



**Australian Government**

**Department of Health**

## **Regulation Impact Statement**

**Preventive Health – Ensuring a Sustainable Hearing Services Program**

**Office of Best Practice Regulation (OBPR) ID number: 26310**

---

September 2020

## Contents

Regulation Impact Statement .....	1
Preventive Health – Ensuring a Sustainable Hearing Services Program .....	1
Office of Best Practice Regulation (OBPR) ID number: .....	1
Contents .....	2
Figures .....	3
Tables .....	4
Introduction.....	5
Background .....	5
What are the Policy Options? .....	11
Option 1 - Status Quo – Do Nothing .....	11
Option 2 - Regulatory change applied to all HSP clients from 1 July 2021.....	11
Option 3 - Regulatory change applied to all new and renewing clients from 1 July 2021 .....	12
What is the likely net benefit of each option?.....	12
Option 1 (Status Quo – Do Nothing) .....	12
Option 2 - Regulatory change applied to all HSP clients from 1 July 2021.....	13
Option 3 - Regulatory change applied to all new and renewing clients from 1 July 2021 .....	24
Consultation .....	30
What is the best policy option?.....	34
Implementation.....	36
Bibliography .....	39
Voucher Program Framework - Appendix 1.....	41
Regulatory Burden Estimate (RBE) Table - Appendix 2 .....	43
The Australian Hearing Services Market - Appendix 3 .....	46
Previous Voucher Program reforms - Appendix 4.....	58

## Figures

Figure 1 - Profile of hearing device refits, by age of former device, 2018-19 and 2019-20 combined. ....	9
Figure 2 - Comparison of three year and five year Voucher models.....	14
Figure 3 - Change in Return Vouchers under a retrospective five year Voucher model, 2016-17 to 2023-24.....	15
Figure 4 - August 2020 snapshot of current Vouchers by whether the client has been fitted with a hearing aid. ....	16
Figure 5 - Impact of the five year Voucher on requests for revalidation services, 2016-17 to 2023-24.....	17
Figure 6 - Number of annual client reviews, 2016-17 to 2023-24. ....	20
Figure 7 - Maintenance claims and Return/Replacement device fittings .....	22
Figure 8 - Change in Return Vouchers under a prospective five year Voucher model, 2016-17 to 2023-24. ....	25
Figure 9 - Vouchers issued by Voucher number by financial year, 2000-01 to 2017-18. ....	26
Figure 10 - Demand for revalidated services, 2016-17 to 2023-24 under a prospective five year Voucher.....	27
Figure 11 - Five year prospective Voucher hearing device maintenance claims (excluding private devices and client relocations) compared to return device fits, 2016-17 to 2023-24. ....	28
Figure 12 - Service provider market share by Voucher revenue and clients, 2019-20.....	47
Figure 13 - Distribution of Voucher service provider sites in regional, rural and remote areas, 2019-20. ....	49
Figure 14 - Distribution of hearing aid fittings by device manufacturer for major hearing service providers, July 2017 to June 2020. ....	51
Figure 15 - Hearing Service Providers dependence on a primary hearing aid manufacturer by percentage of clients fitted with hearing devices, July 2017 to June 2020. ....	52
Figure 16 -Model of the prevalence of hearing loss in the Australian population .....	53
Figure 17 - Active Voucher client by age group, 2019-20.....	53
Figure 18 - Time (months) between Return Voucher issued in 2018-19 compared to previous Voucher issue date. ....	54
Figure 19 - Profile of hearing device refits, by age of former device, 2018-19 and 2019-20 combined. ....	55
Figure 20 - Forecasts of new Vouchers, 2016-17 to 2023-24.....	56
Figure 21 - Client demand for device maintenance services, 2000-01 to 2018-19 by financial year.....	56

## Tables

Table 1: Acts and Instruments relating to the HSP .....	6
Table 2: Estimated cost over ten years for the hearing Industry to adopt changes to the five year Voucher period and maintenance payments. ....	19
Table 3: Expected change in Provider revenue from changes in this Proposal .....	20
Table 4: Maintenance claiming items for the Voucher stream of the HSP in 2020-21. ....	21
Table 5: Profile of client annual co-payments for hearing device maintenance, 2018-19. ..	23
Table 6: Estimated change in Voucher revenue for hearing service providers, 2021-22 to 2023-24.....	28
Table 7: Stakeholders in the HSP .....	33
Table 8: Aggregate average regulatory costs.....	43
Table 9: Estimated cost for the hearing Industry to adopt changes to the five year Voucher period and maintenance payments. ....	44
Table 10: Estimated Health system costs for Hearing Services, Australia, 2019-20.....	46
Table 11: 2019-20 hearing service provider profile – Voucher stream of the HSP. ....	48
Table 12: Largest 10 service providers by number of financially active Voucher clients (FY2019-20, by payment year).....	48
Table 13: Hearing Service Provider Profile by Modified Monash Model classification, 2019-20. ....	50

## Introduction

This Regulation Impact Statement considers the regulatory impact of proposed changes to the Voucher stream of the Hearing Services Program (HSP). These changes are framed by the Government's agenda to deliver client directed care to an increasing population of potentially eligible clients and by advancements in hearing aid technology over the past decade due to digital technology. From the perspective of government funded health programs, making health systems more people-centred also requires modernisation of delivery and regulatory models. (1).

The HSP has been provided in much the same form for the last 20 years and is now out of step with developments in service provision and hearing technology, particularly in relation to client directed care and industry self-regulation.

This report explores these issues and identifies options to address these problems.

## Background

The Department of Health (the Department) is responsible for administering the HSP (the program). The aim of the program is to:

***Reduce the incidence and consequences of avoidable hearing loss in the Australian community by providing access to high quality hearing services and devices.***

The HSP was reformed in November 1997 to enable private hearing service providers to enter the market and compete with Australian Hearing to provide hearing services for adult clients.

The HSP is split into two service delivery streams:

- Voucher – provides hearing services for Australian adult clients aged 21 years and over who meet defined eligibility requirements. The average age of Voucher clients is 78.
- Community Services Obligations (CSO) – provides hearing services to target populations (children up to the age of 26 years, Aboriginal and Torres Strait Islanders and adults in the Voucher stream who have special hearing needs).

The Program is supported by two Acts and two instruments.

*Table 1: Acts and Instruments relating to the HSP*

<b>Act</b>	<b>Instrument</b>	<b>Purpose</b>
<i>Hearing Services Administration Act 1997</i>		The <i>Hearing Services Administration Act 1997</i> (the Act) sets up a scheme under which hearing services are provided to eligible Voucher holders by contracted service providers. The Act defines eligible persons in the Voucher stream of the program, and the hearing services that may be available to them. It also defines requirements for contracted service providers wanting to deliver hearing services to eligible Voucher holders.
	<i>Hearing Services Program (Voucher) Instrument 2019</i>	This instrument facilitates the administration of the Voucher stream of the HSP as established by the Act. It determines who is eligible for the HSP in addition to those described by the Act, the rules around obtaining and using a 'Voucher' for government funded hearing services and specifies services and devices available to eligible persons.
<i>Australian Hearing Services Act 1991</i>		The <i>Australian Hearing Services Act 1991</i> provides the establishment, functions and powers of authority of an Authority known as Australian Hearing. Australian Hearing deliver the Community Service Obligation stream of the HSP.
	<i>Australian Hearing Services (Declared Hearing Services) Determination 2019</i>	This instrument establishes, under the <i>Australian Hearing Services ACT 1991</i> , the classes of people to whom Australian Hearing Services provides declared hearing services.

Australians are eligible for the Voucher stream of the program if they are an Australian citizen or permanent resident 21 years or older and are:

- a Pensioner Concession Card holder,
- a Department of Veterans' Affairs Gold Card holder,
- a Department of Veterans' Affairs White Card holder issued for specific conditions that include hearing loss,
- a dependent of a person in one of the above categories,
- a member of the Australian Defence Force,
- referred by the Disability Employment Services (Disability Management Services) Program.

Two further legal agreements establish the framework of the Voucher stream of the program:

- The Service Provider Contract establishes the requirements under which contracted service providers are required to deliver the program to eligible clients.
- The Deed of Standing Offer sets the specifications for hearing devices to be provided by manufacturers and suppliers in the program.

Vouchers are issued to eligible clients to enable them to obtain, through presentation of the Voucher, services and hearing devices from a national network of private hearing service providers and the Government-owned provider, Australian Hearing. Under the HSP Voucher stream clients are free to go to the Service provider of their choice.

## Client interaction with the HSP

The process for a client to obtain a Voucher is simple. Using a secure online web portal called Hearing Services Online (2) clients submit applications to join the Voucher stream of the HSP. New clients submit their details to pass an online eligibility check. For existing clients, their hearing service provider can submit an online request to obtain a new Voucher for the client if they meet the eligibility requirements and their Voucher has expired. In either case a Voucher can be issued within a couple of minutes.

The current Voucher stream of the HSP enables eligible clients to receive a Voucher every three years. A Voucher entitles the client to receive one full hearing assessment and one hearing aid per ear if the client's hearing loss is above the Minimum Hearing Loss Threshold (MHLT) (3) of 24 decibels. The Voucher also covers the maintenance and repair services for their hearing aid as well as an annual review of their hearing loss and suitability of their hearing aid. Clients are also covered for a hearing aid replacement if they are lost or damaged beyond repair.

Voucher clients whose level of hearing impairment is assessed as being below the MHLT are not eligible for a subsidized device and following their hearing assessment can receive up to two rehabilitation sessions until their next Voucher.

After a client has been assessed and received a hearing aid fitting there are circumstances where a client may experience a sudden increase in their level of hearing impairment. These cases are rare and there is a special mechanism in the HSP where the client's hearing service provider can submit a request to obtain a revalidated service (4). Where the client's clinical evidence supports it the Department can authorize specific services that are required to ensure the client can continue to use hearing aids that are appropriate to their level of hearing impairment.

In general the client has minimal direct contact with the HSP and they are reliant on their hearing service providers to explain and facilitate their access to HSP funded services. In selecting a hearing device a Voucher holder can choose between a listing of fully subsidized devices which they can receive at no additional cost or they may choose a partially subsidized device which would require them to pay the difference between the average government subsidy (\$485.85) and the retail cost of the device. There is no limit on the amount a provider can charge for a partially subsidized device.

## Maintenance services

The Voucher stream enables clients if they choose to enter a maintenance agreement (5) with their hearing service provider. The maintenance agreement allows for an annual fee, for which the client's service provider will supply them with batteries, and service and repair the client's hearing device(s) for 12 months. For fully subsidized devices the client pays an up-front fee of \$47.25 directly to their hearing service provider and the Commonwealth pays between \$77.86 for one device and up to \$206.33 for two devices to the provider to cover the cost of device maintenance. This annually indexed amount is capped at \$47.25 and is regulated by the program's Schedule of Service Items and Fees. Service providers cannot ask the clients who receive fully subsidized devices to pay a higher amount and some service providers choose to waive part or all of this fee.

Clients with partially-subsidised devices can negotiate their annual device maintenance fee with their service provider but there is no cap. The HSP pays Service providers the standard amount towards the cost of maintaining clients' devices as per the Schedule, regardless of whether the device is a fully-subsidised or partially-subsidised device.

Service providers are required under the contract (6) for the Voucher stream of the HSP to inform clients of the hearing device cost and warranty conditions when they quote for a partially-subsidised hearing device. Most partially-subsidised hearing devices have a longer warranty of up to three years compared to the standard one year warranty of fully-subsidised hearing devices. Although manufacturers will repair and replace defective hearing devices in the warranty period, clients with a partially-subsidised hearing device will usually pay a higher co-payment for their annual maintenance agreement than clients who have a fully-subsidised hearing device.

Most clients who receive services through the Hearing Services Program are unaware of how the program operates and have little understanding of which device to choose. In many ways they are reliant on the Service provider to guide them. The client is also reliant on the Service provider supplying them with a suitable device that could accommodate any expected deterioration in their hearing loss over the life of the Voucher. And in similar vein would accept on face value the advice from their Service provider that they need to have a new device fitted whether it be a fully-subsidised or partially subsidised hearing aid. If another device needed to be fitted before the end of the Voucher period it is the Service provider who would complete the Voucher revalidation process for the client without the client having to engage themselves with the HSP.

Further information on the HSP Voucher stream framework and maintenance costs can be found in an explanation of the Voucher Program Framework - Appendix 1.

## **What is the problem we are trying to solve?**

As of 30 June 2020, 1.28 million clients were registered in the HSP. The average age of Voucher clients is 78 years. More than 90 per cent of Voucher clients are aged 65 years and over. Australia has an ageing population and the number of people with hearing impairment is expected to grow by 12 per cent to 4.88 million by 2030 (7). In short the number of vulnerable consumers who rely on the efficient and effective operation of the HSP will continue to grow. Furthermore, the increasing demand for HSP services necessarily requires the HSP to be operating in line with best practice in terms of the consumer experience and contemporary models of service delivery and efficiency.

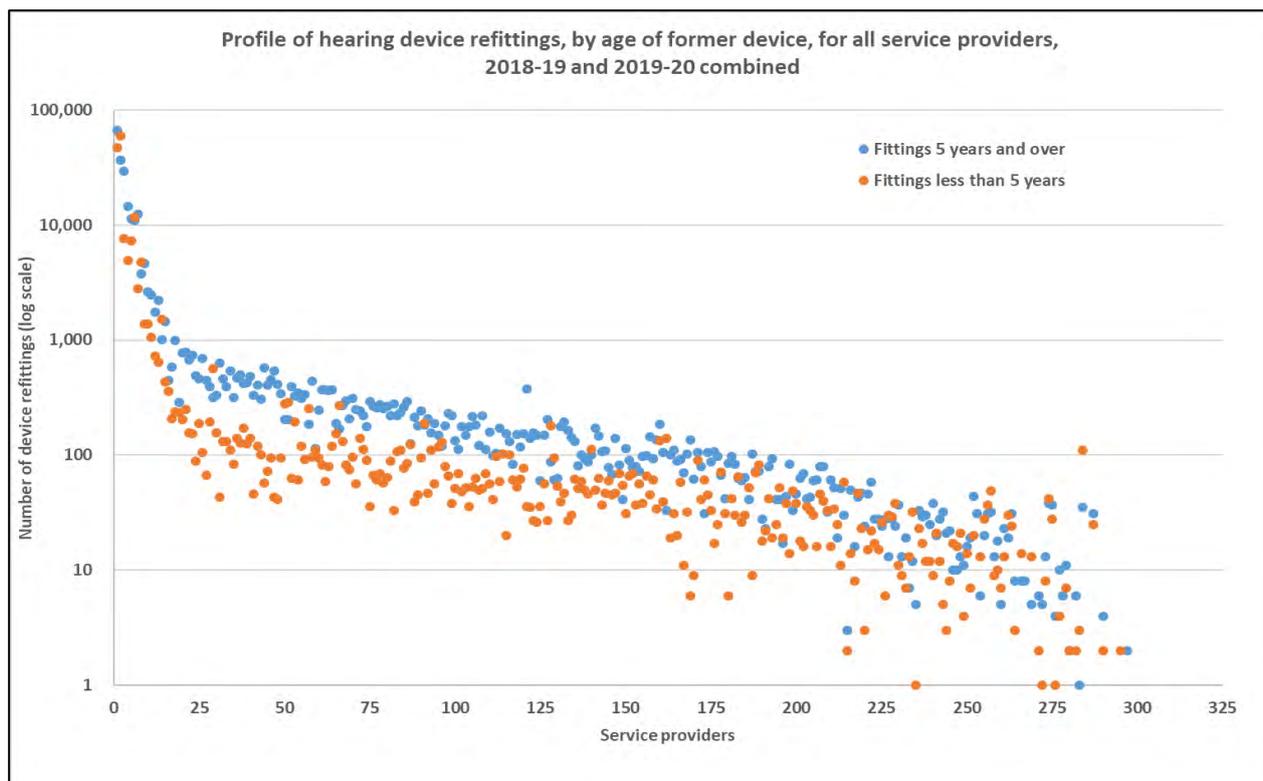
Feedback from consumers suggest the Hearing Services Program is out of step with their expectations and contemporary models of service delivery. Consumers naturally expect to benefit from changes to technology, to receive value for money and not be over serviced by their provider. Departmental examination of service delivery data collected over many years and the settings in the regulatory framework for the HSP identified three significant areas of concern that impact the consumer experience and the efficiency of the HSP:

1. The three year Voucher period is not aligned with the five year expected life of a hearing aid. This results in potential over servicing for a large number of Voucher clients who are fitted with new hearing aids, when their existing hearing aids are likely to still be in good working order.
2. Under the current contract settings the cost of hearing device repairs and maintenance within the first twelve months is paid by the Australian Government to hearing service providers for repair and maintenance services that are already covered by the hearing device manufacturer's warranty. All hearing devices must have a minimum of a twelve month manufacturer warranty which covers the cost of device repairs and maintenance.
3. Under current settings the Government pays for twelve months of maintenance in advance and when a client moves to a new hearing service provider, an additional full twelve month maintenance payment is made to the new hearing service provider. So in effect for the remainder of the original twelve month maintenance agreement, the Australian Government has paid twice for service provision.

Certainly the problem of greatest concern is the rate of refitting by providers in under 5 years. Hearing aid technology has progressed dramatically since the establishment of the HSP and the life span of a device is now at least 5 years. However, in the Voucher stream of the HSP, in the period from 2018-19 to 2019-20, there were 170,485 hearing device fittings when the client's previous hearing device was less than five years old. This represents 40.9 per cent of total hearing device refits at a cost of \$100m or approximately \$50m per year. If the number of hearing refits for approved revalidation services is removed over the same period (2,136), the scale of this problem is significant. This illustrates the disconnect between consumers and their care, an inconvenience to them and an unnecessary expense to Government. Data from the HSP indicates it is a widespread practice (See Figure 1).

The analysis of HSP data has confirmed the need for additional information from service providers in relation to the operating range of a hearing device and the level of hearing loss experienced by a HSP client. Comparison of such data is essential to ensure that a hearing aid has been fitted to meet the needs of the consumer by ensuring that any device fitted is able to be adjusted over the life of the device given the normally expected pattern of hearing loss. Many HSP clients report the inconvenience of devices not meeting their expected needs and having to go through the process of another device fitting because the first device could not be adjusted. Consumer directed care gives the individual more choice and flexibility and will improve servicing and therefore efficient use of government funds.

*Figure 1 - Profile of hearing device refits, by age of former device, 2018-19 and 2019-20 combined.*



Source: HSP, September 2020.

In similar vein paying the maintenance payment 12 months in advance is an administrative setting in the HSP that does not align with contemporary service delivery models. The advance payment for twelve months for maintenance of devices occurs every time a client moves between providers. The movement of clients between providers is not an uncommon event. As there is no Government requirement to recover the funds from the unused months in the maintenance agreement from the original hearing service provider, both the original and new hearing service provider benefit under the existing regulatory arrangements. Clients are not required to make an additional co-payment for batteries and maintenance services when they move to a new hearing service provider. The estimated cost to the program of these additional maintenance payments is \$3m per year.

All hearing devices supplied in the Voucher stream are required to have a minimum of a twelve month manufacturer warranty. The current program settings mean that maintenance is paid during the first twelve months of a device when it is still under warranty. If a Voucher client's hearing device is unable to be repaired during the warranty period then the service provider will seek a replacement device from the manufacturer at no cost to the Government. The estimated cost of government payments for hearing devices during the manufacturer warranty period is \$30m per year.

## Why is government action needed?

The number of HSP recipients continues to grow in line with demographic changes, and the current patterns of servicing, unnecessary refits of devices, and unnecessary maintenance payments will also grow. This pattern of servicing consumers is able to occur within the existing regulatory framework of the HSP. Without government intervention to change regulations it is expected to increase in line with increases to the number of clients in the HSP. Furthermore, the annual advance payment of maintenance payments is allowed in the regulatory settings of the program and will not change without direct government intervention.

The vulnerable nature of many of the HSP clients means that they are often uncomfortable in questioning their care and may be provided with a device that will be inadequate to meet their hearing needs for the expected life of the device. As a government funded program there is an obligation on government to ensure that the HSP meets consumer expectations and contemporary service delivery standards.

Program efficiency is essential and government intervention is needed to ensure the administration and delivery of the HSP remains sustainable in accordance with Section 8(1) of the *Hearing Services Administration Act 1997*:

- “8 General criteria for administration of this Act**  
**(1) In administering this Act, due regard must be had to:**  
**(a) the limited resources available to provide services and programs under this Act; and**  
**(b) the need to consider equity and merit in accessing those resources.”**

Although the proposed changes to the HSP will reduce the possibility of over servicing for some clients the quality of clinical services will not be impacted.

## Summary

The current HSP settings do not reflect contemporary consumer expectations with regard to service provision, nor does it account for the significant technology changes in the last decade that should have resulted in both improved service delivery outcomes for consumers and greater efficiency for government as well. In addressing the issues of unnecessary hearing device fittings and payment of hearing device maintenance and repairs during the device's warranty period, consumers will receive the services they need and the available funding under the program can be effectively used to support the growing population who will require hearing services in the future. These issues can be addressed by modification to the *Hearing Services Program (Voucher) Instrument 2019* and the HSP Service Provider contract.

Finally the potential size of the population in need of services under the HSP is expected to grow from the current 1.28 million clients to close to 4.88 million by 2030. To meet this demand it is imperative that action occur now to improve service the delivery experience for consumers, ensure providers do not over service and can meet the expected demand for services and government can efficiently fund the HSP well into the future.

