ANALYSIS OF MEDICARE INDEXATION FREEZE

Background

Indexation of Medicare has been a source of controversy for many years, as government indexation of Medicare Benefit Schedule (MBS) rebates has never kept pace with the rising costs of running a medical practice. As with all businesses, the costs of providing medical care go up each year, with increases in wages for staff, rent, medical equipment, cleaning, electricity, technology and insurance. All these costs are met by the fees the doctor charges for patient care. After years of frozen and low indexation, there is now a substantial disconnect between Medicare and the realistic cost of providing health services.

Over almost three decades, from 1995 to 2022, the MBS has had an annual average indexation rate of 1.1 per cent,[1] whereas the average annual changes to the Consumer Price Index (CPI) and Average Weekly Earnings (AWE) — which are indicative of the increase in costs of running a medical practice — are 2.4[2] and 3.5[3] per cent respectively. Although the MBS received a boost in indexation of 2.5 per cent in 2006, this was followed by several years of low indexation, as well as frozen indexation initially under the Australian Labor Party in 2013–14 and for an extended period between 2015–16 to 2017–18[4] under the former Coalition Government. Since indexation was recommenced, it has only averaged at 1.3 per cent annually.[4] From 1 July 2022, MBS items were indexed by 1.6 per cent, and in 2021 the indexation rate was 0.9 per cent.[5]

Years of inadequate indexation has meant that the patient rebate provided by Medicare no longer bears any relationship to the actual cost of providing high-quality services to patients. The medical practice therefore has to either absorb these costs and risk becoming unviable, or pass more of the cost onto patients (with either higher out-of-pocket costs, reduced time spent with patients, or reduced bulk-billing of patients). This inadequate indexation has effectively resulted in a cost shift from the government to healthcare providers and patients.

Impact of the Medicare indexation freeze on General Practice items

Table 1 depicts the total MBS benefit for general practitioner items during and after the MBS freeze, as well as the estimated MBS benefit if these items had been indexed during the freeze period — with indexation based on an estimate of what WCI5 indexation would have been. It is estimated that the freeze resulted in a loss of $3,833 million, which will grow to a loss of $8,283 million in the next five years if no adjustment is made — using an estimate of the government's own indexation methodology. The AMA is calling for government investment in general practice to replace what was stripped out as a result of the Medicare freeze, and consideration be given to a better indexation methodology going forward.

Table 1: AMA estimate of GP fee losses due to MBS freeze

	2013–14 to 2017–18	2018–19 to 2021–22	2022–23 to 2027–28	Total
Total benefit ($m)	$35,716	$34,415		*$70,131*
Estimated benefit if indexed during freeze ($m)	$37,167	$36,797		*$73,964*
Estimated losses ($m)	**-$1,451**	**-$2,382**	**-$4,450**	***-$8,283***

Analysis assumptions

1. Total volume demanded per year (1994–95 to 2021–22) and total payments per year for all "Unreferred Attendances" was sourced from the Australian Government Services Australia, Medicare Group Reports.[6]
2. The average annual fee paid is estimated by dividing total claims by total payments between 2012–13 and 2021–22
3. Future demand for Unreferred Attendances is estimated by growing demand in 2021–22 by the CAGR growth of VR GP claims 2008–09 and 2018–19 (2.96 per cent) adjusted down (0.5 per cent) to allow for possible changes to demand and to reduce risk of optimism bias. The year range was selected to provide a full decade of estimates but to avoid COVID-19 high growth, especially telehealth. The resulting annual volume of claims growth is 2.46 per cent.
4. The "fee freeze period" is assumed to be in 2013–14 and between 2015–16 to 2017–18.[7]
5. AMA's "missing indexation" estimates over the freeze periods are assumed to be 2013–14 1.95 per cent, and between 2015–16 and 2017–18 at an annual 1.6 per cent. This growth rate is not the rate that AMA considers suitable to meet actual costs but rather an estimate of the possible WCI5 indexation given historic trends.
6. AMA's estimates of "lost fees" between 2013–14 and 2021–22 are calculated by subtracting the actual fees paid by the projected total possible fees projected.
7. Projecting the lost fees from 2022–23 to 2027–28 are estimated by growing the calculated annual loses from 2021–22 by 2 per cent per year, which is considered conservative based on current MBS indexation and the embedded inflation environment.

[1] Australian Government Department of Health and Ageing (1995-2022) *Medicare Benefits Schedule Book*. Retrieved 11/03/2023 from: www.mbsonline.gov.au
[2] Australian Bureau of Statistics (2022). Consumer Price Index, Australia. Retrieved 11/03/2023 from: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release
[3] Australian Bureau of Statistics (2022). *Average Weekly Earnings, Australia.* Retrieved 11/03/2023 from: https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/latest-release
[4] Australian Government Department of Health and Ageing (2006-2022). *Medicare Benefits Schedule Book*. Retrieved 11/03/2023 from: www.mbsonline.gov.au
[5] Australian Government Department of Health and Ageing (2022). *Medicare Benefits Schedule Book*. Retrieved 11/03/2023 from: www.mbsonline.gov.au
[6] Australian Government Services Australia (2023). Medicare Group Reports. Retrieved 11/03/2023 from: http://medicarestatistics.humanservices.gov.au/statistics/mbs_group.jsp
[7] Australian Medical Association (2015). Medicare Indexation Freeze – support materials for practices. Retrieved 11/03/2023 from: https://www.ama.com.au/article/medicare-indexation-freeze-support-materials-practices