

**Restriction of Publication Claimed**

**medibank**  
P R I V A T E

14 January 2005

Medibank Private Limited  
ABN 47 080 890 259  
is a registered health  
benefits organisation

GPO Box 9999  
in your capital city  
Telephone 132 331

The General Manager  
Mergers & Asset Sales Branch  
Australian Competition & Consumer Commission  
PO Box 1199  
**Dickson ACT 2602**

Dear Sir.

**Re: Application for Authorisation A90947 lodged by Little Company of Mary Health Care Limited**

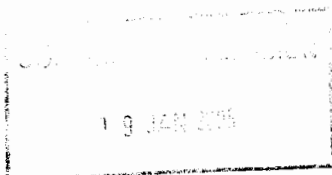
In relation to your letter to Bruce Levy dated December 23, 2004, please find attached responses from Medibank Private in relation to the questions for interested parties with regard to the Application for Authorisation A90947 lodged by Little Company of Mary Health Care Limited. Medibank is providing this information to the ACCC on a confidential basis and as such, each page is headed 'Restriction of Publication Claimed'.

Should you have any queries on this matter, please do not hesitate to give Rachel Olliffe, Compliance Manager a call on 03 8622 5025

Yours faithfully



**Michael Sammells**  
National Hospital Manager, Health Services



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**QUESTIONS FOR INTERESTED PARTIES**

**Self-paying patients**

The Productivity Commission reported in 1999 that nine per cent of private patients paid for their treatment themselves – that is, their treatment was not funded by, for example, health insurance or the Repatriation Commission.<sup>1</sup>

1.1 Do you consider that a significant number of these self-funded private patients would choose to be treated in the following facilities if the merged hospital raised its prices?

- Launceston General Hospital (as a private patient), the Eye Hospital or the Gynaecological Clinic; or
- In Hobart, North Western Tasmania or Melbourne.

**Answer:** *Medibank cannot speak on behalf of privately funded patients.*

1.2 Do you consider that a significant number of these self funded private patients would choose to be treated in Launceston General Hospital as a *public* patient if the merged hospital raised its prices?

**Answer:** *The ability of a patient to get admitted to a public hospital for treatment is typically not at the request of the patient, but in line with the prevailing policies of the public hospital, with many subjected to waiting lists for elective surgery.*

**Patients whose treatment is paid for (fully or substantially) by health funds, the Repatriation Commission or another entity**

2.1 Currently, who as greater bargaining power in Hospital Purchaser-Provider Agreement (HPPA) negotiations – the health funds and the Repatriation Commission or St Vincent's and St Luke's?

**Answer:**

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2.2 To what extent would this change if the proposed merger proceeded? Would St Luke's and St Vincent's be able to obtain significantly higher reimbursement from health funds? If so, why?

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## Restriction of Publication Claimed

**Answer:**

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2.3 Could health funds credibly threaten to enter into an HPPA with the eye Hospital or the Gynaecological Clinic in Launceston, or private hospitals in Hobart, Melbourne or North-Western Tasmania in place of an HPPA with the merges entity?

**Answer:** *With respect to Medibank insured members, the position would be:*

- *The eye hospital and the Gynaecological Clinic in Launceston would be an alternate hospital for some services, but only a very small percentage of all services currently provided by St Vincent's and St Luke's*
- *Hospitals in Hobart, North-Western Tasmania and Melbourne cannot be considered as legitimate alternate access hospitals due to their distance from Launceston. It is considered the Medibank members would be more likely to leave the fund if there were no HPPA in place than consider these sites as appropriate hospitals for treatment.*

2.4 Is it possible to enter into a HPPA with Launceston General Hospital? If not, how are reimbursement rates determined for private patients treated at this hospital?

**Answer:** *It is unlikely that an effective HPPA could be entered into with Launceston General Hospital. The value proposition of private health is that members can secure access to hospital services, with their doctor of choice, when required. Launceston General Hospital, being a public hospital, has different regulations placed upon it that prevent such certainty of access being granted. If Launceston General Hospital was able to deliver such certainty of access, members would more than likely cease to hold their private health insurance, as little benefit would be seen in the product as compared to being a public patient.*

### **If authorisation is not granted**

3.1 Are two private hospitals sustainable in Launceston? If not, and if authorisation is not granted, which hospital is more likely to close? Broadly, when might this happen?

**Answer:** *As Medibank is not privy to the financial and operational performance of the hospitals, it is in no position to comment on this matter.*

3.2 If two private hospitals are sustainable in Launceston, would any of the public benefits identified by the applicant (see below) be likely to arise if both hospitals continued to exist as competitors? Alternatively, would the quality of service stay about the same or even fall over time?

**Answer:** *Should the authorisation be allowed, Medibank would be supportive of the nominated public benefits should the parties agree to behavioural undertakings to perform such remedial actions. Medibank is not privy to the financial and operational*

## **Restriction of Publication Claimed**

*performance of the hospitals, and as such, is unable to comment as to whether this is more or less likely to occur if the entities are not merged.*

### **Public Benefits**

Generally, LCMHC submits that:

A single health care provider will be able to deliver its services more efficiently, with less duplication of resources (for example, equipment and professional skills), and with the opportunity to consolidate clinical and administrative services on one site or the other. These cost savings, which the parties consider to be significant, will facilitate a higher quality service, and an expansion in clinical services offered. As a consequence, the provider will be in a stronger position to meet the future health care needs of Northern Tasmanians (submission page 31 – 32).

In particular, LCMHC submits that the merged hospital will be able to offer:

new and expanded services (page 32);

improvements in quality (page 33);

a reduction in demand to increase prices by health funds for hospitals (page 36);

benefits to health funds (page 36);

reduced waiting lists (page 36);

reduced need for patients to travel to Hobart or Melbourne (page 36);

improve recruitment and retention of health care professionals in Launceston (page 37) and;

benefits to doctors (page 37). In particular, LCMHC submits that doctors have responded extremely positively to the announcement of the Acquisition (page 38).

LCMHC submits that these public benefits will flow from efficiencies generated by:

clinical service rationalisation (page 39);

capital equipment replacement (page 39);

human resources (page 40);

purchasing (page 41); and

administrative and non-clinical synergies (page 35, 42).

### **Restriction of Publication Claimed**

Do you think that the public benefits listed above are likely to arise as a result of the authorised merger?

**Answer:** *Medibank does not have sufficient information in relation to the financial and operational performance of the hospitals to comment on this matter.*

#### **General**

Did a similar acquisition by Calvary Health Care Tasmania of St John's Hospital generate benefits for the community? (page 34-35)

**Answer:** *Medibank does not have sufficient information in relation to the financial and operational performance of the hospitals to comment on this matter.*