## What are the Policy Options?

There are three policy options that are being considered by government. Option 1 represents the status quo and there are only minor differences between Options 2 and Option 3. The difference between Options 2 and 3 is in the application of the Voucher period extension. In Option 2 it includes all Voucher holders from 1 July 2021 and in Option 3 it will only be applied to all new and renewing Voucher holders from 1 July 2021. The maintenance changes in both Option 2 and Option 3 are the same. The respective policy positions are set out below.

### Option 1 - Status Quo – Do Nothing

In this option, the regulatory framework for the Voucher stream of the HSP is maintained in its current form. The Voucher period remains at three years and the Australian Government will continue to pay maintenance for hearing devices after they have been supplied to clients. Service providers will continue to be paid a full twelve months of maintenance payments for their hearing devices when a client moves to a new hearing service provider.

The regulation of service provider requests for revalidated services will continue in its current form.

### Option 2 - Regulatory change applied to all HSP clients from 1 July 2021

#### Voucher

This option seeks to increase the duration of the HSP Voucher, from three to five years to all existing clients and new clients, to take effect from 1 July 2021. Existing clients will have their Voucher period extended by two years and new clients who join the program will start with a five year Voucher.

The process for Revalidated Services under five years will be more tightly monitored by collecting additional data and information on the fitting range of the hearing device. This will enable government to more accurately assess these requests and ensure the clinical standards of the program are met.

As a safeguard mechanism the existing annual clinical review service will be extended to all Voucher clients, including those with a hearing loss less than the MHLT. This will enable service providers to monitor changes in client hearing and device usage. Should deterioration in a client's hearing be identified in an annual review they can receive a new hearing aid outside of the Voucher lifecycle

**Maintenance**

Changes to the maintenance payment will cease payment during the twelve month warranty period; change from twelve month advance payments to quarterly payments; increase the subsidy for monaural (1 device) to half that of binaural (2 devices); and reduce the number of claim items from six to two to simplify claiming.

**Option 3 - Regulatory change applied to all new and renewing clients from 1 July 2021****Voucher**

This option seeks to increase the duration of the HSP Voucher, from three to five years for new clients and returning clients who receive a new Voucher from 1 July 2021. Like Option 2, eligibility to receive a clinical review will be extended to all clients (new and existing) without any conditions concerning the need to have a hearing aid.

Also like Option 2 the regulation of the current Revalidation Services will be strengthened to require hearing service providers to collect information on the fitting range of the hearing device. This will enable government to better assess these requests and ensure the clinical standards of the program are met.

**Maintenance**

Changes to the maintenance payment will cease payment during the twelve month warranty period; change from twelve month in advance payments to quarterly payments; increase the subsidy for monaural (1 device) to half that of binaural (2 devices); and reduce the number of claim items from six to two to simplify claiming.

**What is the likely net benefit of each option?****Option 1 (Status Quo – Do Nothing)**

In this option, the regulatory framework for the Voucher stream of the HSP is maintained in its current form. The Voucher period remains at three years and the Australian Government will continue to pay maintenance for hearing devices after they have been supplied to clients. Service providers will continue to be paid a full twelve months of maintenance payments for their hearing devices when a client moves to a new hearing service provider.

The regulation of service provider requests for revalidated services will continue in its current form. For clients who choose to enter into a maintenance agreement with their hearing service provider they will continue to make an up-front co-payment and the Australian Government will continue to make payments for the annual hearing device maintenance for client's devices in advance and during the twelve month warranty period of all new devices.

There are about 308 hearing service providers, close to 3,000 practitioners and 22 Hearing device manufacturers. The net benefit to business owners, service providers and manufacturers of maintaining the status quo will be in providing certainty to their respective business models that underpin anticipated growth in line with demographic growth and any potential increase from provider marketing. There is unlikely to be any change in business behaviour nor investment in IT systems changes.

## **Impact Analysis**

The impact of maintaining the status quo for consumers means that a large number of the 1.1 million HSP clients will be expected to receive new hearing devices even when their current devices are still adequate. For example, from 2018-19 to 2019-20, there were 170,485 HSP clients who had to go through the process and trouble of having a new device fitted before their current device had reached the end of its anticipated life. It is possible that these clients were given a device that could not accommodate their expected changes in hearing loss with the number of clients experiencing a sudden change in hearing loss only accounting for about 1,000 refits a year. It is difficult to estimate the opportunity cost to the consumer of unnecessary visits to their hearing Service provider that refits require. However, what we can estimate is the cost to government of approximately \$50m per year from device refits under 5 years. Without any intervention this is likely to increase as the number of clients in the HSP increases.

## **Option 2 - Regulatory change applied to all HSP clients from 1 July 2021**

This option seeks to increase the duration of the HSP Voucher, from three to five years to all existing clients and new clients retrospectively, to take effect from 1 July 2021. This will mean existing clients will have their Voucher period extended by two years and new clients who join the program will start with a five year Voucher.

The net benefit of this measure is realized by consumers who will have an extended Voucher that aligns with the anticipated lifespan of their hearing aid. This will reduce the number of visits for a consumer associated with the testing and refitting of a new device.

These changes have no impact on clinical risk due to existing safeguards given the industry standard of a device lasting at least five years. Increasing the Voucher period requires change to the legislative instrument. This option focuses on reducing the frequency of unnecessary refits of hearing devices. While not driving this option, in the long term, it is anticipated that the administrative burden for both suppliers and the Australian Government will be reduced, concurrent with a decrease in the number of HSP claims for hearing services. This proposal is, therefore, deregulatory.

Another benefit is to Voucher recipients who have a hearing loss under the MHLT and do not receive a hearing device and those clients who may not decide to get a device when first diagnosed with hearing loss over the MHLT. Under the proposed change to the Voucher all clients will receive an annual clinical review service to enable their service provider to monitor changes in client hearing and device usage. Should deterioration in a client's hearing be identified in an annual review, existing program settings (Eligibility Criteria for Refitting and Requests for Revalidated Services) ensure clients can receive a new hearing aid outside of the Voucher lifecycle. This will ensure better consumer outcomes and a more efficient use of program funds while support best clinical practice.

The net benefit of changes to the Maintenance payments will be reflected in the reduced wastage of program funds that are lost when a Voucher client moves between providers. When a client changes providers all remaining quarterly government maintenance subsidy payments will be paid to the client's new service provider for the duration of the client's annual maintenance agreement. The client will experience no change in service or costs as they will not be required to pay a second co-payment to their new provider during the term of their existing annual maintenance agreement.

This option focuses on improved consumer outcomes and streamlining service providers' interaction with government. While not driving this option, in the long term, it is anticipated that the administrative burden for both suppliers and the Australian Government will be reduced, concurrent with a decrease in the number of HSP claims for hearing services over the medium term while the new settings are bedded down. The proposal would deliver both fiscal and red tape savings.

### Impact Analysis

There will be some direct impact on business owners, service providers and manufacturers as a result of Policy Option 2 due to loss of income from refitting of devices under 5 years, loss of the unclaimed maintenance payment when a client moves providers and some expense related to the IT system changes and business process changes needed to comply with the regulation of Policy Option 2. These impacts are explained in more detail below.

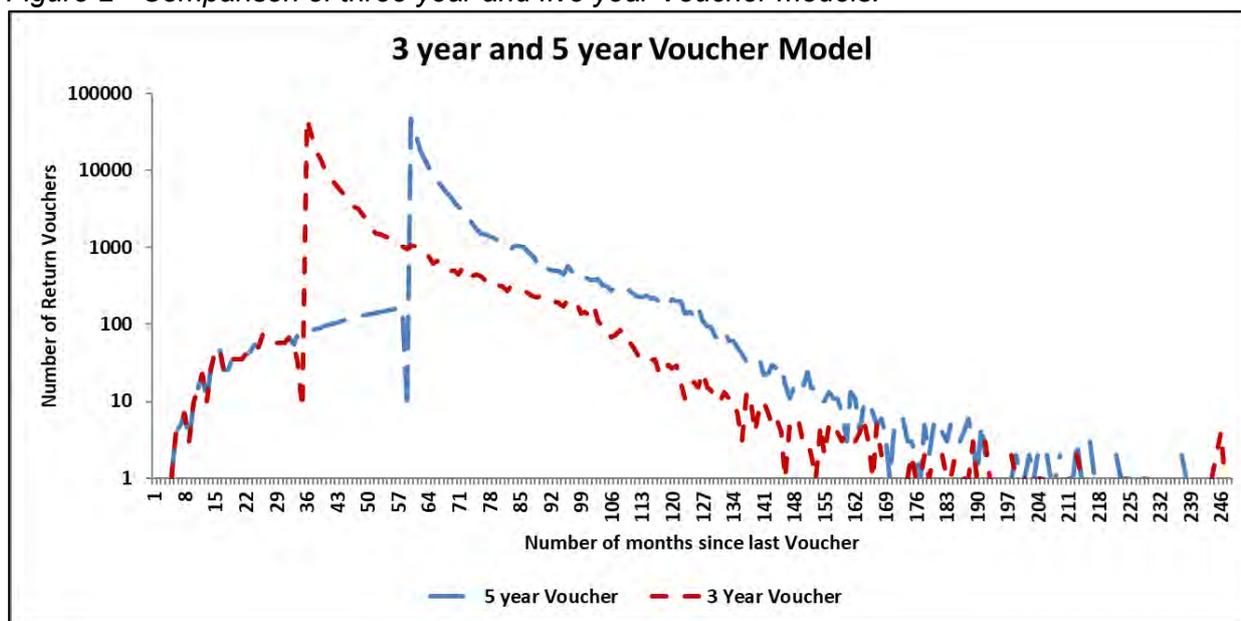
#### Voucher

Option two will change the current regulatory framework for contracted hearing service providers to deliver hearing services to Voucher clients by extending the Voucher period from three to five years. All new clients who join the Voucher stream of the HSP from 1 July 2021 will get a five year Voucher. Existing clients will have their current Voucher period extended by an additional two years to five years. These changes have no impact on clinical risk due to existing safeguards and the industry standard of a device lasting at least five years. Increasing the Voucher period requires change to the legislative instrument.

The main impacts will relate to a reduction in the income for business owners, service providers and manufacturers resulting from extending the voucher period and tightening the monitoring around Revalidation of Vouchers so that it is more aligned to the lifespan of the device.

Figure 2 illustrates the impact of this change in terms of the months between previous Voucher issue and three and five year Voucher issue dates.

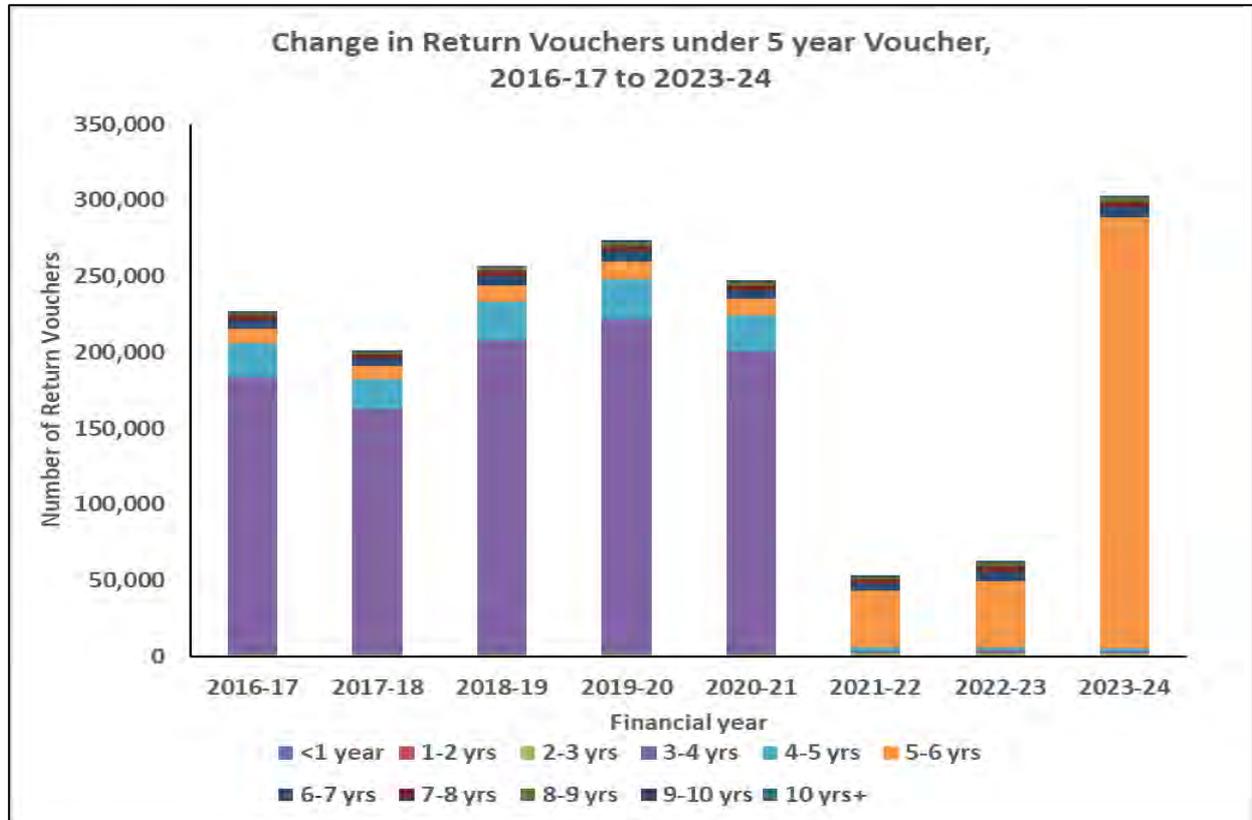
Figure 2 - Comparison of three year and five year Voucher models.



Source: HSP, March 2020.

In the 2019-20 financial year, 1,035,000 clients had a three Voucher and 265,277 Vouchers were issued to clients returning for their second or subsequent Voucher referred to as a 'Return Voucher'. Modelling of the impact of extending the current three year Voucher will lead to a significant drop in return Vouchers in 2021-22 and 2022-23, as shown in Figure 3.

Figure 3 - Change in Return Vouchers under a retrospective five year Voucher model, 2016-17 to 2023-24.



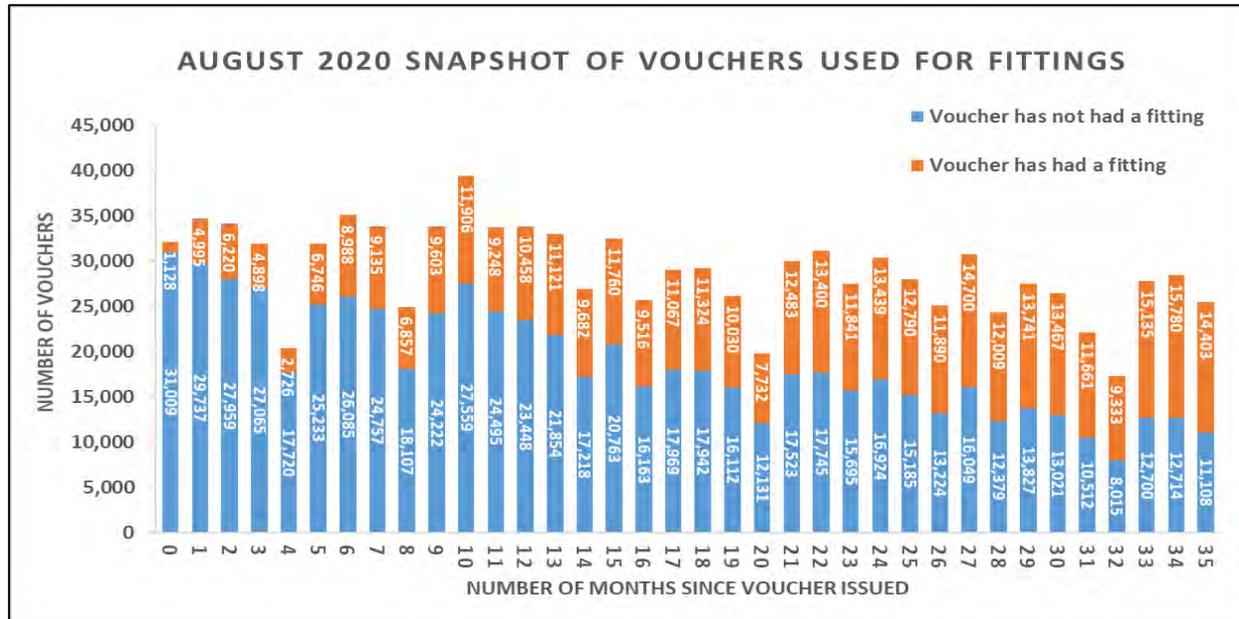
Source: HSP, March 2020.

In terms of impact on clients it is worth examining the period between when they are refitted with a hearing device and the date of their previous device fitting. The years 2018-19 and 2019-20 were combined to show the current picture where all clients have a three year Voucher. In the 2018-20 period 170,485 (40.9 per cent) of clients were refitted with a device up to four years since their last device was fitted. Excluding the number of refitted devices due to clients experiencing a sudden change in hearing loss, approximately 1,000 per year, this represents 85,000 devices or 40.4 per cent of all hearing devices issued in a financial year. So approximately 40 per cent of clients will find that their hearing service provider is not able to replace their hearing aids every three years.

The outlook for hearing service providers is they will go through a period of adjustment of their business models. Although the number of clients returning for a new Voucher will drop, new client growth of 8 per cent per annum is expected to partially fill the gap. Another factor is that the population of clients with existing Vouchers who have not had a hearing device fitting is still substantial. Figure 4 illustrates that this population numbers 674,169 clients. Not all these clients will be able to receive a hearing device refit as their level of hearing impairment does not meet the device refit guidelines.

Figure 2 also indicates that based on past client behaviour, approximately 18 per cent of clients may wait longer than five years for a hearing device refit.

Figure 4 - August 2020 snapshot of current Vouchers by whether the client has been fitted with a hearing aid.



Source: HSP, September 2020.

To illustrate how this change will impact below please refer to the case study Orbital Hearing below.

### Case Study – Orbital Hearing

John is an audiologist who operates Orbital Hearing, a small business with about 100 clients. About a quarter of his clients are self-funded retirees who pay for their hearing services and devices privately. The remaining clients are aged pensioners who have come to Orbital Hearing through the Voucher stream of the HSP.

About a third of John’s Voucher clients have chosen to purchase a partially-subsidised hearing device and the remainder get the fully-subsidised hearing devices. As a small business John prides himself on offering his clients a high quality service and keeps in touch with his clients to make sure they are able to get the most out of their hearing aids and come back each year so he can check their hearing, adjust their hearing aids and encourage his clients to sign up for an annual hearing device maintenance agreement.

John learns that from July 2021, the Australian Government is extending the Voucher period from three to five years and will no longer be paying a government subsidy during the first twelve months of a hearing device’s warranty period. Since John follows good clinical practice, he has been refitting his Voucher clients when their hearing devices stop working at around five years.

This change will impact the revenue John receives from the Voucher program. During the first two years when John’s existing clients have had their Voucher period extended, John will have to plan to check his client’s hearing status to make sure that their current hearing aids are suitable. He may have to submit more requests for revalidated services for clients who need new hearing aids. He will also have to plan out when he can refit his existing clients who have a current Voucher which hasn’t been used for a refit. John will also focus more of his time on encouraging new clients to come to him for hearing services.

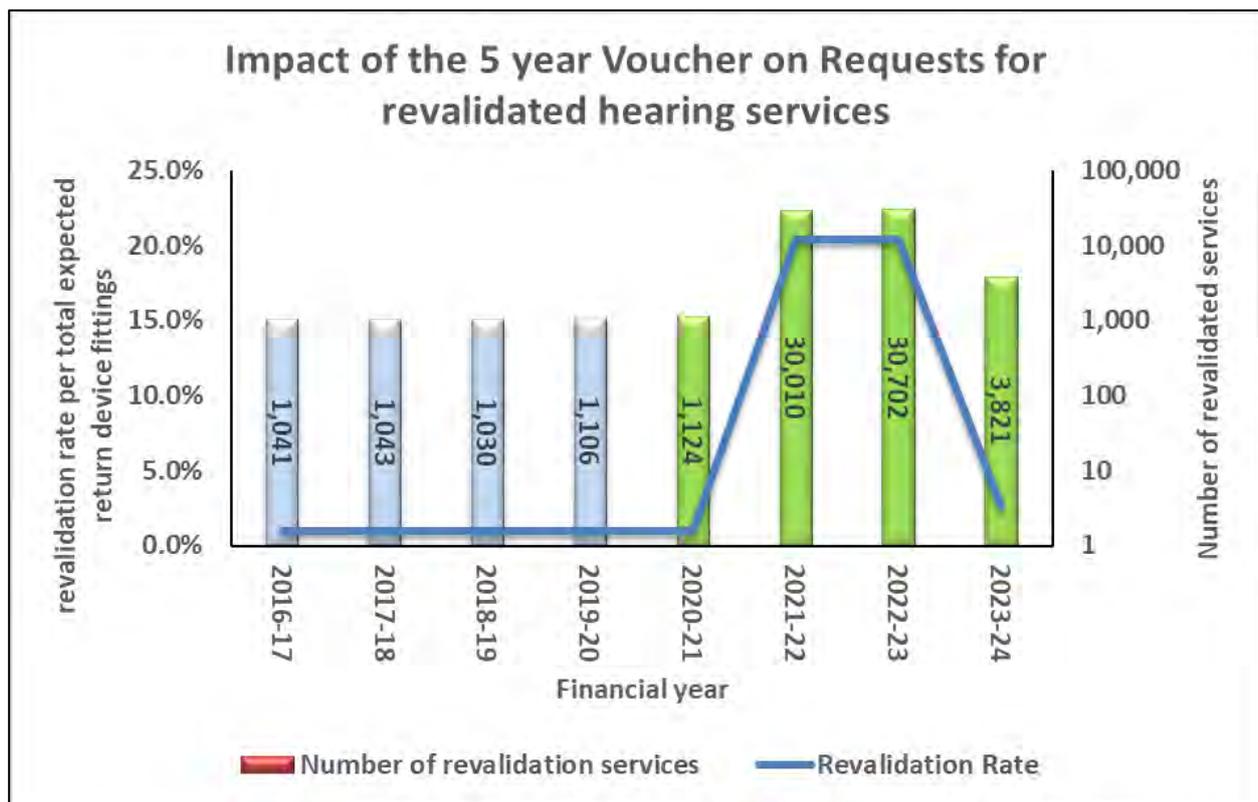
The only other mechanism to enable clients to receive a new hearing device after they have been fitted during the client’s Voucher period is the request for revalidated services process. The current revalidation process requires a service provider to submit a request containing clinical data, claims history and if necessary authority from the client’s general practitioner to demonstrate the client’s clinical need for a refitting.

