



**Australian Government**  
**Department of Health and Ageing**

**SECRETARY**

Dr Ian Holland  
Committee Secretary  
Senate Standing Committees on Community Affairs  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Dr Holland

***Inquiry into the Private Health Insurance Legislation Amendment (Base Premium) Bill 2013 – Supplementary Information***

The Committee has asked the Department to provide comment on two alternative models proposed by industry in relation to the Private Health Insurance Legislation Amendment (Base Premium) Bill 2013. These proposals include an Industry wide model and an Individual Insurer model.

The current Bill uses the concept of a base premium so that indexation occurs at a product level. This serves to encourage more competitive premium pricing by enabling insurers to differentiate themselves on the basis of their overall premium increase when compared to the Government contribution through the rebate. The concept of a base premium also provides certainty for consumers that each policy attracts a set level of rebate which is indexed each year.

**Industry wide model**

This model would involve reducing the rebate percentage over time, by the difference between the growth in premium and the change in CPI. While this model may be administratively simpler, it is unlikely to encourage competition, as it will reduce the incentive for funds to minimise premiums which in turn would disadvantage consumers. This is because under this model, the capacity for all insurers to compete equally on a comparative price basis as reflected through the base premium arrangement would be reduced as the overall change in the rebate will be dictated by the premium decision of the larger insurers.

**Insurer model**

The department has not seen a fully developed proposal for this model. Our understanding is that the Private Health Insurance funds (the funds) are proposing to use the average rebate benefits paid on policies by funds as the base for CPI indexation. This would in essence provide the funds with the discretion on how the rebate is allocated to individual policies, and

at what proportion. This would result in a reduced level of transparency and introduce uncertainty for consumers – which is contrary to the principles behind the current Bill before the Parliament. Therefore, to mitigate this potential risk of consumers not receiving the appropriate rebates, the Government would need to collect information from insurers at a policy level and assess it to ensure they consumers are being treated equitably. This would increase administration costs and impose a higher regulatory burden than would occur under the arrangements proposed in the Bill.

It should be noted that the Government's model as contained in the Bill before the Parliament is designed to ensure there are no disincentives to discourage new entrants to private health insurance, that the rebate continues to have the effect of encouraging competition between insurers on price by ensuring that policy holders continue to be able to change insurers, and that there are incentives for people to upgrade their insurance and use it when they need to access relevant health care.

Yours sincerely

Jane Halton PSM  
Secretary

17 June 2013