

Price Determination

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International Experience

Experiences in high-income countries

Price setting is a common feature of public health care systems. Developing credible prices has enabled high-income countries to

- draw on private facilities to expand access to hospital services as a part of achieving universal health coverage
 - provided benchmarks for private insurers
 - encouraged providers to compete for quality
 - help share financial risks between insurers and the provider
 - has been used to proactively prevent increases in prices of health care services in highly concentrated markets
- Regulation generally enables collective bargaining on prices.

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Lessons learned

- Essential role of government to facilitate the process contributing to wider social benefits for the whole population – does not harm competition
- Reimbursement prices should cover the full cost of a service is an important policy - that influences the affordability of health care services to individuals.
- Buy in and participation of provider groups, specialists representatives is important in the process to develop credible RVUs
- Moving from FFS to value-based payments requires significant investments in governance, IT infrastructure, ongoing M&E and regular updates

Lessons learned: Determination of prices

- Governments generally steer the process of ranking medical services based on their relative complexity and cost, and engage clinicians in this process.
- An Independent agency provides technical rigour and support to ongoing process
- Several countries have set up specialised independent agencies to separate the technical task of determining costs from the more political exercise of negotiating how much to pay for medical services.
- Standardization of methodology, cost accounting, procedure coding is needed and enforced for all stakeholders with systems of monitoring & evaluation

Lessons learned: tariff determination

- Separate the technical task of creating a list of services, collecting standardized data, ensure full participation of providers, establish a unified methodology, develop relative weights based on objective measures of costs, and regularly updated to reflect innovation
- The structure of fees is generally a centrally negotiated outcome between health care service providers and payers.
- Implicit in a fee-for-service schedule is a ranking of the relative value of health care services

Countries locate the technical work for developing DRGs within independent agencies

- independent agencies develop and maintain DRG schedules. These agencies, now present in France , Germany, Netherlands and Australia seek to locate the task of setting the DRG schedule outside the direct operational responsibility of government ministries, in part motivated by an attempt to ‘de-politicise’ this task
- responsible for collecting information on costs
- generally part of government or key health sector bodies (such as public insurers) and are responsible for estimating costs associated with individual services
 - France, Technical Information Agency of Hospitalization (ATIH)
 - Germany – Institute for the Payment system in Hospitals (InEK)
 - Australia – Independent Hospital Pricing Agency
 - Netherlands – DBC Maintenance (‘Onderhoud’, DBCO)

Proposed negotiation process

Price Negotiation

- Considering both international and local experiences, it is imperative that a reinvigorated approach to pricing, including billing, reimbursement and ethical tariffs, is required.
- This revised methodology should involve all role players in an open and transparent process, and should be driven by the aim of understanding the true cost of health services in order to determine a fair pricing structure.
- It is proposed that a negotiation framework be established by the National Department of Health, with the aim of supporting central, collective bargaining using a cost based tariff structure as the point of departure.

Price Negotiation

- The primary and overriding objective of introducing such a process is to promote transparency and limit unfair business practices in the determination of health services tariffs and also enable health care providers, health establishments and payers to negotiate prices through a defined and appropriately regulated framework.
- One of the key contributors to the informational asymmetry between provider and funder is the actual cost of delivering the healthcare service.
- Negotiations about price without an understanding of the actual cost of a service distorts the entire negotiation process.
- The collection of this information about costs should be by the office of the Chief Tariff Negotiator which is independent of funders and providers of healthcare.
- The cost information should list all the cost inputs that are required to deliver a service.

Price Negotiation

- The Minister of Health would have oversight over the appointment of a suitably qualified person as the Chief Tariffs Negotiator for Health Services Tariffs.
- Provisions in amendments must ensure that this office has sufficient powers to collect cost information and convene negotiations in a manner that is considered transparent and open by all stakeholders concerned.
- Additionally, a clear and binding appeals process would be required.

Price Negotiation

- During the previous RPL process the submission of information regarding tariff determination was voluntary. This resulted in a distortion of final actual cost . To address this challenge, the amendments to the National Health Act must make provisions that ensure that all providers make mandatory submission of their detailed or itemised costing information to the Office of the Chief Tariffs Negotiator prior to the initiation of the negotiation process.
- This information must audited to ensure to confirm the accuracy of the information.

Price Negotiation

- The absence of meaningful negotiations between healthcare providers and payers is a significant contributor to the cost escalation in the private healthcare sector, where service providers are able to set prices independently of the schemes' benefit decision making processes.
- The outcomes of such a price negotiation process should result in a convergence of
 - a) provider billing prices (informed by accurate cost structures), and
 - b) medical schemes coverage levels (informed by sustainability of the scheme, and value of the services) in an efficient manner.
- The role of the Department is crucial in maintaining the transparency and integrity of such a process, as well as the protection of principles of social solidarity.

Price Negotiation

- The negotiation process should be co-ordinated by the office of the chief negotiator.
- Given that the audited cost information relating to the delivery of a service will be available – it will be reasonable to expect that key aspects of the negotiation will be the cost of health professional labour and return on investment.
- The negotiations should occur between a collective of funders and representatives of individual professional associations.
- The outcomes of the negotiations must be presented to the Minister for endorsement. After endorsement no provider may charge a tariff higher than the gazetted tariff.

Price Negotiation

- Where parties fail to agree on a tariff the Minister would then declare a tariff based on clearly defined criteria.
- The gazetted tariff becomes the maximum tariff and no provider may levy a higher tariff.
- Funders and providers may agree on a tariff that is lower than the maximum tariff in bilateral negotiations

EDO EXPERIENCE

- EDO experience has shown that it is possible to have an impact on high cost of health by offering premium discounts to beneficiaries who voluntarily choose “a more cost efficient service provider arrangement”
 - Opportunity for ARM
 - Performance based contracting (quality)
 - Volume based contracting Synergies
 - Large EDO risk pools are likely to influence provider behaviour
- EDOs arrangements can be used to fully exploit the benefits of strategic purchasing as an approach to control healthcare costs
- CMS will continue to explore how the EDO construct can be used to influence provider behaviour

Conclusions

Establishing a technically sound price schedule can

- bring clarity for doctors, purchasers, and patients
- be used to by the government to draw on private health care services to expand access to care
- be used as the basis of negotiations between private insurers and private facilities
- create incentives to drive provider behaviours towards quality and efficiency.

South Africa should separate the “technical” task of establishing a schedule of medical services from the negotiations over overall payments to medical professionals.

Price schedule combined with payment methods can be used by the public sector to better link payments or budgets with activities.