To improve integrity of this process, the Department will also be strengthening the regulatory framework for requests for revalidated services. Service providers will be required to supply additional information in their request for revalidated fitting services (8) for clients. This will include:

- Specifying the eligibility criteria for refitting (ECR) (9)
- Free text description of the reason for the refitting.
- The client’s audiogram which includes a measure of their hearing loss for each ear at the following frequencies: 250Hz, 500Hz, 750Hz, 1000Hz, 1500Hz, 2000Hz, 3000Hz, 4000Hz.

Based on existing trends in requests for revalidated services and an assumption that service providers will submit more requests during the first two years after implementation, the Department has modelled the expected demand for these services in Figure 5.

Figure 5 - Impact of the five year Voucher on requests for revalidation services, 2016-17 to 2023-24.



Source: HSP, March 2020.

Figure 5 illustrates modelling that during 2021-22 and 2022-23 when the impact of the changes will be most felt by hearing service providers, the rate of revalidation requests for hearing aid fittings will rise from 1,000 per year (1.0 per cent) of total fittings to 30,000 (20.5 per cent) of total fittings. This will give the hearing industry two years to adjust their business practices to the new five year Voucher model, when in 2023-24 the number of return clients will go back to normal levels.

To illustrate how this change will impact below please refer to the case study – Antonio below.

#### Case Study – Antonio

Antonio is an aged pensioner aged 79 years, who joined the HSP in July 2018 and received a hearing assessment from John at Orbital Hearing. The assessment indicated that he had a moderate hearing loss of 45 decibels in both ears. John organized a new set of no-name hearing aids and helped him to make sure he understood how to use them. Every twelve months, Antonio attends an appointment with John at Orbital Hearing to get his hearing checked and let John adjust his hearing aids.

In November 2020, John contacts Antonio and tells him that the Government has extended the Voucher period by two years and he would have to wait until July 2023 for his next hearing assessment. Antonio doesn't mind too much as his hearing aids are only two years old and John tells him his hearing aids should last for five years.

Two years later in July 2022, Antonio notices his hearing has suddenly become worse. At his next annual hearing check-up John tests his hearing and informs him that he now has severe hearing loss of 65 decibels in both ears. This means his hearing aids were no longer suitable for his higher level of hearing loss. John tells him he will put in a request for a new set of hearing aids suitable for his higher level of hearing loss.

John submits a request for revalidated services which includes his original full hearing assessment results and the recent audiogram from his annual hearing check through the new webpage in the Hearing Services Online Portal. As Antonio's hearing has changed by 20 decibels it meets the first criterion of a significant deterioration in hearing and John is allowed to conduct a new full hearing assessment and fit Antonio with a new set of hearing aids. Antonio's Voucher period is reset to the date of the new assessment.

Manufacturers will also have to conform to new regulations concerning hearing device registration which require the following additional information to be submitted as part of the hearing device registration process:

- whether the device is compatible with a remote control or mobile device application;
- whether the device has rechargeable batteries; and
- the minimum and maximum device range (dB) for the following frequencies: 250Hz, 500Hz, 750Hz, 1000Hz, 1500Hz, 2000Hz, 3000Hz, 4000Hz.

There are 243 fully-subsidised and 1,865 partially-subsidised hearing devices in the Hearing device schedule as of 9 September 2020. In 2019-20, 645 hearing devices were added to the hearing device schedule by manufacturers.

The additional information being requested of manufacturers and service providers will require IT systems changes in some providers as well as changes to their business processes to ensure compliance through provision of information. IT system change and business process adjustment are the major costs associated with Policy Option 2. The total estimated regulatory cost to business is estimated at \$4.15 million over ten years and is spread across a number of categories identified in Table 2 below and outlined in more detail in Regulatory Burden Estimate (RBE) Table - Appendix 2.

The extra costs for providing the additional device information to the Department are expected to be approximately \$6,000 in the first year and around \$2,000 per year. This assumes that changes to the Hearing Services Online Portal will be made to enable hearing device manufacturers to load this information directly.

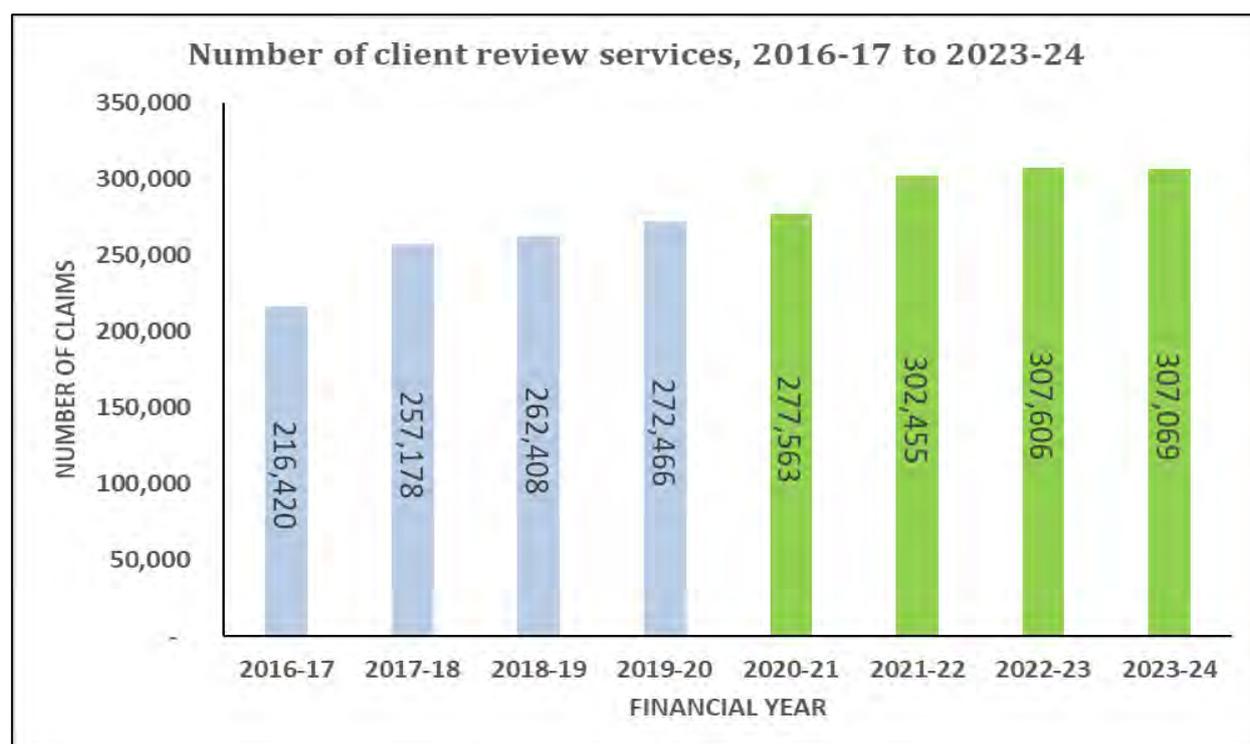
*Table 2: Estimated cost over ten years for the hearing Industry to adopt changes to the five year Voucher period and maintenance payments.*

Activity	Number of businesses	Average number of staff	Number of times activity performed	Avg time of each staff to do activity (hrs)	Labour cost (\$/hr) [wage + non-wage cost rate)	Total cost per activity (rounded to the nearest \$'000)
Amend business models <sup>1</sup>	308	3	1	50	31.55	\$1,458,000
Change IT systems <sup>2</sup>	50	2	1	100	174.00	\$1,740,000
Train practitioners <sup>3</sup>	308	9.3	1	3	50.78	\$436,000
Train staff	308	16.7	1	3	31.55	\$487,000
Update the device register <sup>4</sup>	22	1	1	5	50.78	\$8,000
Maintain the device register <sup>4</sup>	22	1	1	1.8	50.78	\$20,000
Total	308	NA	NA	NA	NA	\$4,149,000

Source: HSP, September 2020.

To ensure that clients with existing Vouchers are not disadvantaged by the five year Voucher extension, Option 2 includes a provision to enable all clients to receive an annual client review of their hearing loss. Currently new clients who join the Voucher stream of the HSP and have a level of hearing impairment below the Minimum Hearing Loss Threshold (3) can only receive two sessions of rehabilitation and have to wait until their next Voucher for a hearing reassessment. Allowing these clients to receive an annual client review every twelve months after their hearing assessment will enable their hearing service provider to check their level of hearing impairment and if needed fit the clients with hearing aids. Figure 6 models that this will lead to an estimated 30,000 claims (10 per cent) increase in demand for the client review service.

Figure 6 - Number of annual client reviews, 2016-17 to 2023-24.



Source: HSP, September 2020.

The changes to the Voucher length, and maintenance arrangements will result in a decline in government funding for hearing service providers in 2021-22 and 2022-23 in line with a reduction in the refitting of new devices.

Table 3: Expected change in Provider revenue from changes in this Proposal

2020-21	2021-22	2022-23	2023-24
0%	-18.9%	-18.2%	-9.7%

Source: Department of Health, March 2020.

In terms of expenditure, the size of the private market (10) represents approximately 21 per cent and the HSP represents 47 per cent of total hearing health costs in Australia. Based on the comparison of the market, the expected drop in revenue from the HSP is likely to cause businesses with high cost overheads and small revenue streams to experience a significant drop in revenue. Micro sized hearing service providers who have usually just setup their business in the Voucher scheme will feel this impact more greatly than established small, medium and large businesses.

Analysis indicates that businesses who provide hearing services in small rural towns and remote communities are likely to experience greater financial pressure than businesses operating permanent sites in metropolitan, regional centres and large to medium rural towns. This is because they have higher transport costs to see their clients and they have a smaller turnover compared to their counterparts in metropolitan areas.

Manufacturers of hearing devices will also be affected by the change to a five year Voucher. The total number of hearing devices issued to clients is expected to fall by an estimated 19 per cent (76,000 devices) in 2021-22 and 2022-23 as the available number of Vouchers in these transition years drops before returning to normal levels.

Option 2 aims to improve the regulation of maintenance of hearing devices in the HSP:

1. Cease the payment of the government maintenance subsidy for the first 12 months after the hearing device is issued in line with the minimum device warranty period

Removing the subsidy for maintenance of a hearing aid when a device is under warranty (in its first year) will not impact consumers using fully-subsidised devices, however service provider revenue will drop. Service providers may attempt to recoup this loss through: increasing unit prices of partially-subsidised devices; upselling partially-subsidised devices; and/or increasing maintenance fees payable by clients for partially-subsidised devices.

Manufacturers will not be directly impacted although may experience pressure from service providers for greater discounts on the supply cost of hearing devices to offset decreased revenue from reduced provision of new hearing devices.

A number of additional reforms in Option 2 aim to simplify the existing maintenance claiming arrangements.

2. Simplifying the government maintenance subsidy by applying it on a per device basis and reducing the number of claim items from six items to two items. Table 4 shows the current number of maintenance claiming items.

*Table 4: Maintenance claiming items for the Voucher stream of the HSP in 2020-21.*

Item	Service Description	Benefit Excluding GST (Rounded )	GST Liable	GST	Total Benefit Inclusive of GST
<b>700</b>	Maintenance and battery supply - Monaural	\$74.15	\$37.08	\$3.71	\$77.86
<b>710</b>	Maintenance and battery supply - Binaural	\$196.50	\$98.25	\$9.83	\$206.33
<b>711</b>	Relocated maintenance and battery supply - Monaural	\$119.15	\$59.58	\$5.96	\$125.11
<b>722</b>	Relocated maintenance and battery supply - Binaural	\$241.50	\$120.75	\$12.08	\$253.58
<b>790</b>	Maintenance and battery supply - Monaural (Private)	\$74.15	\$37.08	\$3.71	\$77.86
<b>791</b>	Maintenance and battery supply - Binaural (Private)	\$196.50	\$98.25	\$9.83	\$206.33

Source: HSP, September 2020.

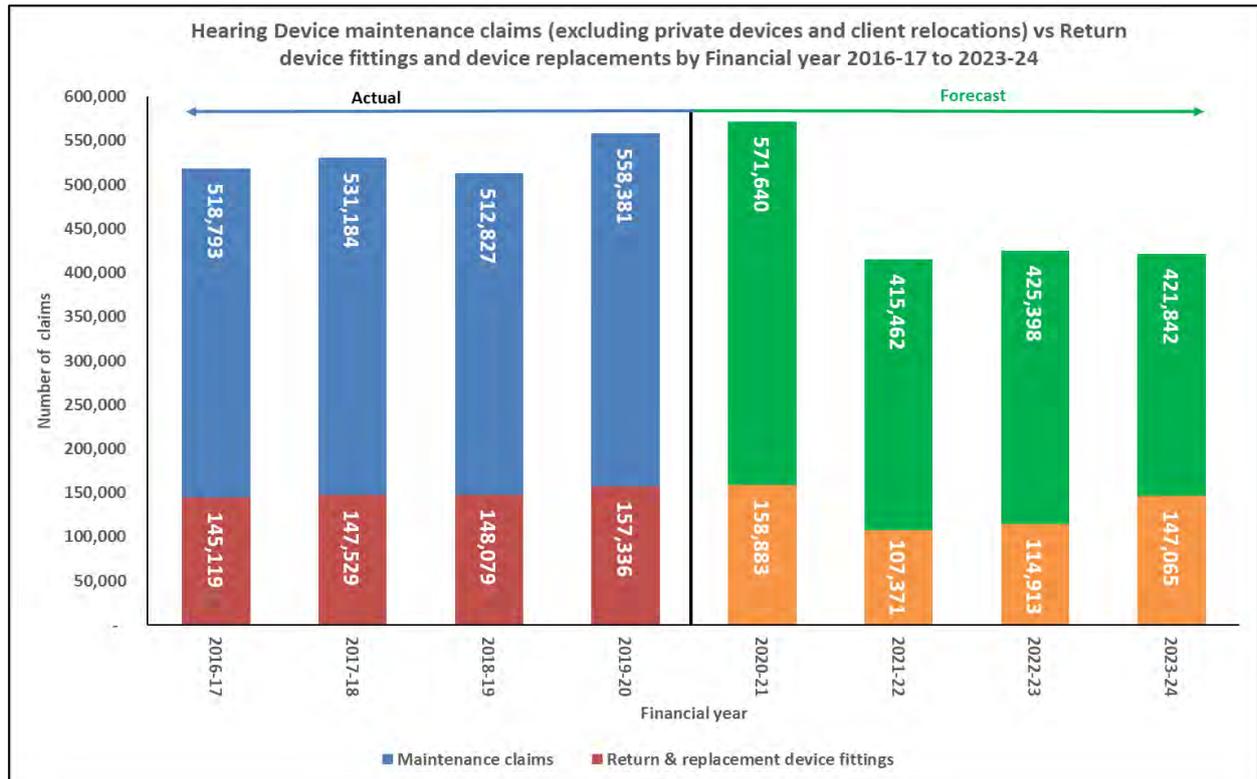
These claiming items would be changed to two items:

3. Maintenance and battery supply per hearing device. This will also mean that the current government maintenance for a single device will increase from \$77.86 to \$104.

Relocated maintenance and battery supply per hearing device. Maintenance paid to a hearing service provider on relocation of a client will be restricted to payment of that quarter's fee (E.g. \$26) per device rather than the current system which pays out of a full annual fee.

Figure 7 illustrates Hearing device maintenance claims and the number of refits, by financial year, 2016-17 to 2023-24.

Figure 7 - Maintenance claims and Return/Replacement device fittings



Source: HSP, March 2020.

When a client relocates to a new service provider the Australian Government pays an additional \$125.11 for monaural device maintenance and \$253.58 for binaural device maintenance to the new service provider. Advice received by the Department indicated that it was not possible to recover the outstanding balance of a maintenance payment to the original Service provider due to the low amount of funding provided.

In effect this change removes this unnecessary government maintenance payment to the previous service provider as the new service provider will receive an extra payment for one quarter and then the maintenance agreement will switch back to the normal quarterly payment cycle. Changes to the contract between the Australian Government and service providers will be made to ensure the previous service provider will stop receiving maintenance payments once a client relocates to a new service provider.

Clients will continue to enter into an annual maintenance agreement and pay their co-payment directly to their hearing service provider. If a client chooses to relocate to a new service provider they will not have to pay an additional client co-payment to the new service provider.

Potential exists for clients with partially-subsidised devices to face increased costs where service providers choose to increase the maintenance fees they charge to offset the maintenance payment reduction. Unlike the existing maintenance cap for fully-subsidised devices (\$47.25), there is no cap for providers on the maintenance fee they can charge for partially-subsidised devices.

Potential also exists for some providers, who waive the client co-payment for maintenance, to begin charging this fee. Table 5 details the 2018-19 profile of clients who paid a co-payment for their hearing device maintenance. Note that some service providers choose to waive the co-payment or take a lower co-payment from their clients.

Table 5: Profile of client annual co-payments for hearing device maintenance, 2018-19.

2018/19 profile	Provider waive client co-pay fee	Client co-pay less than standard fee	Client co-pay equals standard fee	Client co-pay partially-subsidised devices
<b>Number of claims</b>	97,312	25,376	337,208	39,225
<b>Number of clients</b>	82,391	25,367	336,976	39,223
<b>Current Client average co-payment</b>	\$0	\$35.10	\$45.68	\$56.07
<b>Potential additional average client cost</b>	\$45.68	\$10.58	\$0	\$191.43

Source: HSP, September 2020.

An example case study – Georgina illustrates the impact of the changes to the hearing device maintenance arrangements.

#### Case Study – Georgina

Georgina is an 84 year old aged pensioner, who joined the HSP in July 2018 and received a hearing assessment from Yasmine at Orbital Hearing. The assessment indicated that she had a moderate hearing loss of 45 decibels in one ear. Yasmine organized a no-name hearing aid and helped her to make sure she understood how to use it. Georgina paid \$45.68 to enter into a maintenance agreement for twelve months.

In December 2021, Georgina moves to a new home in a new city and moves to a new hearing service provider, High-Tec Hearing. Simon is her new audiologist and he informs Georgina that her co-payment for her hearing device maintenance has dropped to \$23.35. High-Tec Hearing receive a relocated maintenance payment of \$26.16. On 1 January High-Tec Hearing receives the next quarterly maintenance payment from the HSP of \$26.16 and the final quarter payment on 1 April 2022 of \$26.16. Orbital Hearing will no longer receive any quarterly maintenance payments after Georgina moved to High-Tec Hearing.

On 1 July 2022, Georgina started her next annual maintenance agreement with High-Tec Hearing and paid her annual co-payment of \$24.08. High-Tec Hearing will expect to receive a quarterly government subsidy payment of \$26.57 each quarter (\$106.28 for the full year).

## Potential indirect impacts of Option 2

Consideration of indirect impacts of implementing Option 2 arises when we consider the value of the HSP to the hearing sector, the number of services and providers involved in the program, the distribution of the service providers and the vertical integration of some parts of the market which is detailed in The Australian Hearing Services Market - Appendix 3.

Most importantly the changes will not adversely impact the level of clinical services offered to consumers or their access to hearing devices. The subsidized hearing devices under the HSP are provided at a set cost and there is no opportunity for providers to increase that cost. It may be that some providers in order to recover income push Voucher holders to consider purchasing a partially subsidized device. In this way the Service provider receives greater income from the sale and is also free to charge an additional amount on top of the maintenance payment.

Extending the Voucher period is not expected to make any change to the level of maintenance that a client receives from a provider. As long as they have an annual agreement they will receive maintenance services that are capped for fully-subsidised devices. However, there is potential for some providers who may have previously absorbed Maintenance costs as a point of difference from their competitors, to now pass this on to the consumer. In terms of government the Maintenance costs of the program are expected to reduce because of the twelve month warranty exclusion period, but otherwise costs remain the same.

Given that Australia is a relatively small market in world terms no diminution of the aggregate range of hearing devices available is expected. However, it is possible that some smaller providers who are highly dependent on the HSP and practice a business model that relies on refitting devices under five years may become marginal propositions or even unviable until the regulatory change stabilises. It may be that as a result of this there is some market consolidation but this is not likely to reduce consumer access to services in metropolitan and large regional centres. There is, however, the potential for larger impacts in rural and remote areas with thin markets that may result in consolidation of providers. The issue of thin markets and access to hearing services is something that is being taken up specifically in the consultation process as part of the Review of the Hearing Services Program that will report back to Government in July 2021.

