



## Policy costing

Removing junk policies from private health insurance	
Party:	Australian Labor Party
Summary of proposal: The proposal would remove the private health insurance (PHI) rebate from policies that cover public hospital treatment only. The proposal would have effect from 1 July 2019.	

### Costing overview

The proposal would be expected to increase the fiscal balance by \$126 million and the underlying cash balance by \$115 million over the 2019-20 Budget forward estimates period. This proposal would have no material impact on revenue associated with the Medicare levy surcharge.

These impacts are primarily due to a decrease in PHI rebate expenses, reflecting the combined effect of the removal of the rebate for recipients affected by the proposal and an assumed decrease in the number of people using PHI from the resultant higher out-of-pocket cost.

The difference between the fiscal and underlying cash balances is due to the timing of when the PHI rebate is incurred and when it is paid through the Australian Taxation Office (ATO) (which is in the next income year, as individuals file their tax returns).

The proposal would be expected to have an ongoing impact beyond the 2019-20 Budget forward estimates period.

The financial implications of this costing are sensitive to changes in health insurance premiums, the consumer price index, and behavioural responses to changes in the cost of PHI. Broader effects, including potential flow-on impacts on the public health system, have not been included in this costing as these effects are uncertain.

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	29	31	32	34	126
Underlying cash balance	27	28	29	31	115

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

## Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

- Changes to the PHI rebate have no effect on the gross cost of PHI premiums.
- There would be no flow-on effect to public hospital expenses as a result of individuals ceasing their PHI policies.
- The majority of PHI rebate expenses administered by the Department of Health would be delivered in the same financial year in which they accrue, with a small proportion delivered in the following financial year. A proportion of the PHI rebate is paid through the ATO to individuals who opt to claim the PHI rebate through their tax returns, with these claims paid in the year following the year in which the PHI premiums are paid.
- There would be no impact on the Medicare levy surcharge.
  - All affected PHI policy holders whose incomes are below the Medicare levy surcharge threshold would cease their PHI policies, and the proportion of this cohort with PHI cover would be constant over time.
  - Other affected PHI policy holders would shift to different PHI policies with lower premium co-payments.

## Methodology

The value of the PHI rebate for affected policies was estimated from statistics provided by the Department of Health.

PHI demand elasticities were applied to the percentage changes in the net PHI rebate costs to estimate the behavioural response under the proposal.

The proposal's financial implications were calculated by subtracting the total PHI rebate expense estimates under the baseline scenario from the total under the proposal.

Timing effects have been included in this costing to account for the timing of tax collections and the payment of the PHI rebate.

All estimates were rounded to the nearest \$1 million.

## Data sources

The Department of Health provided PHI rebate expenditure and the estimated number of policies over the period 2017-18 to 2020-21.

De-identified personal income tax and superannuation contribution unit record data for 2016-17 was provided by the ATO.

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