



Policy costing

Abolish the Private Health Insurance Rebate					
Party:	Australian Greens				
Summary of proposal:					
This proposal would phase out the Private Health Insurance Rebate over three years from 1 July 2019.					
The phase-out would occur as follows:					
Rebate percentage	2018–19	2019–20	2020–21	2021–22	2022–23
Base tier under 65	25.415	15.000	5.000	-	-
Base tier 65-69	29.651	19.000	9.000	-	-
Base tier 70+	33.887	23.000	13.000	3.000	-
Tier 1 under 65	16.943	6.000	-	-	-
Tier 1 65-69	21.180	11.000	-	-	-
Tier 1 70+	25.415	15.000	5.000	-	-
Tier 2 under 65	8.471	-	-	-	-
Tier 2 65-69	12.707	-	-	-	-
Tier 2 70+	16.943	-	-	-	-

Costing overview

The proposal would be expected to increase the fiscal balance by \$21,654 million and increase the underlying cash balance by \$20,888 million over the 2019-20 Budget forward estimates period.

These impacts are primarily due to a decrease in Private Health Insurance Rebate expenses, reflecting the combined effect of lower rebate rates for recipients affected by the proposal and an assumed decrease in the number of people using private health insurance from the resultant higher out-of-pocket cost. There would also be an increase in revenue associated with the Medicare Levy Surcharge due to some additional individuals becoming liable for it as a result of opting not to have private health insurance.

The difference between the fiscal and underlying cash balances is due to the timing of when the Private Health Insurance Rebate is incurred and paid through the Australian Taxation Office, which is in the next income year, as individuals file their tax returns.

The proposal would have ongoing financial implications beyond the 2019-20 Budget forward estimates period. A detailed breakdown of the impact from 2019-20 to 2029-30 is at [Attachment A](#).

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 private health insurance.

Broader effects, including the potential flow-on impacts on the public health system, have not been included in this costing as these effects are uncertain. While there is likely to be a net cost to the public health system overall, there would be offsetting impacts on the Commonwealth Government.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	2,976	5,218	6,568	6,893	21,654
Underlying cash balance	2,636	4,975	6,421	6,856	20,888

(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 (PBO) has made the following assumptions in costing this proposal.

- As the proposal would increase out-of-pocket costs of private health insurance there would be a decrease in the number of people taking out coverage, with higher income policy holders assumed to be less responsive to price changes and therefore more likely to maintain their cover than those on low incomes.
- The majority of Private Health Insurance Rebate expenses administered by the Department of Health are delivered in the same financial year in which they accrue, with a small proportion delivered in the following financial year. Additionally, there is an amount paid through the Australian Taxation Office as individuals file their tax returns.
- Medicare Levy Surcharge revenue is collected over the two years after the liability is incurred, at the time individuals lodge their tax returns.

Methodology

The financial implications of the proposal were estimated based on the current number of Private Health Insurance Rebate recipients and average rebate amounts by income tiers, with adjustments for the assumed behavioural change of people ceasing private health insurance coverage as a result of the proposal.

Projected income distributions of individuals and families with and without private health insurance were generated based on de-identified 2016-17 personal income tax data. Average private health insurance premiums were estimated using data from the Private Health Insurance Administration Council and projected over the medium term.

Medicare Surcharge Levy liabilities and Private Health Insurance Rebate amounts were estimated under both current and proposed policy settings. Behavioural responses to the increase in net private health insurance premiums and the Medicare Levy Surcharge liabilities were taken into account. The total Private Health Insurance Rebate expense and Medicare Levy Surcharge revenue estimates under the proposal were then compared to the total under the baseline scenario to determine the cost of the proposal.

The PBO has estimated departmental expenses based on recent budget measures with similar administrative complexity. Departmental expenses of \$2 million were included for implementation of the new policy. There is no departmental expense reduction as the administrative costs associated with the rebate are substantially driven by the number of insurers and policies provided, and the scope of services covered by the policies, rather than the number of people eligible for the Private Health Insurance Rebate.

All estimates in this costing are rounded to the nearest \$1 million.

Data sources

Australian Government, 2019. *2019-20 Budget*, Canberra: Australian Government.

The Australian Taxation Office provided de-identified personal income tax and superannuation contribution unit record data for 2016-17.

Australian Prudential Regulation Authority, 2018. *Private Health Insurance Quarterly Statistics, December 2018* [Online] Available at https://www.apra.gov.au/sites/default/files/private_health_insurance_quarterly_statistics_december_2018.pdf [Accessed 05.04.2019]

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Cheng, T. 2011. *Measuring the effects of removing subsidies for private insurance on public expenditure for health care*. Melbourne Institute Working Paper 16/11.

Ellis, R. and Savage, E. 2008. *Run for cover now or later? The impact of premiums, threats and deadlines on private health insurance in Australia*. International Journal of Health Care Finance and Economics. Vol 8 pages 257-277.

Robson, A., Ergas, H. and Paolucci, F. 2011. *The Analytics of the Australian Private Health Insurance Rebate and the Medicare Levy Surcharge*. Agenda. Vol 18, No 2.

Attachment A – Abolish the Private Health Insurance Rebate – financial implications

Table A1: Abolish the Private Health Insurance Rebate – Fiscal balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Revenue													
<i>Medicare Levy Surcharge</i>	47	63	74	78	89	96	105	113	122	130	139	262	1,056
Total – revenue	47	63	74	78	89	96	105	113	122	130	139	262	1,056
Expenses													
<i>Administered</i>													
<i>Private Health Insurance Rebate</i>	2,931	5,155	6,494	6,815	6,984	7,157	7,334	7,516	7,703	7,894	8,073	21,394	74,055
Total – administered	2,931	5,155	6,494	6,815	6,984	7,157	7,334	7,516	7,703	7,894	8,073	21,394	74,055
<i>Departmental</i>													
<i>Initial implement expense</i>	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Total – departmental	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Total – expenses	2,929	5,155	6,494	6,815	6,984	7,157	7,334	7,516	7,703	7,894	8,073	21,392	74,053
Total	2,976	5,218	6,568	6,893	7,073	7,253	7,439	7,629	7,825	8,024	8,212	21,654	75,109

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

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

- Indicates nil.

Table A2: Abolish the Private Health Insurance Rebate – Underlying cash balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
<i>Medicare Levy Surcharge</i>	-	43	61	73	77	88	95	104	112	121	129	177	904
Total – receipts	-	43	61	73	77	88	95	104	112	121	129	177	904
Payments													
<i>Administered</i>													
<i>Private Health Insurance Rebate</i>	2,638	4,932	6,360	6,783	6,967	7,140	7,317	7,498	7,684	7,875	8,055	20,713	73,248
Total – administered	2,638	4,932	6,360	6,783	6,967	7,140	7,317	7,498	7,684	7,875	8,055	20,713	73,248
<i>Departmental</i>													
<i>Initial implement expense</i>	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Total – departmental	-2	-	-	-	-	-	-	-	-	-	-	-2	-2
Total – payments	2,636	4,932	6,360	6,783	6,967	7,140	7,317	7,498	7,684	7,875	8,055	20,711	73,246
Total	2,636	4,975	6,421	6,856	7,044	7,228	7,412	7,602	7,796	7,996	8,184	20,888	74,150

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

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

- Indicates nil.