### **Option 3 - Regulatory change applied to all new and renewing clients from 1 July 2021**

All the same changes that are in Option 2 are included in Option 3 except that the changes in Option 3 will only impact new and renewed Vouchers after 1 July 2021. The main difference is in the change to the Voucher period that will be applied. This will result in the same net benefits in Option 2 being realized in Option 3 over time. The main difference in effect is caused by retaining the three year Voucher validity period for existing Voucher holders from 1 July 2021.

For existing clients of the program there will be no change until their Voucher is due for renewal, at which time they will receive a five year Voucher. All clients will receive access to the annual hearing review. This will be a net benefit for consumers still on the three year Voucher and without hearing devices who will now be able to avail themselves of the annual clinical review, rather than waiting for a new Voucher.

All Voucher holders post 1 July 2021 will still benefit from changes to the Revalidation process, so that they can expect to receive a hearing device that has sufficient room for adjustment over the five year lifespan of the device. This will be an improved outcome for consumers and a more efficient use of program funding.

The changes to the Maintenance payments that apply in Option 2 will all be applied to Option 3 with the same net benefits arising to consumers and providers. A more detailed explanation of impacts arising is set out below.

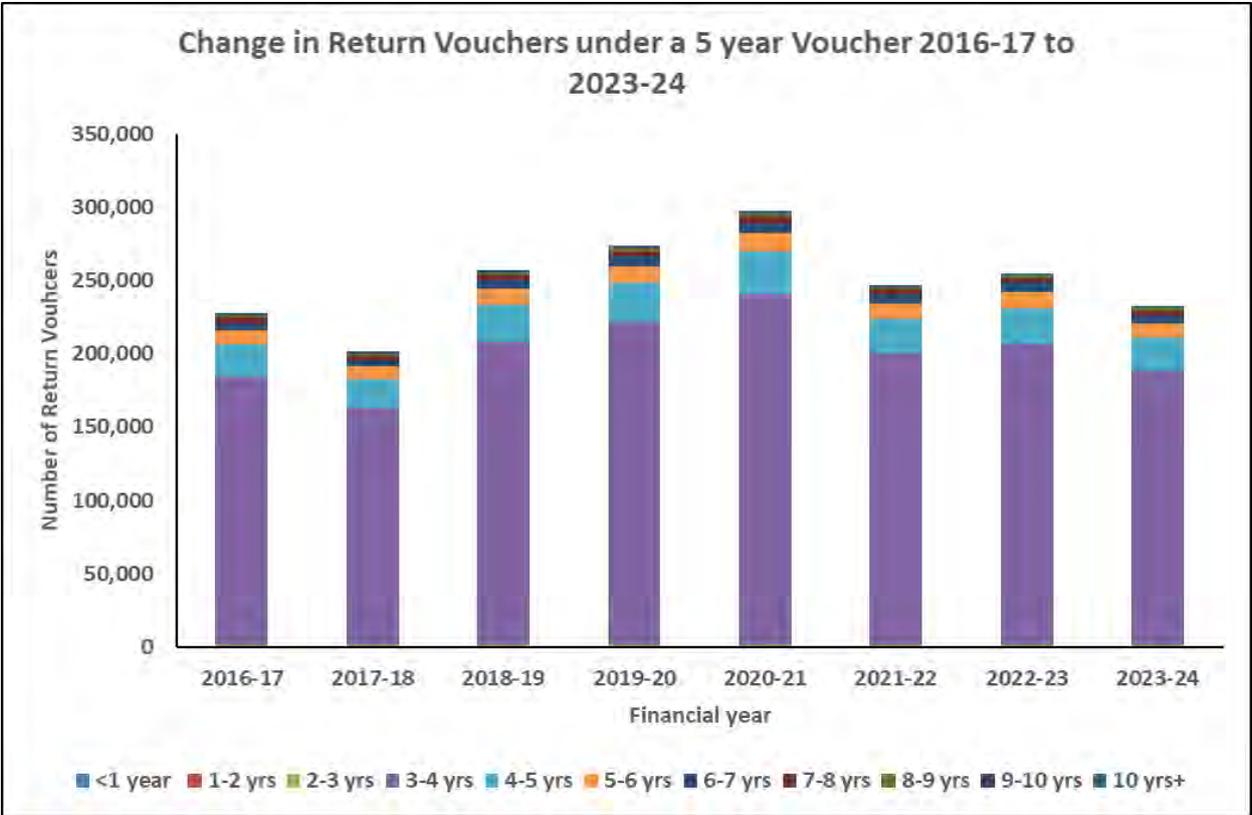
### Impact Analysis

#### Voucher

Option three will change the current regulatory framework for contracted hearing service providers to deliver hearing services to Voucher clients by extending the Voucher period from three to five years for new clients and returning clients from 1 July 2021. Existing clients will retain their three year Voucher until it expires and then they will be issued with a five year Voucher.

In the 2019-20 financial year, 1,035,000 clients had a three Voucher and 265,277 Vouchers were issued to clients returning for their second or subsequent Voucher referred to as a 'Return Voucher'. Modelling of the impact of changing the current three year Voucher to a five year Voucher for new clients and clients who return for their next Voucher shows a drop in return Vouchers in 2021-22, 2022-23 and 2023-24, as shown in Figure 8.

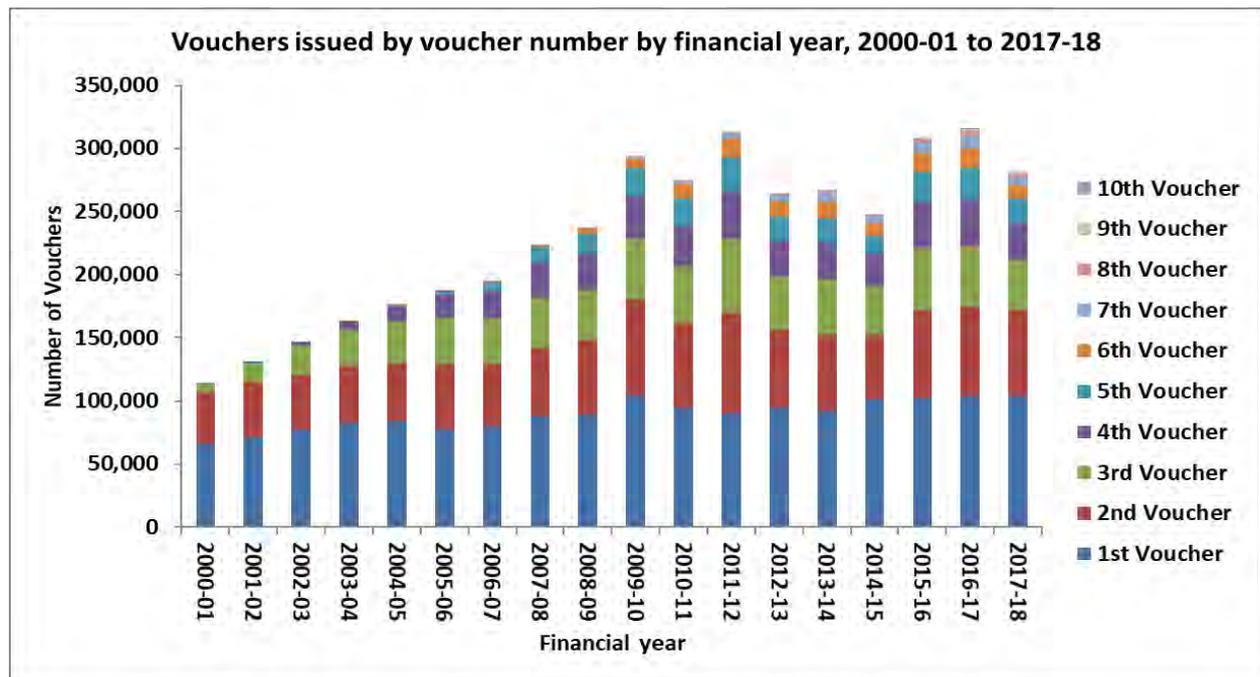
Figure 8 - Change in Return Vouchers under a prospective five year Voucher model, 2016-17 to 2023-24.



Source: HSP, March 2020.

This pattern is consistent with the pattern for return Vouchers after the Voucher period was extended from two years to three years retrospectively on 1 January 2012 (see Figure 9). At that time, service providers encouraged clients to obtain a two year Voucher before the implementation date of the three year Voucher which created a 20 per cent surge in return Vouchers in 2011-12 followed by a gradual decline in return client numbers over the next three financial years.

Figure 9 - Vouchers issued by Voucher number by financial year, 2000-01 to 2017-18.



Source: HSP, March 2020.

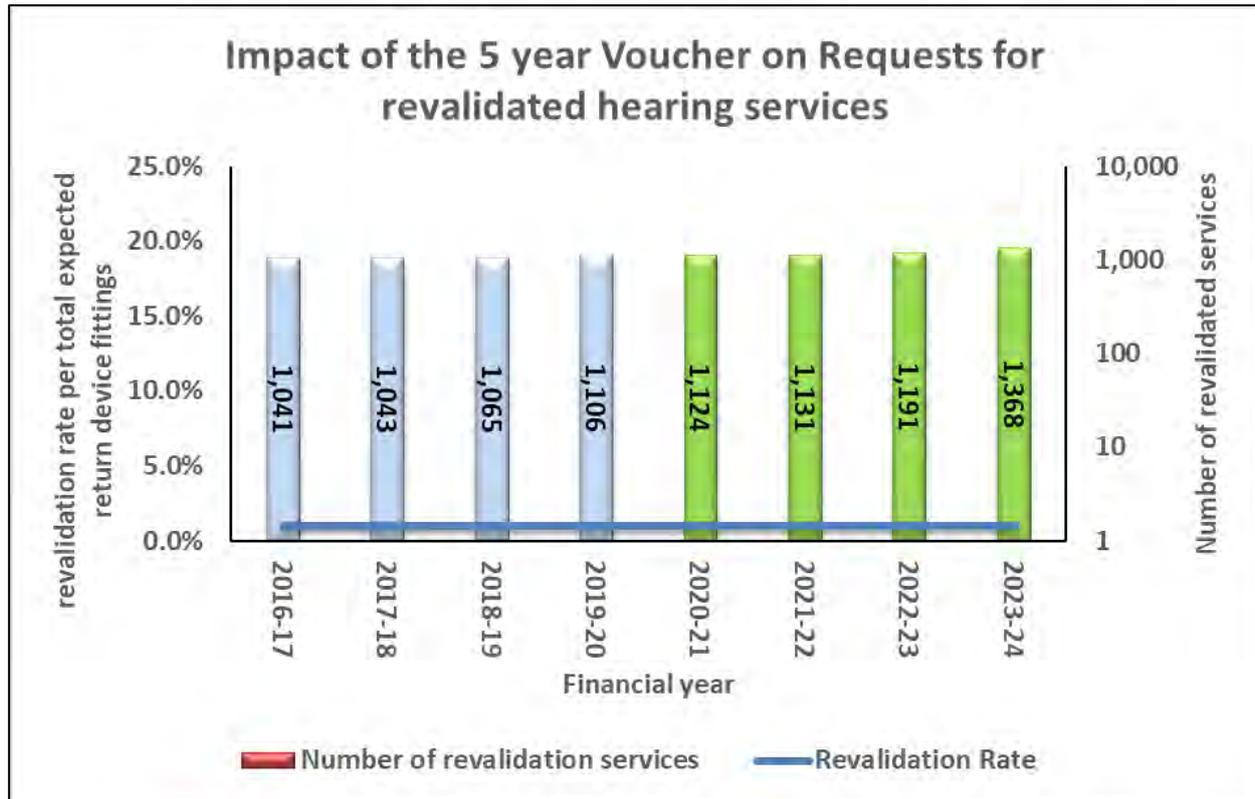
The reason for the decline in clients requesting a return Voucher was twofold:

1. Those 40,000 clients who received a two year Voucher early before the implementation date in 2011-12 no longer needed a new Voucher in 2012-13.
2. New clients who joined the Voucher program in calendar year 2012 returned in 2015 rather than 2014 under a two year Voucher cycle.

In this period, if a client had received at least one service on a Voucher, then the expiry date for the use of hearing services no longer applied. Consequently, service providers were able to utilize this pool of older Vouchers to refit their clients. This issue in the operation of the regulatory framework was removed on 1 October 2019.

As the change in the Voucher period from three to five years will immediately impact new clients and clients who return for a new Voucher, there will be less pressure on service providers to use the existing revalidation process to seek a new hearing aid fitting than if the change was applied retrospectively. This is because it will take up to three years from 2021-22 to 2024-25 to move all clients onto a five year Voucher. Figure 10 illustrates that demand for revalidated services is expected to remain at 1 per cent (1,000) requests per year.

Figure 10 - Demand for revalidated services, 2016-17 to 2023-24 under a prospective five year Voucher.



Source: HSP, March 2020.

The following example case study- Peter illustrates the impact of this regulatory change:

**Case Study – Peter**

Peter is a 79 year old aged pensioner, who joined the HSP in June 2018 and received a hearing assessment from John at Orbital Hearing. The assessment indicated that he had a moderate hearing loss of 45 decibels in both ears. John organized a new set of no-name hearing aids and helped Peter to make sure he understood how to use them. Every twelve months, Peter attends an appointment with John at Orbital Hearing to get his hearing checked and let John adjust his hearing aids.

In June 2021, John contacts Peter to advise him that his new three Voucher has been issued and to come in for his hearing reassessment. Peter has noticed that his hearing has gradually been getting worse and at this reassessment, John adjusts his hearing aids. At his annual check-up in July 2022, John advises Peter that his hearing has continued to decline and refits him with a new set of hearing aids.

In June 2024, John contacts Peter again to advise him that his new five year Voucher has been issued and to come in for his next hearing reassessment. Peter’s hearing has declined but not enough to warrant a new set of hearing aids.

Manufacturers will need to update their hearing device information for existing and new hearing aids in the same way as Option 2. The impact on potential loss of revenue due to the drop in the number of hearing aids issued will be lower than Option 2. The total number of hearing devices issued to clients is expected to fall by an estimated 14 per cent (56,000 devices) in 2021-22 and 6 per cent (24,000) in 2022-23 as the available number of Vouchers in these transition years drops before returning to normal levels.

New client growth is not going to be affected by the extension of the Voucher to five years to new prospective clients. In both Option 2 and Option 3, new clients will start with a five year Voucher. Consequently, there is no difference in impact between Option 2 and Option 3 on this aspect of the package of regulatory changes. Similarly, the changes to eligibility for the client review for new clients will be the same for both options. Allowing these clients to receive an annual client review every twelve months after their hearing assessment will enable their hearing service provider to check their level of hearing impairment and if needed fit the clients with hearing aids.

Overall, the expected change in revenue from both the changes to the Voucher period and the maintenance arrangements will be a small decline in 2021-22 and a gradual decline in government funding for hearing service providers from 2022-23, which will be partially offset by the expected 8 per cent growth in new clients.

Table 6: Estimated change in Voucher revenue for hearing service providers, 2021-22 to 2023-24

2020-21	2021-22	2022-23	2023-24
0%	-5.6%	-5.7%	-1.6%

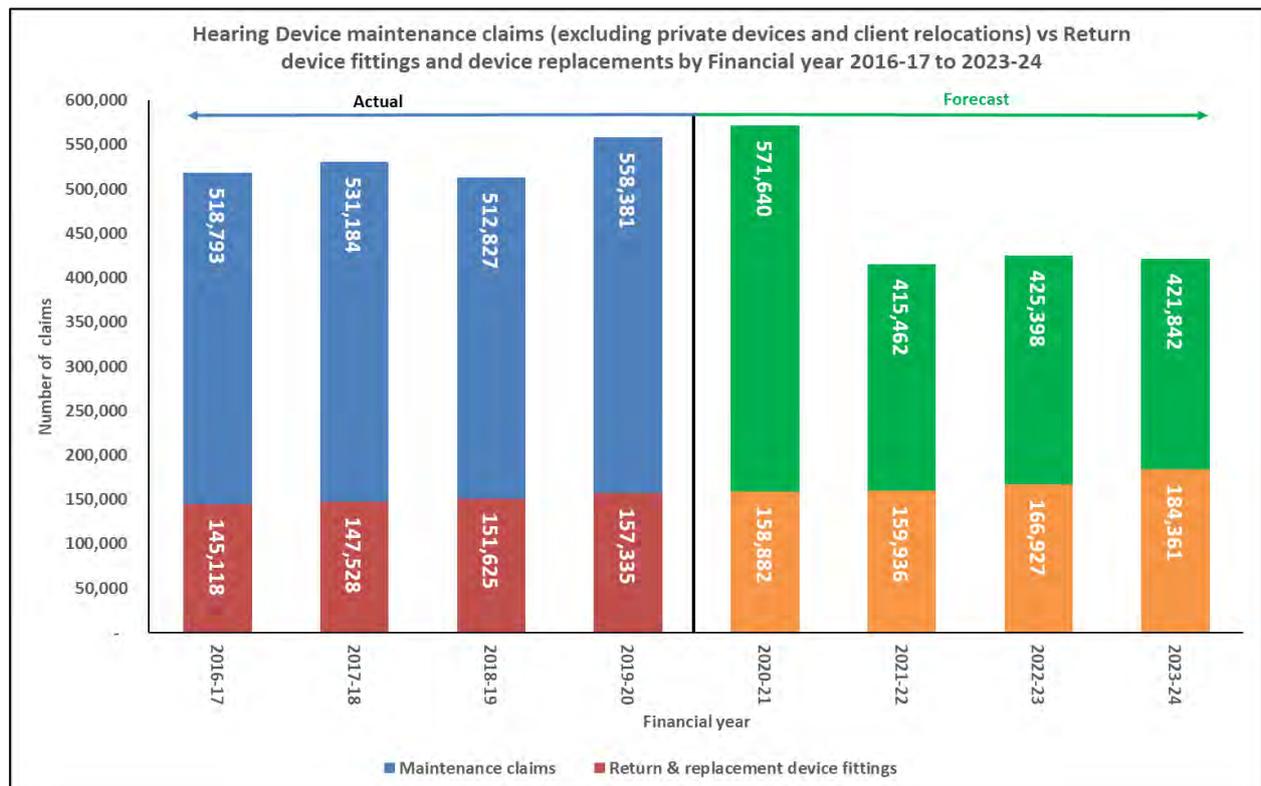
Source: Department of Health, March 2020.

**Maintenance**

The arrangements for maintenance are the same as Option 2. With the financial impact of the prospective change of the Voucher period from three to five years there will be less pressure on service providers to waive the client co-payment for maintenance.

Figure 11 indicates that the number of claims for hearing device maintenance will still drop in the same consistent way as Option 2 due to the removal of claims within the first twelve months of the life of a hearing aid. However, the expected number of hearing device refits will be unaffected during the same period until all Voucher clients are using a five year Voucher in 2024-25.

Figure 11 - Five year prospective Voucher hearing device maintenance claims (excluding private devices and client relocations) compared to return device fits, 2016-17 to 2023-24.



Source: Department of Health, March 2020.

This will still allow hearing service providers to maintain their current business practices of refitting clients with new hearing aids while their existing hearing aids are in good working order. This will happen from 2021-22 to 2023-24 during the transition period when existing clients seek a new voucher to enable them to continue to receive hearing services at a cost to government of \$150m.

### **Potential indirect impacts of Option 3**

The potential indirect impacts of Option 3 are the same as articulated in Option 2. The difference being that the impact of the change will be slightly reduced for business owners, service providers and manufacturers. The impact to consumers will in effect be the same excepting that consumers with three year Vouchers will be entitled to receive a new device when they receive their new five year Voucher.

Most importantly the changes will not adversely impact the level of clinical services offered to consumers or their access to hearing devices. The subsidized hearing devices under the HSP are provided at a set cost and there is no opportunity for providers to increase that cost. It may be that some providers in order to recover income push Voucher holders to consider purchasing a partially subsidized device. In this way the Service provider receives greater income from the sale and is also free to charge an additional amount on top of the maintenance payment.

Extending the Voucher period is not expected to make any change to the level of maintenance that a client receives from a provider. As long as they have an annual agreement they will receive maintenance services that are capped for fully-subsidised devices. However, there is potential for some providers who may have previously absorbed maintenance costs as a point of difference from their competitors, to now pass this on to the consumer. In terms of government the maintenance costs of the program are expected to reduce because of the twelve month warranty exclusion period, but otherwise costs remain the same.

Given that Australia is a relatively small market in world terms no diminution of the aggregate range of hearing devices available is expected. However, it is possible that some smaller providers who are highly dependent on the HSP and practice a business model that relies on refitting devices under five years may become marginal propositions or even unviable until the regulatory change stabilises. It may be that as a result of this there is some market consolidation but this is not likely to reduce consumer access to services in metropolitan and large regional centres. There is, however, the potential for larger impacts in rural and remote areas with thin markets that may result in consolidation of providers. The issue of thin markets and access to hearing services is something that is being taken up specifically in the consultation process as part of the Review of the Hearing Services Program that will report back to Government in July 2021.

## Consultation

Spanning this decade, there have been sustained and increasing calls for improvements to the way Government delivers hearing services, and in particular three parliamentary inquiries. The inquiries are: 2010 Senate Community Affairs Committee Hear Us: Inquiry into Hearing Health in Australia report; 2017 Standing Committee on Health, Aged Care and Sport Still waiting to be heard... report; and the 2019 House of Representatives Inquiry into the 2017-18 Annual Reports of the Department of Health and Australian Hearing. These inquiries heard from a broad range of stakeholders across the sector and as a result there has been increasing pressure on government to action recommendations to improve consumer experience of the HSP.

