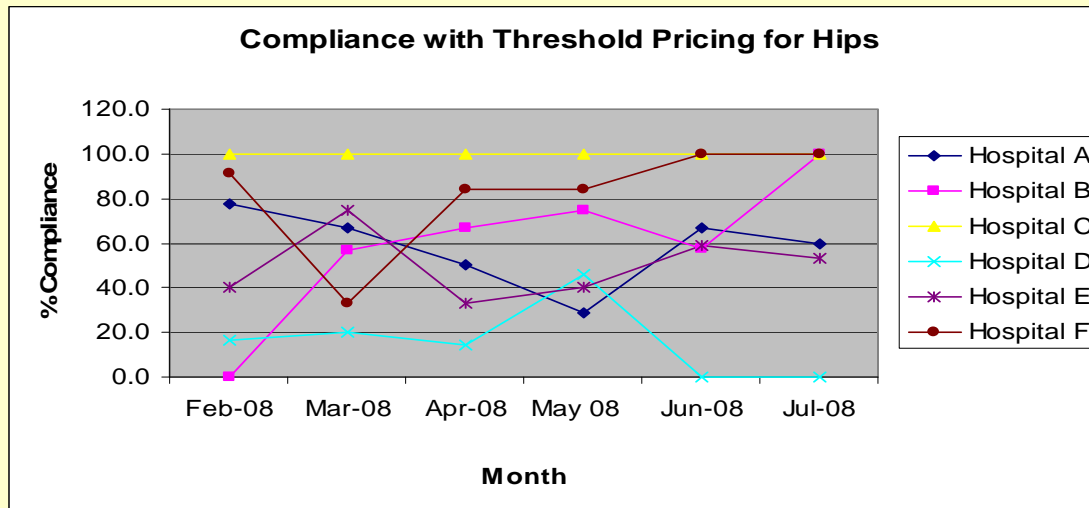
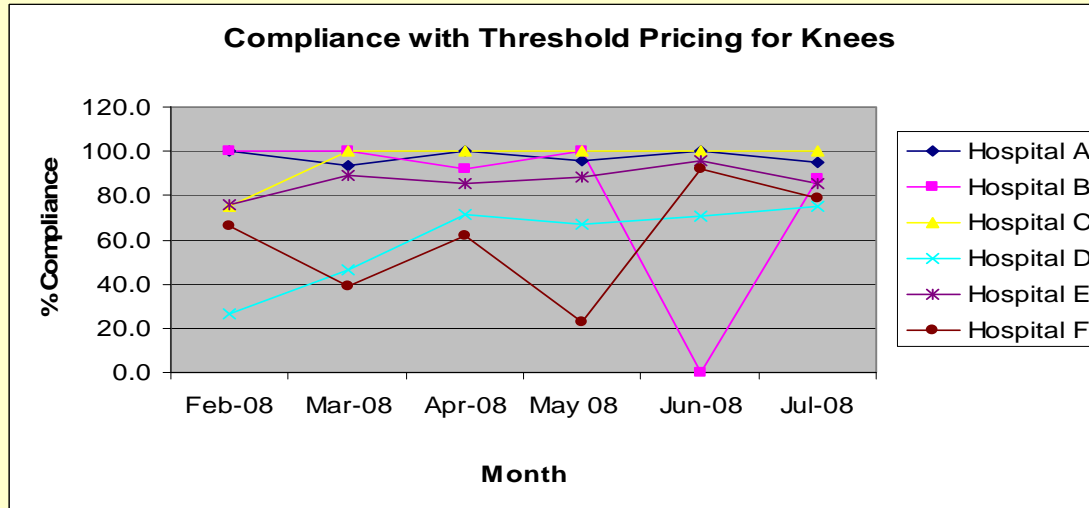
Prosthesis	Average Cost Prior to Implementation	Average Cost at 6 Months Post Implementation	Difference (%)
Knees	\$6,565.00	\$5,736.00	-12.6
Hips	\$8,194.00	\$7,743.00	-5.5

Savings Obtained with the Implementation of the SSWAHS Threshold Pricing Project

Prosthesis	Savings at 3 Months Post Implementation	Savings at 6 Months Post Implementation	Projected Annual Savings
Knees	\$211,170	\$438,714	\$877,428
Hips	\$91,094	\$176,179	\$352,358
Total Savings	\$302,264	\$614,893	\$1,229,786

* Projected annual savings have been amended to reflect the higher than expected savings made at 6 months post implementation

Outcomes & Evaluation



Sustaining Change

- A regular review of outcomes, including:
 - Surgeon compliance
 - Hospital compliance
 - Average unit costs
 - Potential savings
 - Actual savings
- Regular meetings are held with stakeholders and feedback is provided regarding reviews
 - This provides an opportunity to discuss performance, issues and strategies for improvement
 - It also assists in ensuring that individual unit costs for prostheses remain at or below threshold prices
- Executive and management engagement maintains focus on the project and its outcomes

Lessons Learned

- It is vital to set an appropriate threshold price
- The success of threshold pricing relies on compliance
 - It is important to have a gate-keeper and an approval process in place
 - Clinical justification should be provided for prostheses over threshold
- An audit process assists in verifying that quotes correspond with invoices
 - This assists in identifying the ‘chocolate box’ effect

Future Scope

- Threshold ceiling prices for knees could be reviewed and reduced further
- Threshold pricing could be applied to any hospital that performs orthopaedic surgery.
- Threshold pricing could be expanded to include other high cost surgical implants such as:
 - Stents
 - Pacemakers
 - Defibrillators
- Threshold pricing could also be applied to other consumables.

References

Australian Orthopaedic Association National Joint Replacement Registry, 2007, *Annual Report*, Australian Orthopaedic Association National Joint Replacement Registry, Adelaide, viewed 5 June 2008, <http://www.dmac.adelaide.edu.au/aoanjrr/documents/aoanjrrreport_2007.pdf>.

Productivity Commission, 2005, *Economic Implications of an Ageing Australia*, Productivity Commission, Canberra, viewed 16 June 2008, <http://www.pc.gov.au/__data/assets/pdf_file/0006/13596/ageing3.pdf>.

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