The proposed changes to the Voucher period and maintenance payments are both measures will begin the process of program renewal to bring the HSP into line with contemporary consumer expectations and models of service delivery. They will increase the program's efficiency by reducing unnecessary expenditure. It is the increased efficiency of the program that is likely to be seen in a negative light by service providers who have developed a business model that does not reflect the best outcomes for consumers or meet contemporary service delivery standards for the efficient use of government funds.

The key measure is the change to the Voucher period and previous experience of changing the Voucher period from two to three years in 2011 is instructive in considering the approach taken to consult on this change. Industry brought forward hearing device upgrades prior to the move from two year to three year vouchers, and there is well founded reasoning this would occur again in the transition from three year to five year vouchers. Consequently, prior consultation was not undertaken with industry, although detailed consultation will be conducted on implementation of the new arrangements.

It is important to note that the HSP has an extensive interaction with many of the key bodies in the hearing sector. The Hearing Health Sector Alliance (HHSA) is the main peak body for the sector. Regular engagement occurs between HHSA and the Department of Health. There has also been extensive engagement with the HHSA on work to progress key priorities from the Hearing Health Roadmap which are being funded by Government as part of the renewal of hearing services. Most significantly, one of these priorities includes the funding of a \$5m hearing health awareness campaign to be announced in the October 2020 Budget which will be well received by the sector and is expected to increase demand for the HSP.

In addition the Department has regular engagement with Hearing Australia, the largest provider of hearing services with the largest market share of the HSP at 27 per cent.

Recently the Minister responsible for the Hearing Services Program announced a Review into the HSP which is being undertaken by an expert panel led by Prof Mike Woods and assisted by Dr Zena Burgess PhD. The Review will support the renewal of the HSP and has begun to engage with consumers, service providers and manufacturers in the hearing health sector. A focus for the review is the operation of the HSP in thin markets as well as considering other potential changes to the program such as expanding the eligibility criteria to include low income earners and Indigenous Australians between the ages of 26-50 years when they are not eligible for the HSP.

Given this broad context of active engagement with the sector the Department is confident that consultation post announcement will be constructive and focused on the best way to implement the different measures. Sufficient time to prepare IT systems and business processes for the change will be the initial concern of the sector as well as how they might flatten the impact of an anticipated reduction in income as a result of the regulatory change. There will be active engagement with the sector to assist with their on boarding of any systems changes. This is something that the HSP has considerable experience having just assisted the sector to transition their IT systems to MyGovID in order to access the Hearing Services Online portal.

The Department is well placed therefore to understand the concerns of the hearing sector and the impacts of the changes. Furthermore the strong lines of communication will facilitate discussion about the implementation of any measures.

### *Approach*

The Voucher stream of the HSP provides a competitive market for providers to deliver hearing services to more than 1 million Australians. Out of the 308 hearing service providers, nine of them provide hearing services to over 53 per cent of the Voucher client population. The hearing industry is significantly vertically integrated with hearing aid manufacturers owning at least one third of all businesses.

In 2011, the hearing industry reacted to the impending extension of the Voucher from two to three years on a prospective basis, by encouraging 40,000 clients to obtain a two year Voucher early so they could maximize their opportunity to provide hearing aid fittings to these clients. In this environment where private hearing service providers dominate the market and have demonstrated a history of seeking to maximize their business opportunities under the Voucher framework, the Department considered that a post-decision consultation strategy was the appropriate approach for regulatory reform.

### **Strategy**

The Department will use a communications strategy to engage with stakeholders who are affected by the changes to the Voucher stream of the HSP. The aim of this strategy will be to:

- **Inform** stakeholders of the changes to the Voucher stream of the HSP
- **Listen** to the hearing industry about the impact of the changes on their ability to deliver hearing services.
- **Consult** with industry on how the changes should be implemented.
- **Support** businesses to assist them to work through the changes they need to make to their IT systems and business processes.
- **Involve** stakeholders in a formal review of the HSP over twelve months to identify the ways that the Australian Government can refine and adjust the regulatory framework of the HSP to strengthen access to hearing services. The review will also focus on how service delivery can be strengthened in regional, rural and remote areas of Australia.

As a first step the Department will publish detailed information on the specific changes to the Voucher stream of the HSP including Question and Answers on the new vs old regulatory frameworks on the Hearing Services website.

The Department will then consult with stakeholders through online forums and calls for submissions to seek information on how the changes will affect them including:

- access hearing services for clients,
- changes to clinical standards to ensure that clinicians can continue to provide high quality hearing services,
- how hearing device distributors can maintain device supply arrangements, and
- how service providers can adjust their business processes to ensure they can continue to deliver hearing services.

Feedback from these consultations will inform the Hearing Services website, Hearing Services Online Portal and Schedule of Service Items and Fees. The Deed of Standing Offer was modified on 1 October 2019 to include the new requirements for additional device information to enable the new request for revalidated services process.

Throughout the consultation process information that may assist the Review of the HSP will be conveyed to the expert panel conducting the Review and used to inform.

## Stakeholders

### Businesses

- 308 Contracted Hearing Service Providers

Table 7: Stakeholders in the HSP

Organisation	Description
<b>Hearing Care Industry Association</b>	Represents a group of medium to large hearing clinics. Has a focus on advocating for the provision of government funded hearing services to low income earners.
<b>Hearing Business Alliance</b>	Represents, supports and promotes small to medium, independent hearing care businesses. Have an additional focus on hearing businesses in rural and regional areas.
<b>Independent Audiologists Australia</b>	Promotes and supports clinical practices owned by audiologists.

### Hearing Device Suppliers

- 22 Hearing Device Manufacturers

Organisation	Description
<b>Hearing Aid Manufacturers and Distributors Association of Australia</b>	Represents a number of hearing aid manufacturers and suppliers within Australia.

### Clinicians

- 2,869 Qualified practitioners

Organisation	Description
<b>Audiology Australia</b>	A professional community for audiologists. Provides professional development, sets ethical standards of practice and advocates for the profession.
<b>Australian College of Audiology</b>	A professional community for audiologists and audiometrists. Promotes and develops the science and practice of hearing care through the education and support of its members.
<b>Hearing Aid Audiology Society of Australia</b>	A professional community for audiometrists. Ensures audiometrists are educated, supported and developed as professionals within the hearing industry.

### Clients

- 1,035,000 clients in Voucher and 59,770 clients in CSO streams of the HSP

Organisation	Description
<b>Deafness Forum</b>	Represents the interests of Australians who live with hearing loss. Have a focus on achieving accessible ear and hearing care.
<b>Better Hearing Australia</b>	Independent consumer based non-profit organisation for hearing loss. Promotes best practice in hearing loss management through advocacy, support and education.
<b>Soundfair</b>	Consumer advocacy group working towards eliminating the social and emotional impacts of hearing conditions.

Government

Organisation	Description
<b>National Disability Insurance Agency</b>	Funds hearing supports for National Disability Insurance Scheme (NDIS) participants aged 26 and over who are not eligible for the HSP. The NDIS also funds additional reasonable and necessary hearing supports for participants if they are not available through the HSP. This includes people under 26.
<b>NDIS Quality and Safeguards Commission</b>	The NDIS Quality and Safeguards Commission is an independent agency established to improve the quality and safety of NDIS supports and services.

## What is the best policy option?

Option 1 – Status-quo, is not recommended as it would continue to provide sub-optimal consumer experience, requiring them to unnecessarily engage with providers as providers exploit the current settings of the program and provide clients with new devices before the lifespan of a device has been reached. This does not meet contemporary expectations of service for consumers or any reasonable understanding of efficient service delivery for a government program that services hundreds of thousands of vulnerable people with hearing loss.

Not only does Option 1 involve the Government continuing to fund the replacement of hearing devices while most are still in good working order. It will also involve the Government making unnecessary payments for repairs and maintenances of hearing devices during warranty period and the duplication of maintenance payments to different providers when clients choose to change their provider.

The issues with the current regulatory framework have resulted in approximately 84,000 unnecessary hearing aid fittings at a cost of \$50m per year. Given the expected increase in client demand for hearing services as the Australian population continues to age and the current legislative framework of the HSP, there is a strong case for Government to reform the HSP and improve the consumer experience and improve the efficiency of the program.

Analysis of business practices previously undertaken by industry suggests that they will continue to use the existing regulatory framework to refit clients with hearing aids before the aids have reached the end of their natural lifespan. Simply put, without government intervention nothing will change.

### Option 2

The current regulatory framework has resulted in approximately 84,000 unnecessary hearing aid fittings at a cost of \$50m per year. Given the expected increase in client demand for hearing services as the Australian population continues to age and the current legislative framework of the HSP, there is a case for Government to reform the HSP to make it better align with consumer expectations and contemporary models of service delivery that favour efficiency rather than over servicing and that will ensure the effective use of the HSP funds.

An examination of the provision of hearing services globally in 2014, identified that the majority of government hearing service programs provided payments for hearing aids issued between five and six years. (11). It is simply time that service delivery practice for hearing devices in Australia caught up with what is happening internationally. Option 2 is well supported by science and industry standards that accept that the natural lifespan of a hearing aid is at a minimum five years.

Weighing the different policy options the best policy option is undoubtedly Option 2. It will implement some important changes to the program that will improve consumer outcomes and create program efficiencies through reasonable changes to regulation. The net benefit will be realized by consumers being properly serviced and the program being efficiently managed with reduced unnecessary payments for devices being refitted before their end of life, maintenance payments being made during a devices warranty period and quarterly maintenance payments replacing a twelve month in advance payment that is unrecoverable if a client moves.

The reasons for considering Option 2 over Option 3 are twofold. Foremost, to implement Option 3 would be administratively more difficult for both providers and government with Vouchers of different validity periods operating simultaneously. This is likely to cause confusion and administrative errors in the management of clients and the program. It may also cause some confusion among clients – particularly if family members have two different validity periods.

The second reason is that if Option 3 is selected it may well allow behaviour to continue that represents less than ideal service delivery practice and is unnecessarily costly to Government. Prior to the introduction of the three year Voucher on 1 January 2012, the hearing industry encouraged an additional 40,000 (20 per cent) of clients to obtain a two year Voucher before the implementation date. This ensured that it took over five years to move all the clients onto a three year Voucher and provided more opportunity to refit clients with hearing devices before the end of their workable life-span. This demonstrates that the option to introduce a five year Voucher prospectively will continue to cost Government \$50m per year until the entire Voucher client population has a five year Voucher in 2024-25.

In terms of maintenance payments there is no difference between Options 2 and Option 3. Both Options aim to promote efficient service delivery by aligning with consumer expectations and contemporary service delivery by discontinuing the funding of maintenance of hearing devices which are already covered by a manufacturer's warranty. The Government can save \$30m annually with no detriment to consumers. In the private market, consumer law operates to protect consumers by regulating that repairs and maintenance should be covered by the warranty of a hearing device. The operation of the regulatory framework for the HSP can be improved so that clients can expect that hearing service providers and hearing device manufacturers fulfil their responsibilities to maintain and repair hearing devices during the warranty period. As the implementation of this reform applies to both Option 2 and Option 3, it is not a point of difference.

Finally the change of the Maintenance payment from 12 months in advance to a quarterly payment is simply good program management practice that meets the expectations of consumers and taxpayers and aligns with efficient service delivery practice.

To deliver Option 2 there will be an impact on the hearing sector estimated to be about \$4.15 million over ten years which compares to savings of well over \$50 million a year for the hearing services programs from reduced wastage and addressing inefficiencies. This is in addition to the benefit to consumers of not having to return prematurely to service providers to get a new device before their existing device has expired.

For all of the above reasons Policy Option 2 is considered the best Option among the Options considered as part of the renewal of the Hearing Services Program to bring it in line with consumer expectations and contemporary models of service delivery.

Although there is no certainty as to what business behavioural changes may be elicited from service providers once they learn of the new measures, there will be ongoing monitoring of the payments system for unusual patterns of servicing. This may however be made more difficult by the impact of COVID-19 which has resulted in a reduced number of new Vouchers being issued in some areas. Indeed, there may be a confounding effect on providers if the service delivery environment is compromised by COVID-19 restrictions for an excessive length of time.

## Implementation

The changes associated with this policy proposal will be implemented ahead of the planned go-live date of 1 July 2021. Broadly, this will consist of:

- Consultation with affected stakeholders in the hearing Sector, including service providers and manufacturers
- A Departmental ICT build to enable these policy changes within the provider portal
- A transition period prior to go-live wherein affected stakeholders can ensure that these changes will not adversely impact client outcomes

A working group to support the implementation project has been created, and commenced the process of modifying the Hearing Services Online portal and preparing for implementation. Consultation with the sector will begin after the changes are announced by Government.

Throughout the implementation and the transition period, the Department will work closely with the sector to deliver solutions that are fit for purpose and aligned with best clinical outcomes for clients. The Department will also allow reasonable time for manufacturers and service providers to test and comply with the new regulations without impacting their operations.

Perhaps the biggest risk to implementation is the need for some service providers with large IT systems, particularly if they are held offshore, to make the necessary systems changes to accommodate the regulatory changes. There are subject matter experts within the HSP who will assist with the design and build of the changes to the Hearing Services Online portal. This team will also assist the sector to undertake the necessary building and testing, which they have done in previous IT system changes. A small group of providers are used to help design and test the intended changes to try and mitigate some of the risk.

### **Changes to Voucher Periods and Maintenance Payments**

The Department notes that these changes will only apply to claims submitted on or after 1 July 2021. All claims submitted prior to this date will be unaffected. All claims after this date will have to comply with the updated program settings in order to be paid. Prior to the implementation of these changes on 1 July 2021, service providers will be engaged through multiple channels to ensure that the impacts are well understood. This will also include engagement through the Review of the HSP.

In relation to changes to claiming rules, the Department will provide formal advice and guidance to service providers in the months ahead of go-live, and will support their downstream software processes by enabling a production-like environment for the development of necessary changes to service provider's middleware applications. After the go-live date, the Department will provide additional reporting, support, and feedback to Service Providers in relation to their submitted claims. This will further support the sector to quickly adapt to the new program settings and minimise disruption for consumers.

---

### **Changes to Device Information**

The necessary changes to device information captured by the HSP will be shared with Manufacturers once the change is announced by Government. This additional information is to be provided manually by Manufacturers between the announcement and the go-live date, a period of approximately seven months.

During this transition period, Manufacturers will be able to update the required information through a Production-like portal in order to test and validate their data. This requirement will only apply to devices that are currently active, or those that have their details updated on or after 1 July 2021. Legacy devices no longer in use will be unaffected by this change.

### **Audit and Compliance**

In order to support the sector in this policy change, the HSP Audit and Compliance team will take a more active role in the period immediately before and after the go-live date. This will include additional reporting to stakeholders to identify and resolve issues, and to effectively manage any concerns held.

### **Evaluation**

The purpose of the evaluation will be to assess the impact of the regulatory changes, whether the benefits have been realised, the impact on key stakeholders, and patient outcomes. In addition, lessons learnt from this and other regulatory changes will be incorporated into the implementation and evaluation process.

### **Methods**

Methods for data gathering are likely to include:

- analysis of transactional claims data submitted to the program
- analysis of spend and budgetary impacts for the program as a whole
- formal and informal engagement with stakeholders through consultation, quality assurance, and audit and compliance projects
- analysis of communications inbound and outbound from the HSP Operations team
- assessments of clinical outcomes by HSP audiologists

### **Stakeholders**

Stakeholders that will be consulted with as a part of the evaluation will include:

- consumers
- practitioners
- service providers
- manufacturers
- consumer groups
- industry associations and peak bodies
- other relevant Australian and state government agencies

**Potential Questions**

Questions that the evaluation may address include:

- Has this change impacted clinical outcomes for consumers?
- How has this change affected the hearing services sector?
- Were there any unintended consequences for consumers, providers, manufacturers, or other stakeholders?
- How effectively was this change implemented? What lessons have been learned and opportunities for improvement identified?
- Did the change meet the expectations at the time it was proposed? Why or why not?
- Were the communications effective, understood, and appropriate for their audience?
- Did the hearing sector adjust to the new policy settings, and if so how?
- What impact did the Department's audit and compliance function have on the effectiveness of the implementation?
- Did this change affect the regulatory burden for business, and if so how?
- Have these new policy settings changed client's perceptions of the HSP?
- Have these new policy settings impacted the viability of businesses, or on thin markets?
- What have been the impacts on the broader community as a result of these new policy settings?

**Timeframe**

Many aspects of the evaluation are a continuation of current business-as-usual activities for the Operations and Audit and Compliance functions of the HSP. In addition to these, elements of the evaluation will be influenced by the planned consultations occurring ahead of the go-live date and in conjunction with the Hearing Review Taskforce program of work.

The Department will also evaluate these new policy settings as a part of its normal review process, which is broadly scheduled to take place every five years.

The full impacts of the new settings will not be understood until at least three years after go-live, as this has the effect of delaying the returning client population for two full years. It is proposed that the HSP completes formal annual reviews at the completion of each financial year until this date (July 2021, July 2022, July 2023, and July 2024), so that any interim evaluation results can be assessed and acted upon in a timely manner.

## Bibliography

1. **OECD.** Ministerial statement Next generation of health reforms OECD Health Ministerial Meeting. (p 6). *OECD*. [Online] January 17, 2017. [Cited: September 29, 2020.] <https://www.oecd.org/health/ministerial-statement-2017.pdf>.
2. **Department of Health.** Hearing Services. *Hearing Services*. [Online] Department of Health, September 1, 2020. [Cited: September 1, 2020.] <https://hearingservices.gov.au>.
3. —. Minimum Hearing Loss Threshold. *Hearing Services*. [Online] October 1, 2019. <http://www.hearingservices.gov.au/wps/portal/hso/site/about/legislation/contracts/mhlt/>.
4. —. Requesting a revalidated service. *Hearing Services*. [Online] Department of Health, April 6, 2020. [Cited: September 1, 2020.] [http://www.hearingservices.gov.au/wps/portal/hso/site/prof/deliveringservices/professionalsformsandpublications/requesting\\_a\\_revalidated\\_service/](http://www.hearingservices.gov.au/wps/portal/hso/site/prof/deliveringservices/professionalsformsandpublications/requesting_a_revalidated_service/).
5. —. Maintenance Agreement. *Hearing Services*. [Online] Department of Health, October 2019. [Cited: September 1, 2020.] [http://www.hearingservices.gov.au/wps/wcm/connect/hso+content/public/home/for+everyone/clientinfo/hearing\\_devices\\_available\\_through\\_the\\_program/maintenance\\_agreement](http://www.hearingservices.gov.au/wps/wcm/connect/hso+content/public/home/for+everyone/clientinfo/hearing_devices_available_through_the_program/maintenance_agreement).
6. —. Contracts. *Hearing Services*. [Online] Department of Health, October 1, 2019. [Cited: September 4, 2020.] <http://www.hearingservices.gov.au/wps/portal/hso/site/about/legislation/contracts/landingcontracts/>.
7. **Deloitte Access Economics.** Hearing for Life. *Hearing Care Industry Association*. [Online] March 30, 2017. [Cited: September 1, 2020.] [https://www.hcia.com.au/hcia-wp/wp-content/uploads/2020/02/Hearing\\_for\\_Life.pdf](https://www.hcia.com.au/hcia-wp/wp-content/uploads/2020/02/Hearing_for_Life.pdf).
8. **Department of Health.** Requesting a Revalidated Service. *Hearing Services*. [Online] Department of Health, December 1, 2019. [Cited: September 9, 2020.] [http://www.hearingservices.gov.au/wps/portal/hso/site/prof/deliveringservices/professionalsformsandpublications/requesting\\_a\\_revalidated\\_service/](http://www.hearingservices.gov.au/wps/portal/hso/site/prof/deliveringservices/professionalsformsandpublications/requesting_a_revalidated_service/).
9. —. Eligibility criteria for refittings. *hearing services*. [Online] Department of Health, October 1, 2019. [Cited: September 9, 2020.] [http://www.hearingservices.gov.au/wps/portal/hso/site/about/legislation/contracts/eligibility\\_refitting/](http://www.hearingservices.gov.au/wps/portal/hso/site/about/legislation/contracts/eligibility_refitting/).
10. **Deloitte Access Economics.** Social-and-Economic-Cost-of-Hearing-Health-in-Australia\_June-2017. *Hearing Care Industry Association*. [Online] June 1, 2017. [Cited: September 9, 2020.] [http://www.hcia.com.au/hcia-wp/wp-content/uploads/2015/05/Social-and-Economic-Cost-of-Hearing-Health-in-Australia\\_June-2017.pdf](http://www.hcia.com.au/hcia-wp/wp-content/uploads/2015/05/Social-and-Economic-Cost-of-Hearing-Health-in-Australia_June-2017.pdf).
11. **National Acoustics Laboratory.** *The provision of hearing aids and services globally*. Sydney : National Acoustics Laboratory, 2014.
12. **Department of Health.** Deed of Standing Offer. *Hearing Services*. [Online] Department of Health, July 1, 2020. [Cited: September 1, 2020.] [http://www.hearingservices.gov.au/wps/portal/hso/site/prof/manufacturers/deed\\_standing\\_offer%201jul2020/](http://www.hearingservices.gov.au/wps/portal/hso/site/prof/manufacturers/deed_standing_offer%201jul2020/), .
13. **Australian Competition Consumer Commission.** Consumer rights guarantees/warranties. *Australian Competition Consumer Commission*. [Online] Australian Competition Consumer Commission. [Cited: September 1, 2020.] <https://www.accc.gov.au/consumers/consumer-rights-guarantees/warranties>.
14. **Australian Bureau of Statistics.** *Employee Earnings and Hours, Australia, May 2018*. Canberra : Australian Bureau of Statistics, 2018.
15. **Department of Health.** Monash Modified Model. *Department of Health*. [Online] January 9, 2020. [Cited: September 8, 2020.] <https://www.health.gov.au/health-workforce/health-workforce-classifications/modified-monash-model>.
16. **Davis, A.** *The prevalence and distribution of hearing impairment and reported disability in the MRC Institute of Hearing Research's National Study of Hearing*. s.l. : Whurr, 1995.
17. *The Stigma of hearing gLoss*. **Wallhagen, Margaret I.** 1, s.l. : The Gerontologist, 2010, Vol. 50.
18. **Annie N Simpson, Lois J Matthews, Christy Cassarly, Judy R Dubno.** Time from Hearing-aid Candidacy to Hearing-aid Adoption: A Longitudinal Cohort Study. *National*

*Centre for Biotechnology Information*. [Online] May 2019. [Cited: September 8, 2020.] <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6363915/>.

19. **Department of Health**. Thematic Review of Commonwealth Hearing Services Legislation - Exposure Draft Consultation. *Hearing Services*. [Online] April 20, 2019. [Cited: September 1, 2020.]

[http://www.hearingservices.gov.au/wps/portal/hso/site/about/whoarewe/consultations/previous/thematic\\_review\\_of\\_commonwealth\\_hearing\\_services\\_legislation\\_exposure\\_%20draft\\_%20consultation/](http://www.hearingservices.gov.au/wps/portal/hso/site/about/whoarewe/consultations/previous/thematic_review_of_commonwealth_hearing_services_legislation_exposure_%20draft_%20consultation/).

20. —. Thematic Review of Commonwealth Hearing Services Legislation. *Hearing Services*. [Online] April 2018. [Cited: September 1, 2020.]

[http://www.hearingservices.gov.au/wps/portal/hso/site/about/whoarewe/consultations/previous/thematic\\_review\\_of\\_commonwealth\\_hearing\\_services\\_legislation/](http://www.hearingservices.gov.au/wps/portal/hso/site/about/whoarewe/consultations/previous/thematic_review_of_commonwealth_hearing_services_legislation/).

21. —. Provider Transition. *Hearing Services*. [Online] October 1, 2019. [Cited: September 1, 2020.]

[http://www.hearingservices.gov.au/wps/portal/hso/site/prof/deliveringservices/lp\\_providertransition/lp\\_providertransition/](http://www.hearingservices.gov.au/wps/portal/hso/site/prof/deliveringservices/lp_providertransition/lp_providertransition/).

22. **Commonwealth Government**. Hearing Services Program (Voucher) Instrument 2019. *Federal Register of Legislation*. [Online] October 1, 2019.

<https://www.legislation.gov.au/Details/F2020C00678>.

23. **Hearing Care industry Association**. Hearing for life. *Hearing Care Industry Association*. [Online] March 3, 2020. [Cited: July 2020, 16.] [https://www.hcia.com.au/hcia-wp/wp-content/uploads/2020/02/Hearing\\_for\\_Life.pdf](https://www.hcia.com.au/hcia-wp/wp-content/uploads/2020/02/Hearing_for_Life.pdf).

24. **Report Linker**. Hearing Aid Devices and Equipment Global Market Report 2020-30: Covid 19 Impact and Recovery. *Report Linker*. [Online] September 17, 2020. [Cited: September 21, 2020.] [https://www.reportlinker.com/p05967833/Hearing-Aid-Devices-And-Equipment-Global-Market-Report-30-Covid-19-Impact-and-Recovery.html?utm\\_source=GNW](https://www.reportlinker.com/p05967833/Hearing-Aid-Devices-And-Equipment-Global-Market-Report-30-Covid-19-Impact-and-Recovery.html?utm_source=GNW).

## Voucher Program Framework - Appendix 1

### Voucher program framework

The current framework for the Voucher stream of the HSP enables eligible clients to receive a Voucher every three years. Clients can only receive hearing services during their current Voucher period. A Voucher entitles the client to receive one full hearing assessment and one hearing aid per ear if the client's hearing loss is above the Minimum Hearing Loss Threshold (MHLT). This effectively separates clients into two cohorts.

Clients whose level of hearing impairment is below the MHLT and following their hearing assessment can only receive up to two rehabilitation sessions until their next Voucher. Clients whose level of hearing impairment is equal to or above the MHLT can receive a hearing aid, maintenance and repair services for their hearing aid and an annual review of their hearing loss and hearing aid. Clients may seek a hearing aid replacement if they are lost or damaged beyond repair as often as needed.

The HSP uses a secure online web portal called Hearing Services Online (2) to allow clients and contracted hearing service providers to submit applications to join the Voucher stream of the HSP. New clients simply need to submit their details to pass an online eligibility check. For existing clients, their hearing service provider can submit an online request to obtain a new Voucher for the client if they meet the eligibility requirements and their Voucher has expired. In either case a Voucher can be issued within a couple of minutes.

After a client has been assessed and received a hearing aid fitting there are circumstances where a client may experience a sudden increase in their level of hearing impairment. These cases are rare and there is a special mechanism in the HSP where the client's hearing service provider can submit a request to obtain a revalidated service (4). Where the client's clinical evidence supports it the Department can authorize specific services that are required to ensure the client can continue to use hearing aids that are appropriate to their level of hearing impairment.

### **Maintenance services**

The Voucher stream of the HSP is setup to enable clients to choose if they want to enter a maintenance agreement (5) with their hearing service provider. Maintenance agreements are where, for an annual fee, the client's service provider will supply them with batteries, and service and repair the client's hearing device(s) for 12 months. The client pays an up-front fee of \$47.25 directly to their hearing service provider and the Commonwealth also pays between \$77.86 for one device and up to \$206.33 for two devices. This annually indexed amount is currently capped at \$47.25 and is regulated by the program's Schedule of Service Items and Fees. Service providers cannot ask the clients to pay a higher amount. Some Service providers choose to waive part or all of this fee.

Clients can also choose to purchase a partially-subsidised hearing device where they pay the difference between the average government subsidy (\$485.85) and the retail cost of the device. In these circumstances the client co-payment for the cost of batteries and maintenance is based on an agreed cost between the client and their service provider. Clients with partially-subsidised devices can negotiate their annual device maintenance fee with their service provider. The HSP pays Service providers the standard amount towards the cost of maintaining clients' devices as per the Schedule, regardless of whether the device is a fully-subsidised or partially-subsidised device.

Service providers are required under the contract (6) for the Voucher stream of the HSP to inform clients of the hearing device cost and warranty conditions when they quote for a partially-subsidised hearing device. Most partially-subsidised hearing devices have a longer warranty of up to three years compared to the standard one year warranty of fully-subsidised hearing devices. Although manufacturers will repair and replace defective hearing devices in the warranty period, clients with a partially-subsidised hearing device will usually pay a higher co-payment for their annual maintenance agreement than clients who have a fully-subsidised hearing device.

When a client moves from one service provider to a new service provider then the Department makes a further payment for hearing device maintenance of \$125.11 for one device and \$253.58 for two devices to the new service provider. The client does not need to make another co-payment until their existing maintenance agreement expires. The old service provider is not required to return any pro-rata amount of government funding paid for maintenance services.

All hearing devices supplied in the HSP are required to have a manufacturer's warranty of at least one year under the terms of the Deed of Standing Offer between the Commonwealth and Hearing Device Manufacturers (12). This agreement replicates some of the seller's responsibilities under Australian Consumer Law (ACL) (13) that if the goods are defective, the business will repair or replace the product. The ACL specifies that it is the supplier's responsibility to pay the cost of repairs and if necessary replacement of the product.

Under the ACL, automatic consumer guarantees apply to products and services sold for less than \$40,000, including hearing aids. The existing arrangements for the supply of hearing devices through the HSP, and in line with Australian consumer competition law, hearing devices are covered by a 12 month warranty from the date of supply.

All hearing devices available in the Voucher stream of the HSP need to meet a set of minimum device specifications. This is set out in the Deed of Standing Offer (12), which governs the relationship between manufacturers and suppliers of hearing devices and the Commonwealth. Schedule 2 requires suppliers to warrant devices as being free from defects in design, materials and workmanship for a minimum period of 12 months commencing from the date of supply.

The Deed requires suppliers to warrant devices for a minimum period of 12 months from the date of supply. During that 12 month period, the supplier must remedy any defects in devices that are due to design, workmanship, or stream failure at no additional cost. Suppliers are also required to remake any devices at no charge within 90 days of the date of supply, if it is required for the proper fitting of the device.

Service providers are expected to cover the cost of consumables (spare rechargeable batteries, domes, tubes, cleaning kits, ear mold repairs, ear hooks, receivers and replacement battery doors) from the payment for the device, any warranty cover and the client's co-contribution to batteries and maintenance.

## Regulatory Burden Estimate (RBE) Table - Appendix 2

Table 8: Aggregate average regulatory costs

Average Annual Regulatory Costs (from business as usual) over ten years				
Change in Costs (\$m)	Business	Community Organisations	Individuals	Total change in cost
<b>Total by Sector</b>	\$0.415	\$0	\$0	\$0.415

Source: HSP, September 2020.

### Are all new costs offset?

Yes, costs are offset, ***please provide information below***

Deregulatory, no offsets required

**Total (Change in costs - cost offset) (\$ million):** \$4.15m

### What are the offsets for increases in regulatory costs associated with this proposal?

Following consultation within the portfolio, no regulatory offsets were able to be identified.

### Regulatory impacts of changes to the Voucher stream of the HSP

Both Option 2 and Option 3 will require the same regulatory changes for both hearing service providers and qualified practitioners. These changes are summarized below:

- IT systems updates to accommodate changes in claims processing, allowing for a single claim for an initial fitting service that will also cover maintenance costs for the first 12 months of a device's life
- Changes to business practices to allow for a single claim for an initial fitting service that will also cover maintenance costs for the first 12 months of a device's life, as well as adapt their business plans to incorporate the Australian Government's shift from an upfront 12 month maintenance payment to quarterly payments
- Service providers will likely need to communicate to their customers that the Voucher period has been extended to five years and will need to amend existing communication products to reflect the proposed changes
- Businesses will have to provide training to clinical and administrative staff regarding the changes to the HSP and their internal IT changes and business systems changes, and
- Businesses will need to ensure their standard operating procedures and training manuals are updated to reflect the changes to the HSP.
- Hearing device manufacturers will need to provide additional existing information on hearing devices to the Department through the Hearing Services Online Portal. All future hearing devices will also need to include this information.

The estimated regulatory cost to business is identified in Table 9 below.

*Table 9: Estimated cost for the hearing Industry to adopt changes to the five year Voucher period and maintenance payments.*

Activity	Number of businesses	Average number of staff	Number of times activity performed	Avg time of each staff to do activity (hrs)	Labour cost (\$/hr) [wage + non-wage cost rate)	Total cost per activity (rounded to the nearest \$'000)
Amend business models <sup>1</sup>	308	3	1	50	31.55	\$1,458,000
Change IT systems <sup>2</sup>	50	2	1	100	174.00	\$1,740,000
Train practitioners <sup>3</sup>	308	9.3	1	3	50.78	\$436,000
Train staff	308	16.7	1	3	31.55	\$487,000
Update the device register <sup>4</sup>	22	1	1	5	50.78	\$8,000
Maintain the device register <sup>4</sup>	22	1	1	1.8	50.78	\$20,000
<b>Total</b>	<b>308</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>\$4,149,000</b>

Source: HSP, September 2020.

These costings are based on the following assumptions:

1. 308 businesses are registered in the Voucher stream of the HSP. On average 3 staff per business spend approximately 50 hours each to modify the existing business processes. They are administrative staff and earn \$31.55 per hour (14) based on the average weekly earnings for Clerical and Administrative workers and including a 16 per cent non-wage labour cost stream.  $[308 \times 3 \times 50 \times \$31.55 = \$1,457,610]$ .
2. Since the majority of businesses use off-the-shelf software we have estimated that the number of businesses who have to update their software at around 50. Assuming two IT staff member updates the IT systems once and spends 100 hours to do so at a rate of \$174.00 per hour.  $[50 \times 2 \times 100 \times \$174.00 = \$1,740,000]$ .
3. 308 businesses are registered in the Voucher stream of the HSP. It is assumed that businesses will train all their Audiologists and Audiometrists, (there is currently a total of 2,869 registered qualified practitioners in the HSP), once with a three hour session on the changes to the Voucher system. They are estimated to earn \$50.78 per hour (14) based on the average weekly earnings for Professionals and including a 16 per cent non-wage labour cost stream.  $[308 \times 9 \times 3 \times \$50.78 = \$422,286]$ .
4. 308 businesses are registered in the Voucher stream of the HSP. It is assumed that businesses will train their remaining administrative staff, (Total estimated staff = 8,010 [based on an average of 2.5 staff per site] minus the 2,869 registered qualified practitioners in the HSP), once with a three hour session on the changes to the Voucher system. They are estimated to earn \$50.78 per hour (14) based on the average weekly earnings for Professionals and including a 16 per cent non-wage labour cost stream.  $[308 \times 16.7 \times 3 \times \$31.55 = \$486,842]$ .

5. The 22 registered hearing device manufacturers will need to update the HSP device schedule. On average it is assumed that one staff member will spend five hours to update the device register. Based on the existing 2,000 devices and spending five minutes per device for the update. They are estimated to earn \$50.78 per hour (14) based on the average weekly earnings for Professionals and including a 16 per cent non-wage labour cost stream.  $[22 \times 1 \times 5 \times \$50.78 = \$6,000]$ . Since 645 or 33 per cent of devices were added to the device register in 2019-20, the estimated costs is about \$2,000 per year.

## The Australian Hearing Services Market - Appendix 3

The Australian Hearing services market is estimated to represent less than 6 per cent of the global hearing aid market<sup>1</sup>. This size reflects the total revenues generated through the provision of hearing services (e.g. assessment, fitting, audiological case management, rehabilitation, and maintenance) and hearing devices, excluding assistive listening devices. Revenue within the Australian hearing services market are split according to whether they are sourced through public programs (i.e. funded by government) or the private market.

At a high level, the 'markets' which provide hearing services are:

- Voucher – a stream of the HSP that provides subsidised hearing services and devices to eligible clients through 308 contracted Hearing Service Providers (providers), including Hearing Australia, and 22 device manufacturers. The Voucher serves eligible clients who represent predominantly pension concession cardholders. Services and devices can be provided at one of 3,204 sites across metropolitan, regional, and rural/remote Australia. The Voucher is estimated to service 47.4 per cent of the hearing services market in Australia in FY2019-20.
- CSO – a stream of the HSP that provides subsidised hearing services and devices and is delivered by Hearing Australia. Eligible clients for this service include individuals under 26 years of age, those with complex hearing, those living in remote areas, Aboriginal and Torres Strait Islander people. The CSO represented a 6.5 per cent share of the market in FY2019-20.
- Private market – customers pay for services and devices at their market price, with services and devices provided by private market participants, some of which are service providers in the Voucher stream. The private market is estimated to service 21.4 per cent of the market in FY2019-20.

There are a number of other government supported programs which provide access to hearing services, such as claimable items on the MBS and state and territory based workers' compensation schemes, cochlear implants, GP, specialist and outpatient visits as well as imaging, pathology and pharmaceuticals.

*Table 10: Estimated Health system costs for Hearing Services, Australia, 2019-20.*

Stream	Estimated expenditure (\$m)	Per cent of Total Expenditure
Admitted hospital	17.7	1.8%
Outpatient	25.7	2.7%
General Practitioners	12.5	1.3%
Cochlear Implants	52.4	5.4%
Voucher	457.4	47.4%
Community Service Obligations	62.6	6.5%
Hearing aids: private	206.9	21.4%
Other health professionals	46.0	4.8%
Research	18.6	1.9%
Specialists	41.6	4.3%
Pharmaceuticals	0.2	0.0%
Pathology and imaging	2.1	0.2%
Unallocated	21.9	2.3%
<b>Total</b>	<b>965.6</b>	<b>100.0%</b>

Source: HSP, and Hearing Care Industry Association, 2020.

<sup>1</sup> Based on the market size identified by HCIA (23), the cost of hearing aids supplied in the HSP in 2019-20 and a recent global market report for hearing aids (24).

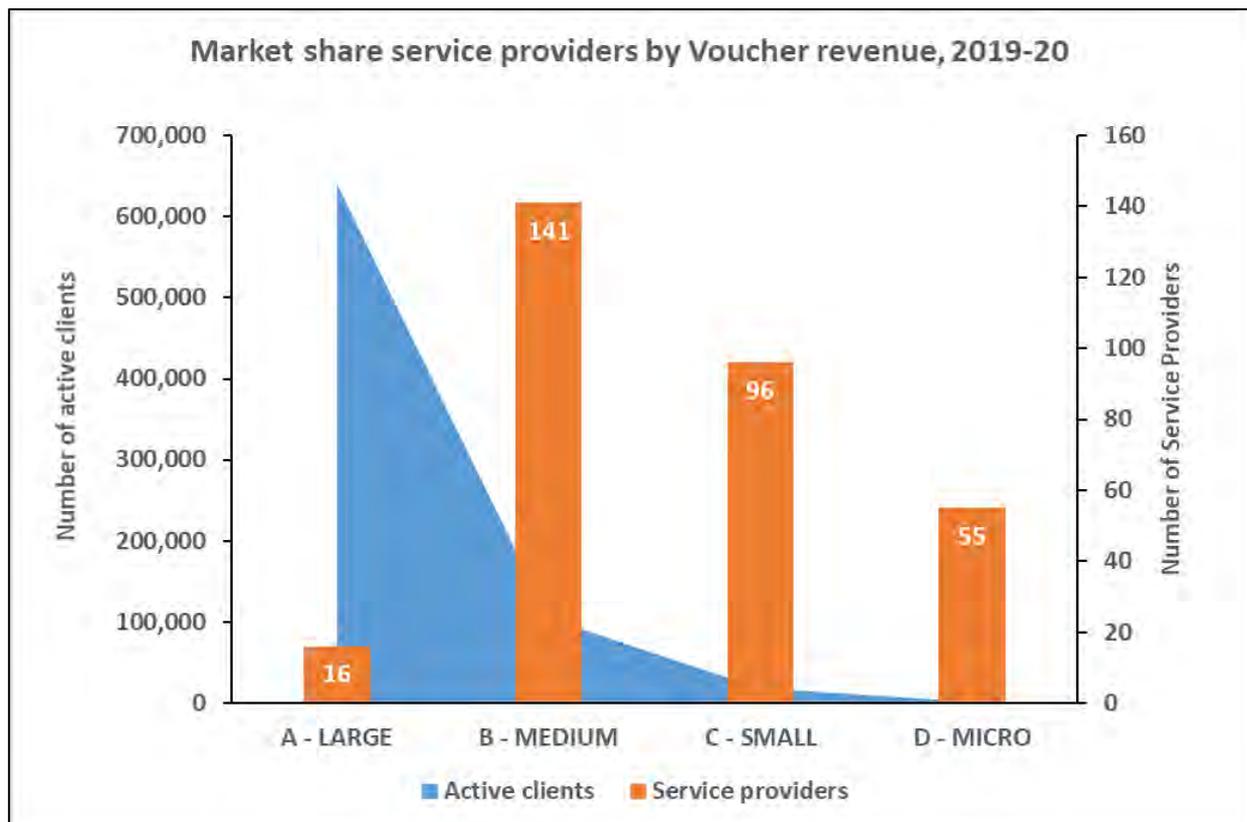
The private hearing services industry in Australia is unregulated. The hearing industry has only recently begun to develop professional clinical standards for the delivery of hearing services. These are:

- Hearing Service Delivery Framework
- Scope of Practice
- Code of Conduct

Hearing loss is deemed to be a low risk condition and the Australian Health Practitioner Regulation Agency has determined that the hearing industry does not need to be included within its regulatory framework. In this environment the role of the Australian Government in the hearing industry is to establish and maintain the regulatory framework for the provision of hearing services in the HSP. The Australian Government funds the provision of hearing services through the HSP to the most disadvantaged population cohorts in the Australian community.

Hearing services in the Voucher stream of the HSP is dominated by a small number of major players. In 2019-20, the current profile of hearing service providers indicated that the market is highly vertically integrated with the sixteen largest hearing service providers delivering services to 84 per cent of 751,052 total clients and the remaining 292 service providers delivering services to the remaining 16 per cent of clients (see Figure 12).

Figure 12 - Service provider market share by Voucher revenue and clients, 2019-20.



Source: HSP, September 2020.

Table 11: 2019-20 hearing service provider profile – Voucher stream of the HSP.

Business size	Classification of revenue from Voucher	Total provider count	Total Voucher clients	Total number services	Total revenue	Average revenue per business
Large	> \$2m	16	640,648	1,181,987	\$379,629,559	\$23,726,847
Medium	> \$200k & <\$2m	141	104,167	208,976	\$65,339,709	\$463,402
Small	>\$50k & <\$200k	55	18,815	35,876	\$11,648,165	\$211,785
Micro	<\$50k	96	1,729	2,805	\$1,040,016	\$10,834
<b>Grand Total</b>		<b>308</b>	<b>765,359</b>	<b>1,429,644</b>	<b>\$457,657,450</b>	<b>\$1,485,901</b>

Source: HSP, September 2020.

The largest two service providers account for over 45 per cent of market share. Hearing Australia was the largest service provider, representing almost one-third of all hearing services provided.

Table 12: Largest 10 service providers by number of financially active Voucher clients (FY2019-20, by payment year)

Name of CSP	Financially active clients serviced (FY2019-20, % of total)
Hearing Australia	27.0%
National Hearing Centres	19.1%
Audika Australia	11.3%
Bay Audio	5.0%
Active Hearing	4.6%
Sonic Innovations	4.1%
Sonova	3.8%
Specsavers	2.4%
Attune Hearing	1.8%
Neurosensory	1.1%

Source: HSP, September 2020.

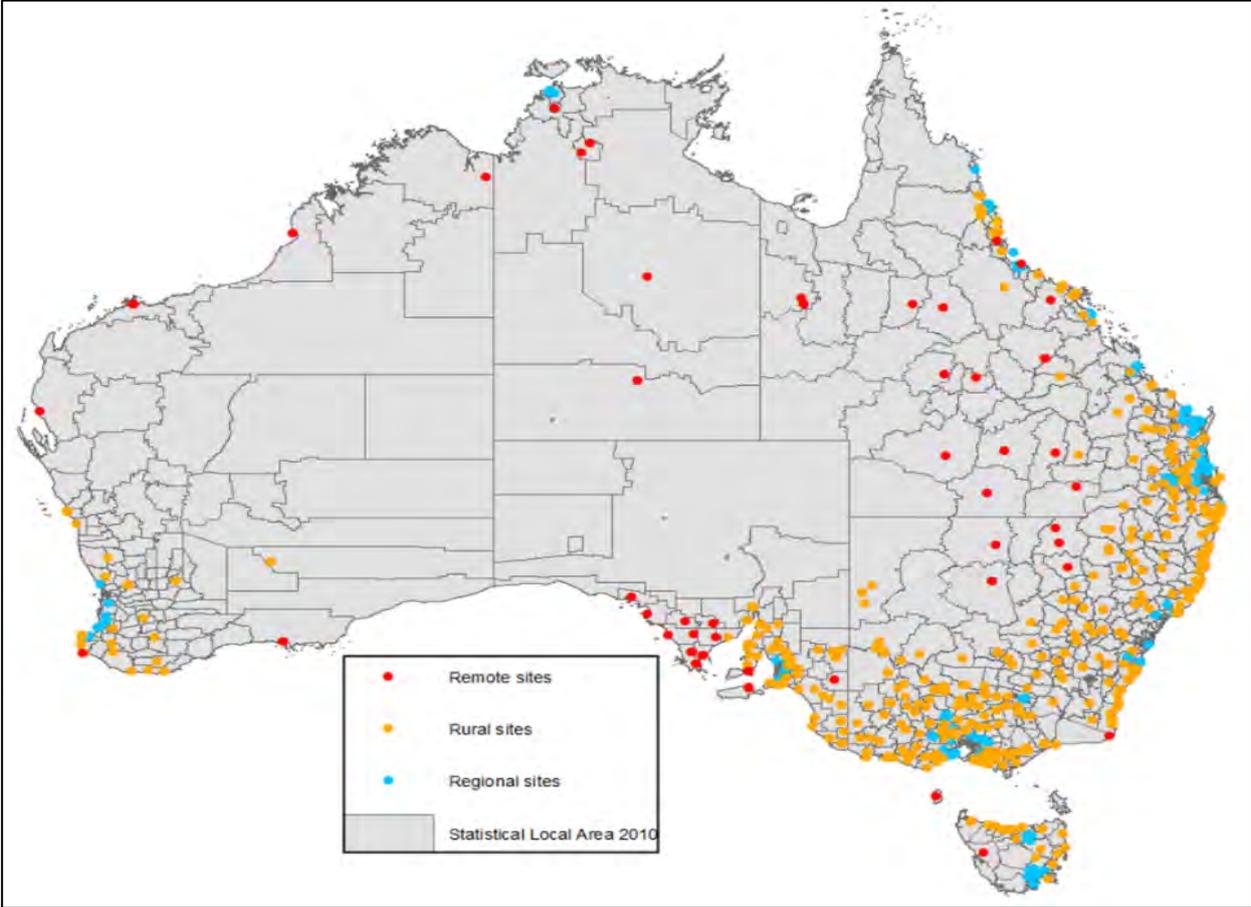
Hearing service providers employ audiologists and audiometrists to provide clinical services to Voucher clients. The large hearing service providers operate via a national network of hearing centres and/or have a large regional area which they cover.

The majority of clients who join the Voucher stream of the HSP do so with the help of a service provider. After a service provider delivers a hearing service to a Voucher client they can claim for the hearing service under a set schedule of fees and services. All hearing services are linked to a client's current Voucher, so once it expires a client can no longer receive hearing services. Service providers can still claim for hearing service provided during the Voucher period.

To obtain a new Voucher, the service provider undertakes an online eligibility check and if successful, the Voucher is issued to the service provider immediately.

Examination of the geographic spread of hearing service providers across Australia using the Department’s standard geographic classification system, the Modified Monash Model (15) indicates that the spread of provider business sites in regional, rural and remote areas concentrates in areas with high HSP client populations.

Figure 13 - Distribution of Voucher service provider sites in regional, rural and remote areas, 2019-20.



Source: HSP, September 2020.

Table 13: Hearing Service Provider Profile by Modified Monash Model classification, 2019-20.

Business site type	Service provider Modified Monash Model classification	Total Voucher revenue (\$)	Number of clients	Average cost per client (\$)	Number hearing sites	Average clients per site
Permanent site	1-Metropolitan	\$376,242,409	646,669	\$581.82	1,642	394
	2-Regional centres	\$11,896,670	19,815	\$600.39	49	404
	3-Large rural towns	\$7,539,662	13,611	\$553.94	54	252
	4-Medium rural towns	\$2,214,323	3,776	\$586.42	17	222
	5-Small rural towns	\$189,938	310	\$612.70	2	155
	6-Remote communities	\$246,239	385	\$639.58	2	193
<b>Permanent site Total</b>		<b>\$398,329,241</b>	<b>684,566</b>	<b>\$581.87</b>	<b>1,766</b>	<b>388</b>
Visiting site	1-Metropolitan	\$52,485,872	102,187	\$513.63	1,898	54
	2-Regional centres	\$4,342,144	7,499	\$579.03	155	48
	3-Large rural towns	\$1,526,992	2,902	\$526.19	71	41
	4-Medium rural towns	\$833,815	1,463	\$569.93	44	33
	5-Small rural towns	0	0	0	0	0
	6-Remote communities	\$147,164	213	\$690.91	8	27
<b>Visiting site Total</b>		<b>\$59,335,987</b>	<b>114,264</b>	<b>\$519.29</b>	<b>2,176</b>	<b>53</b>
<b>Grand Total</b>		<b>\$457,665,228</b>	<b>798,830</b>	<b>\$572.92</b>	<b>3,942</b>	<b>203</b>

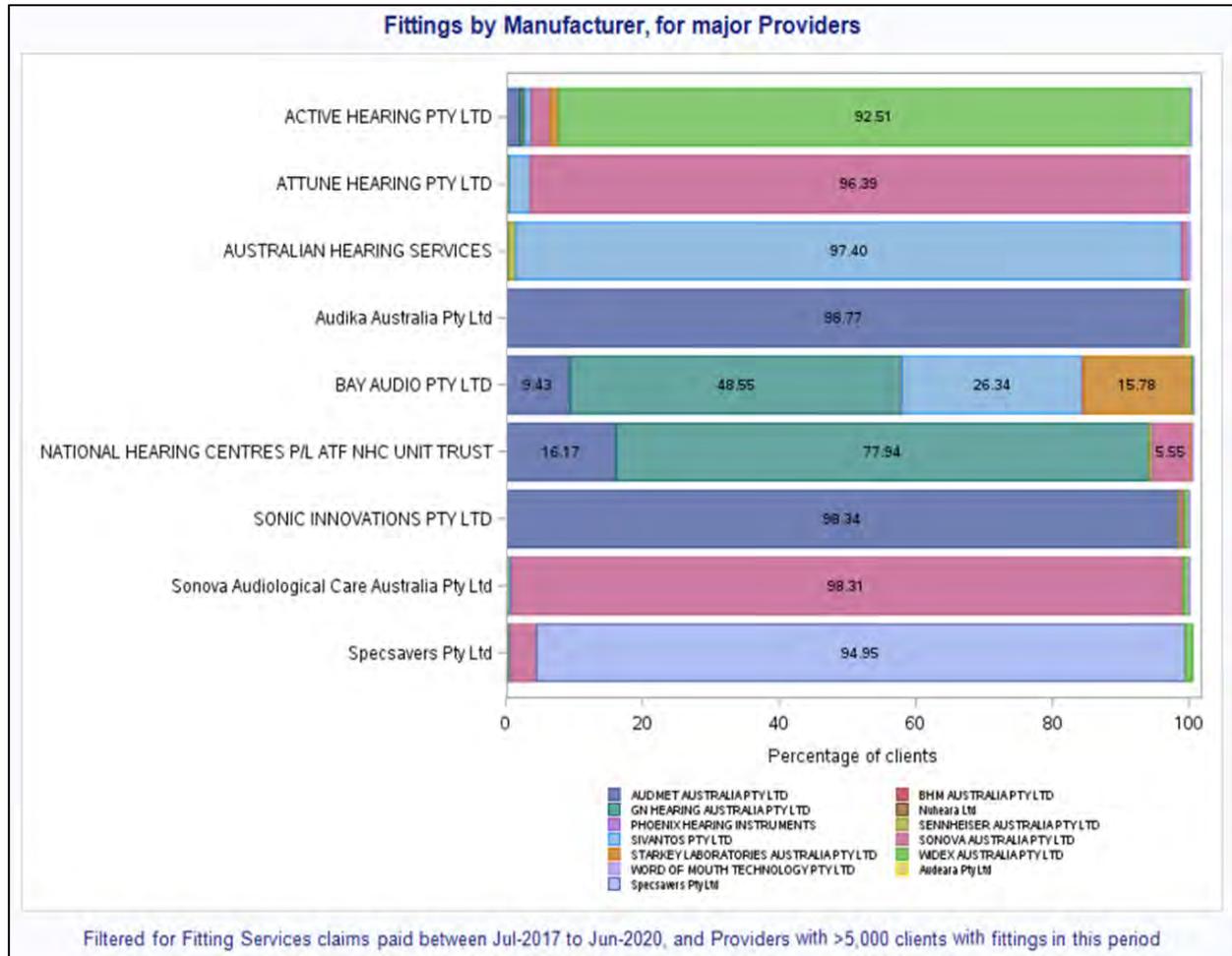
Source: HSP, September 2020.

Hearing devices supplied to the Australian market is dominated by global players, reflecting the trend of consolidation in the global hearing aid industry. As such, most hearing devices supplied to the Australian market are sourced from a limited number of hearing device manufacturers, which include:

- GN ReSound
- Oticon
- Sivantos
- Sonova
- Starkey
- Widex.

There is evidence of vertical integration of the market with hearing aid manufacturers owning hearing service providers. About 30 per cent of businesses who deliver services in the Voucher stream of the HSP are directly owned by a manufacturer. However most hearing service providers enter into an exclusive supply arrangement with a single hearing device manufacturer. Figure 14 below illustrates these arrangements for the largest hearing service providers.

Figure 14 - Distribution of hearing aid fittings by device manufacturer for major hearing service providers, July 2017 to June 2020.



Source: HSP, September 2020.

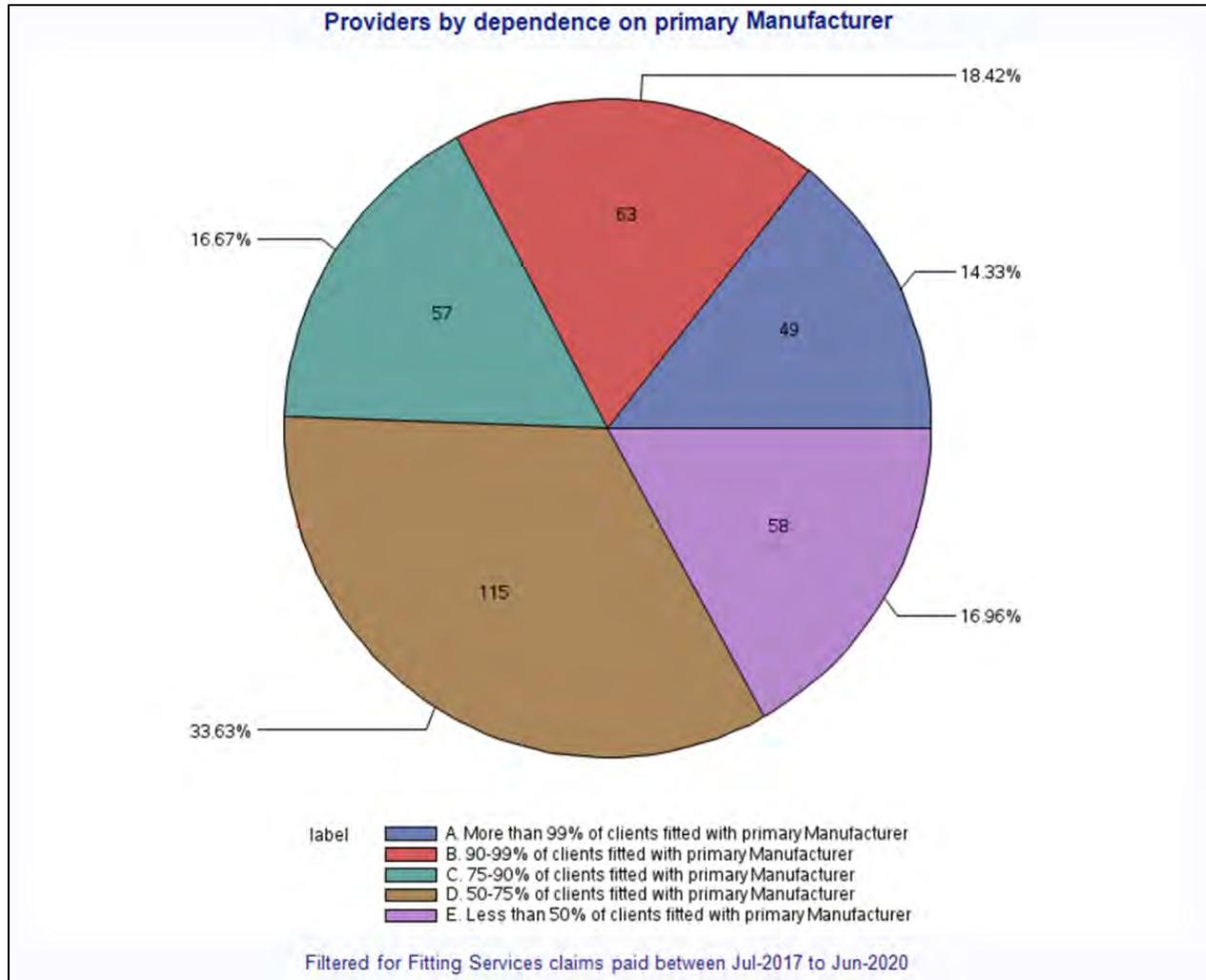
This demonstrates that only two of the top nine providers (Bay Audio and National Hearing Centres) are not considered to be vertically integrated. It also demonstrates that there is no monopoly or duopoly amongst manufacturers, but instead there are multiple market players with a significant share of the market.

To ascertain the level of vertical integration between providers (retailers) and device manufacturers, all the device fittings for the past three financial years (FY17-18, FY18-19, and FY19-20) have been reviewed in line with the three-year Voucher length.

Each provider has been classified, based on the percentage of their total fitted clients that were fitted with that provider’s most common Device manufacturer. For the purposes of this analysis, if more than 90 per cent of clients were fitted with the same manufacturer’s product then it is considered an example of vertical integration.

Figure 15 below shows that of the 284 providers who fitted at least one device in this three-year period, 112 (39 per cent) demonstrated vertical integration with a single provider.

Figure 15 - Hearing Service Providers dependence on a primary hearing aid manufacturer by percentage of clients fitted with hearing devices, July 2017 to June 2020.



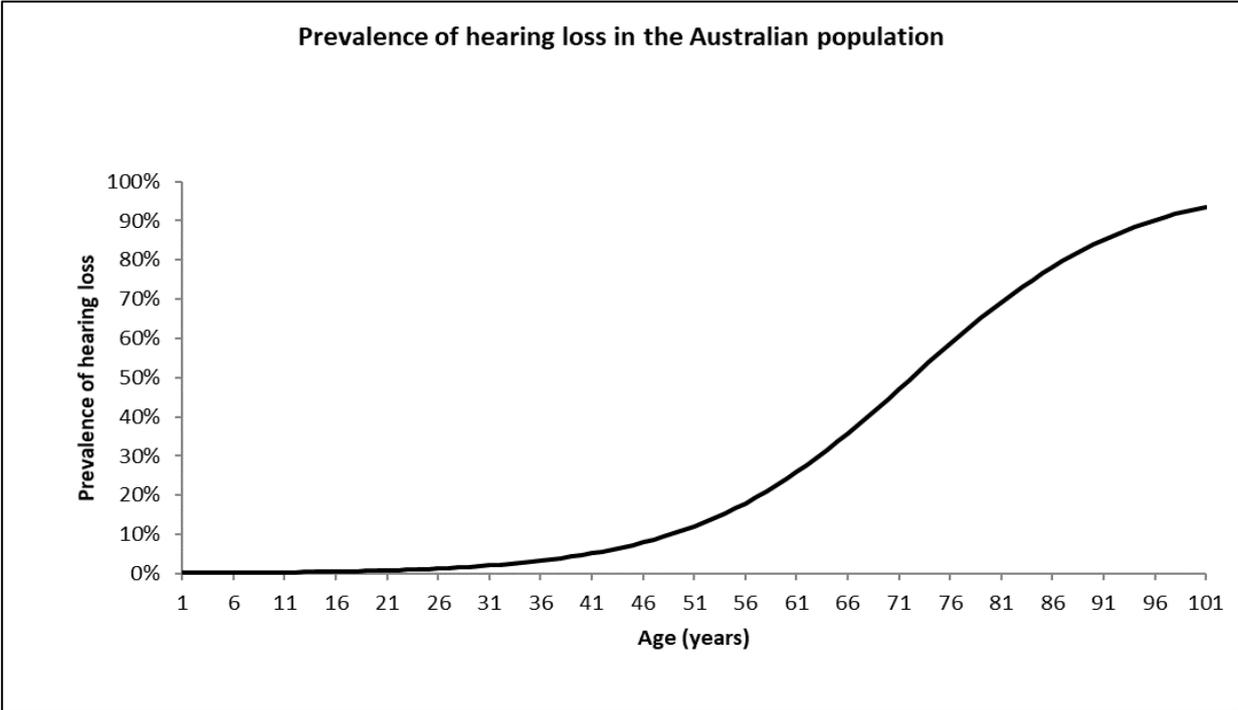
Source: HSP, September 2020.

Looking at all hearing service providers reveals that only 17 per cent of service providers had less than 50 per cent of their clients fitted from a primary hearing device manufacturer.

**Demand for hearing services**

Australia’s population is ageing and in 2019-20 an estimated 3.95 million Australians (15.3 per cent) had some form of hearing impairment (7). Using a large population study based (16) in the UK, it is possible to estimate the prevalence of hearing loss in Australia. Figure 16 illustrates this model.

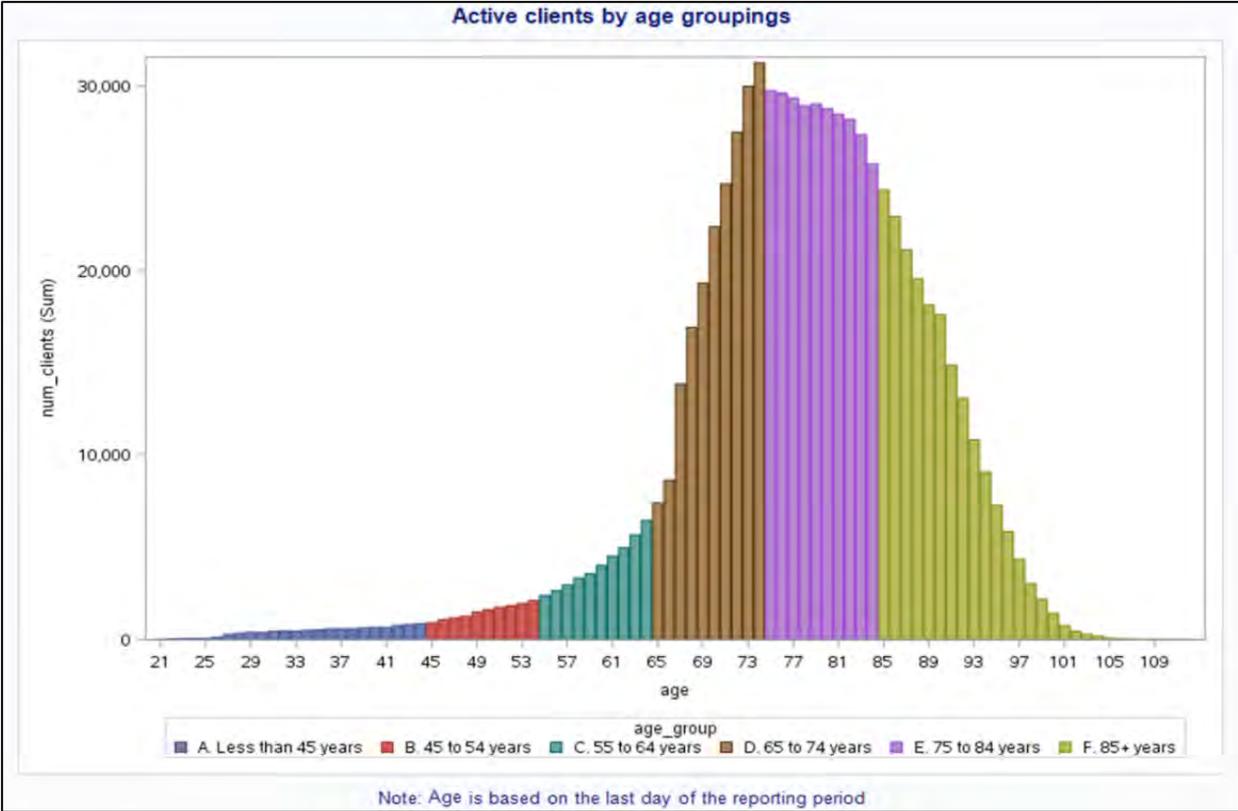
Figure 16 -Model of the prevalence of hearing loss in the Australian population



Source: HSP, September 2020.

As hearing loss is mostly an age-related condition and client eligibility for the Voucher stream of the HSP is based on access to specific government benefits such as the Pensioner Concession Card, the largest cohort of clients are age pensioners. Figure 17 below shows the age distribution of active Voucher clients in 2019-20.

Figure 17 - Active Voucher client by age group, 2019-20.



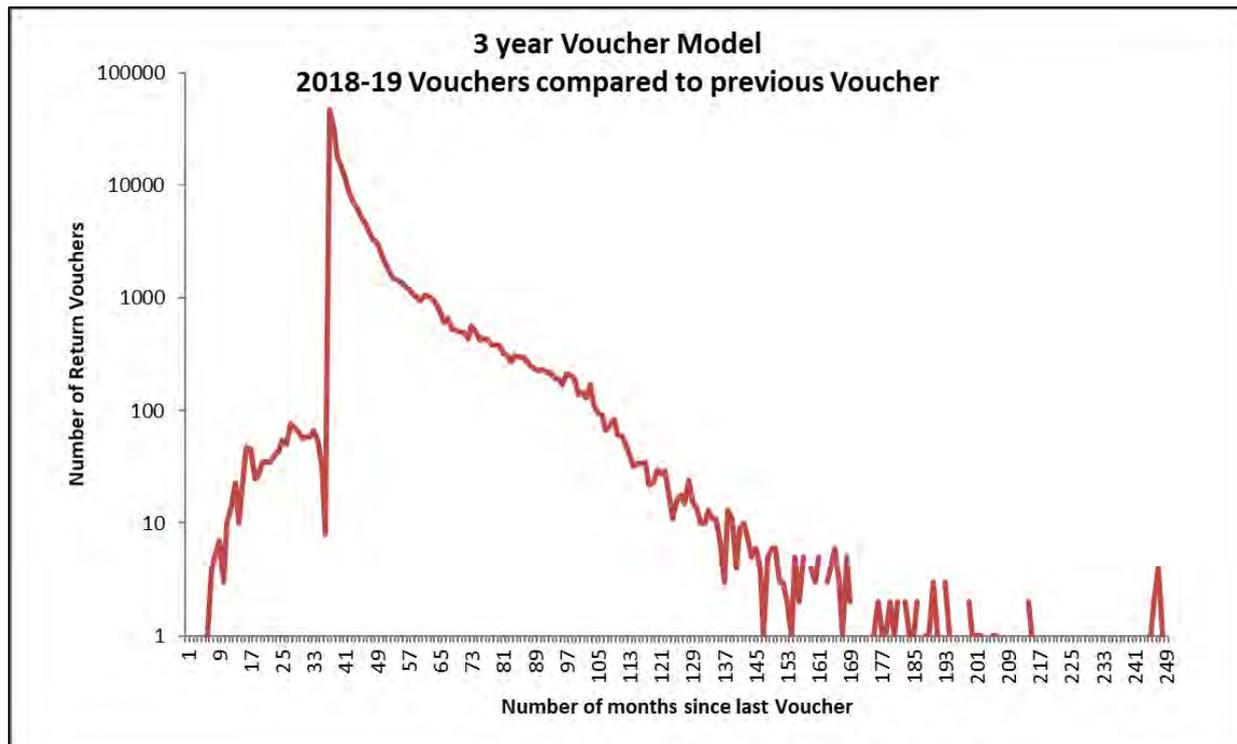
Source: HSP, September 2020.

As of 30 June 2020, 1.28 million clients were registered in the HSP. The average age of Voucher clients is 78 years. More than 90 per cent of Voucher clients are aged 65 years and over. Australia has an ageing population and the number of people with hearing impairment is expected to grow by 12 per cent to 4.88 million by 2030 (7).

### **Current regulatory framework**

Under the current three year Voucher period, clients do not automatically return every three years for their next Voucher.

*Figure 18 - Time (months) between Return Voucher issued in 2018-19 compared to previous Voucher issue date.*



Source: HSP, March 2020.

Figure 18 indicates that the current peak for return Vouchers occurs just after the three year expiry date of the previous Voucher. Approximately 80 per cent (182,247) of clients receive a return Voucher less than five years after their previous Voucher. Only 0.5 per cent (1,089) of clients needed to seek access to revalidated services due to sudden changes in their clinical hearing needs.

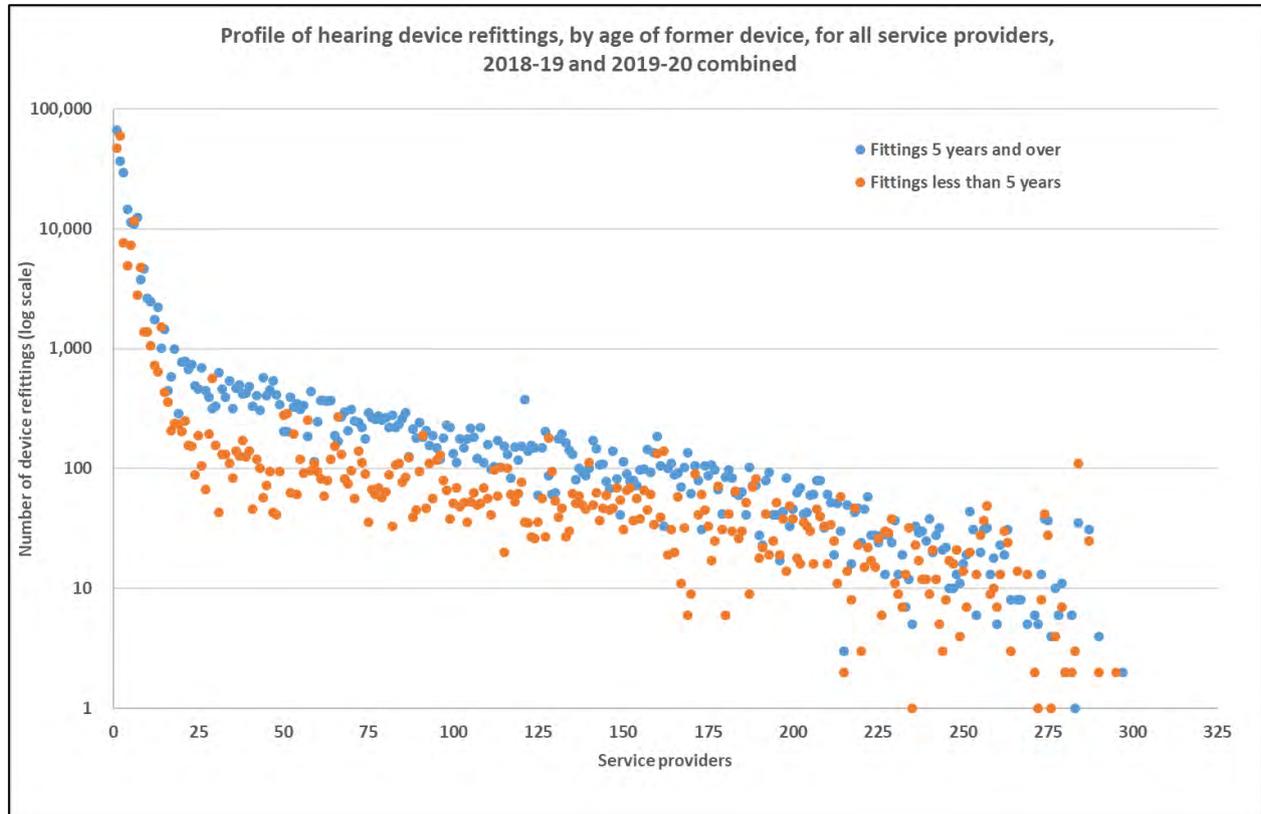
Research into the stigma of hearing loss (17) has found that perceived stigma influenced decision-making processes at multiple points along the experiential continuum of hearing loss, such as initial acceptance of hearing loss, whether to be tested, type of hearing aid selected, and when and where hearing aids were worn. Similar research has also found that adults with hearing loss significantly delay seeking treatment with hearing aids (18).

Examination of the time period between Voucher issue dates in Figure 18 reveals that the client population is broken up into different population cohorts:

- Clients who experience a sudden deterioration in their hearing are able to receive a revalidation of hearing services and receive a new Voucher before their current three Voucher is due to expire. (Up to three years).
- Clients who come back when their Voucher expires after three years and receive their new three year Voucher. (Between three and five years).
- Clients who come back after the natural lifespan of their hearing aids ends on five years to receive a new three year Voucher. (Five years and older).

A significant issue in the current framework is that the Voucher period enables hearing service providers to fit clients with hearing devices before the five year lifespan of a hearing device has expired. Examining this pattern across all 308 service providers in Figure 19 indicates that effectively all service providers are engaging in this behaviour.

Figure 19 - Profile of hearing device refits, by age of former device, 2018-19 and 2019-20 combined.



Source: HSP, September 2020.

New clients joining the Voucher stream of the HSP since the recent changes to combine the five existing legislative instruments into a single instrument, the *Hearing Services Program (Voucher) Instrument 2019*, on 1 October 2019 (19) resulted in growth of 11,624 (8 per cent) new clients in 2019-20. Modelling of new clients, excluding the impact of Covid-19 indicates that client growth is expected to continue in the Voucher stream of the HSP (see Figure 20).

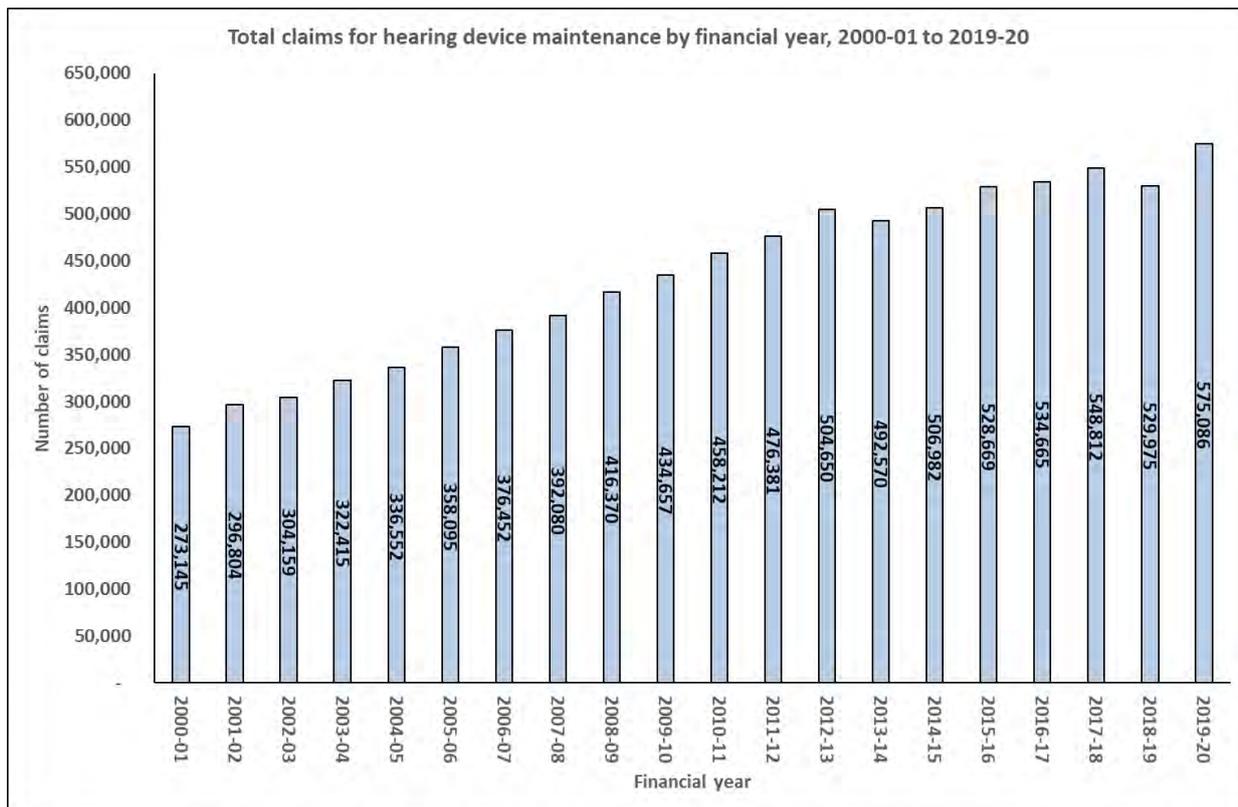
Figure 20 - Forecasts of new Vouchers, 2016-17 to 2023-24.



Source: HSP, September 2020.

The vast majority of clients (95 per cent) who have a hearing device choose to enter into a maintenance agreement with their hearing service provider. Figure 21 illustrates the demand for maintenance services which has grown in line with the growth in clients in the Voucher stream of the HSP.

Figure 21 - Client demand for device maintenance services, 2000-01 to 2018-19 by financial year.



Source: HSP, December 2020.

Clients understand that in order to receive hearing aid maintenance and batteries they contribute by making a small annual co-payment to the cost of these services (\$47.25 in 2020-21). The Department does not inform clients of the Government subsidies for maintenance services so clients are unaware of the total payment made to service providers for the cost of maintenance and batteries for their hearing aids.

## Previous Voucher Program reforms - Appendix 4

In July 2010 a Minimum Hearing Loss Threshold (MHLT) (3) of 24 decibels on a three frequency average for fitting of hearing aids was introduced to Voucher clients. To ensure that clients were not unduly disadvantaged by the change a set of exemption criteria was established after consultation with the hearing industry. These criteria set out that clients with high frequency hearing loss, tinnitus or who were highly motivated to continue using their existing hearing aids were permitted to obtain a new hearing aid.

On 1 January 2012 the HSP extended the Voucher period from two to three years. This meant that new clients who joined after this date would start with a three year Voucher and existing clients would be issued with a three year Voucher when their existing Voucher expired. To ensure that clients would continue to have their hearing loss monitored the scope of an existing service for adjusting hearing aids was changed to enable clinicians to undertake an annual review of a client's hearing loss and adjust their hearing aids.

The Department undertook a thematic review (20) (the review) of the Commonwealth's hearing services legislation – the *Hearing Services Administration Act 1997* and the *Australian Hearing Services Act 1991*. Each of these Acts is supported by legislative instruments that set out the details of the program. The purpose of the review was to consider whether the hearing services instruments were fit-for-purpose, and whether they could be simplified and streamlined such that they are clearer and do not impose unnecessary regulatory burden.

As a result of the review and consultation with stakeholders, including services providers, in 2018, the following changes were made to the hearing services legislation (19):

- Repeal all five instruments that currently regulate the Voucher stream of the program and consolidate them into one new instrument
- Amend and update the *Declared Hearing Services Determination 1997*

Effectively this resulted in the following changes to the HSP from 1 October 2019:

1. Change CSO remote eligibility to Modified Monash Model.  
The original list of postcodes in the legislation was created in 1996 and was due to be updated to a more recent geographical classification taking into account changes to postcode boundaries.
2. Prohibit the sub-contracting of clinical services.  
Section 31 of the *Hearing Services Program (Voucher) Instrument 2019* specifies that contracted service providers are no longer able to subcontract the delivery of clinical services in most instances. The instrument provides for subcontracting of locum qualified practitioners and where allowed by the schedule of service items and fees. Under that provision, there has been growing evidence of contracted service providers failing to ensure subcontractors delivered services in accordance with legislative and contractual requirements. It has also become evident that some subcontractors were using these arrangements to bypass getting accreditation in their own right.
3. Allow the provision of private devices and services.  
Section 49 of the *Hearing Services Program (Voucher) Instrument 2019* allows for a contracted service provider to charge a Voucher-holder for a service that is not available to them under their Voucher and for which the Voucher-holder pays for directly, i.e. a private service.

4. Elevate disclosure of preferred supplier arrangements.

Serious concerns regarding the use of commissions and sales incentives within the hearing industry have been raised by the Australian Competition and Consumer Commission (ACCC). Inappropriate provision of devices may lead to clients being sold devices they do not need and clients being pressured into expensive devices where fully-subsidised devices will meet their needs. Section 28 of the *Hearing Services Program (Voucher) Instrument 2019* requires that a contracted service provider must inform a Voucher-holder of device supply arrangements in accordance with the guidance published on the program website.

5. Remove the requirement to obtain medical certification prior to the issuing of a Voucher.

Subsections 5(3) and (4) of the *Hearing Services Voucher Rules 1997* required an applicant for a Voucher to obtain a certificate from a medical practitioner stating whether:

- there are any medical contraindications to the fitting of the applicant with a hearing device; or
- if an applicant has previously been fitted with a hearing device to obtain a certificate from a hearing services or a medical practitioner stating that the applicant needs the hearing service applied for.

The legality of including this requirement on the form to apply for a Voucher is questionable as it is not a legislated eligibility requirement under the Act or the *Hearing Services (Eligible Persons) Determination 1997*. Further, during the Thematic Review consultation conducted in 2018, stakeholders noted that the requirement for eligible participants in the Voucher system to obtain a certificate from a medical practitioner to apply for a Voucher creates unnecessary administrative burden for service providers, individuals and medical practitioners.

6. Clarify device replacement arrangements.

Section 48 of the *Hearing Services Program (Voucher) Instrument 2019* authorises the Minister to approve a replacement hearing device if satisfied that the device has been lost and is unlikely to be found, or that it has been damaged beyond repair. The approval for a contracted service provider to use the Voucher to replace a device is subject to any conditions set out in the schedule of service items and fees. Note also a Voucher-holder may be required to pay a charge for a replacement device as provided for at section 53 of the *Hearing Services Program (Voucher) Instrument 2019*.

7. Remove Class 4 eligible persons and minor maintenance items.

The *Hearing Services (Eligible Persons) Determination 1997* and *Hearing Services (Participants in the Voucher System) Determination 1997* together describe a class of eligible persons and the specific services they are entitled to. That is persons each of whom:

- has, at any time, been an eligible person under subsection 5 (1) of the *Hearing Services Administration Act 1997*; and
- has had a hearing device fitted by a contracted service provider; and
- has subsequently ceased to be an eligible person under that subsection.

are entitled to the “necessary repairs and maintenance of the hearing device, for a period of five years from the date the participant ceased to be an eligible person.” These services are the “Minor Repairs” items 900 / 910 on the HSP Schedule of Service Items.

The original provisions were drafted at a time when the “Voucher Period” was six months while the useable life of a device is deemed to be five years. The Voucher period is now three years during which time many clients receive replacement or refitted devices. The original provision is thus considered to be redundant.

8. Expand/Clarify Disability Employment Services eligibility.  
Section 5(g) of the Act confers eligibility to persons referred to the HSP under Part III of the *Disability Services Act 1986* (DSA). Due to unintended consequences of multiple changes with the operation of Disability Employment Services (DES) under the DSA and the HSP over time, it appears that some DES clients have lost eligibility. It is likely that many DES-ESS clients are NDIS eligible or otherwise eligible for the HSP (under other eligibility provisions). It appears that the original intent was for all DES clients to be eligible for the HSP which this update will reflect.
9. Change the requirements for Audiological Case Management Items.  
HSP contracted service providers can currently claim service items (610/810) intended to allow an independent review by an audiologist of an audiological assessment, particularly if initially conducted by an audiometrist. However, wording within the Schedule of Service Items, intended to be a referral from one Audiologist to another where the initial assessment results are inconclusive or complex, has been interpreted to be that the item is open to claiming by any Audiologist. Changes to the definition of these services have been made to prevent Audiologist from claiming this service. The audiological assessment available under the HSP is comprehensive and there should be no need to claim 'additional' tests.
10. Clients can only receive hearing services which are linked to their current Voucher.  
The *Hearing Services (Eligible Persons) Determination 1997* provision taken in isolation of the Hearing Services (Participants in the Voucher System) Determination 1997 has led to the mistaken belief that a client who has been fitted with a device is always eligible for any service. This is highlighted by provider claiming behaviour in the program.  
In 2016-17:
  - Over 88,000 claims for payment were made (worth \$17.9m) by providers for services rendered to Voucher clients who did NOT have a valid Voucher at the time of the service i.e. they had ceased to be an eligible person and were entitled to ongoing minor repairs.
  - However, only 590 claims were for legitimate Minor Repairs.Amendments to the instrument ensure that a client must have a current Voucher in order to receive a hearing service.

As a result of the new instrument, existing contracted service providers were offered a new Service Provider Contract with the Department of Health. To support providers to transition to the new legislative and contractual arrangements a transition period (21) was established from 1 October 2019 until 31 March 2020 to allow providers time to implement new processes, procedures and templates, in accordance with the new instrument and contract.