Australian Unity

SUBMISSION TO SENATE COMMUNITY AFFAIRS COMMITTEE

INQUIRY INTO THE PRIVATE HEALTH INSURANCE LEGISLATION AMENDMENT (BASE PREMIUM) BILL 2013

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Summary

Health insurer Australian Unity considers the Private Health Insurance Legislation Amendment (Base Premium) Bill 2013 is fundamentally flawed in the following areas:

1. Its application is confusing for consumers, who will struggle to compare products, and is costly for insurers, the result of which is likely to be higher premiums.

2. It will see consumers lose choice in the health insurance market place as insurers are forced to drop product benefits and compete solely on price. This will put further strain on the public health system.

3. Some of the detail of the changes, in particular around the application of the Weighted Average Ratio to new products, will only be finalised after the legislation becomes law, adding great uncertainty into the costs of the legislative changes.

Australian Unity proposes two changes to the application of the Australian Government Rebate (AGR) that will help avoid consumer confusion and keep pressure off the public health system.

1. Rather than use the All Groups Consumer Price Index as the baseline for premium rises, use Health CPI. This is a more realistic reflection of the market in which insurers operate and would facilitate competition in the sector based on product, not price.

2. Whatever index is accepted, apply it to the AGR for all products based on average premium increases across the health insurance industry. Otherwise insurers will be forced to undertake the costly exercise of making individual adjustments for every one of its products.

Introduction

Australian Unity is a national healthcare, financial services and retirement living organisation providing services to some 620,000 Australians, including 320,000 members nationwide. Australian Unity's history as an independent mutual organisation dates back over 170 years.

Australian Unity operates the sixth largest health fund in Australia. Additionally, Australian Unity operates GU Health a corporate health fund that provides tailored health plans to some of Australia's leading corporations.

Australian Unity also operates four dental clinics and other allied health services, including Remedy Healthcare, a preventative health business that offers health coaching and chronic disease management programs.

1. Confusion for Customers/Costly for Insurers

The Mid Year Economic and Fiscal Outlook (MYEFO) announced in October 2012 two significant changes to private health insurance. The change that is the subject of the Private Health Insurance Legislation Amendment (Base Premium) Bill 2013 is the decision to calculate the Government's contribution to private health insurance based on commercial premiums as at April 2013 indexed annually by the lesser of the Consumer Price Index or the actual premium increase. That formula will be used to determine an individual's private health insurance rebate.

Following the MYEFO announcement, the Department of Health and Ageing committed to engage with health insurers on how best to implement this newly-announced CPI measure prior to drafting the Bill. However, industry was not afforded the opportunity to contribute to the form and application of the Bill as promised.

Had Australian Unity been given this chance to make a contribution, we would have pointed out that one of the adverse outcomes of the proposed legislative change is that every health insurance product sub-group offered by all health insurers will now consist of two prices (a base premium and a commercial premium).

As a result, the Bill is confusing for the consumer to understand and apply, lacks transparency and is costly for insurers to implement and administer.

For insurers (as with the introduction of means-testing of the Australian Government Rebate as a result of previous changes to the private health insurance system), we would expect the implementation of this measure will cost insurers millions to implement, costs which will eventually be borne by the consumer through future premium increases.

For consumers, health insurance will be more expensive and more opaque because of the proposed legislative changes. To determine their costs, consumers must now apply the relevant AGR percentage to the 'base premium' for the relevant product, which is directly linked to general CPI. After determining their AGR entitlement, it is deducted from the 'commercial' premium to finally calculate the level of direct contribution they are required to make to their health insurer.

The situation is further complicated for consumers who incur a lifetime health cover (LHC) loading. The LHC loading is calculated with reference to the 'commercial premium', not the 'base premium' and added to the direct contribution the consumer must make.

This is clearly a complicated exercise for the consumer. And that is for the health insurance product they already have. Imagine trying to compare a range of products within and across varying insurers. And insurers will be forced to try and explain why one product's commercial premium is effectively 95 per cent rebateable, while another product is 90 per cent rebateable.

2. Loss of Choice/Strain on the Public Health System

Australian Unity contends that imposing a CPI maximum increase on health insurance premiums will see insurers compete with each other on price rather than value, or quality of product.

Because Health CPI has consistently outstripped general CPI in previous years and will likely do so in the foreseeable future, the only way for health insurers to sustain low premium increases for their customers into the future is to strip product benefits. This diminishes the value proposition for health insurance, and the result of that is to put further strain on an already stretched public system.

3. **Lack of detail in the proposed legislation/Impact on insurers.**

The Explanatory Memorandum to the proposed legislation explains that the detail in respect of applying the Weighted Average Ratio to new products and new entrants in the market will be contained in the *Private Health Insurance (Incentive) Rules*. These Rules won't be drafted until such time as the Bill becomes Law.

At a commercial level, health insurers release new products all the time. The operation of this Weighted Average Ratio is critical to assessing the overall impact of the proposed legislation, particularly on new products, to consumers and the industry. The absence of this detail makes it difficult for anyone to fully quantify the true impact of the proposed legislation.

In addition, in the absence of this detail it is unclear what effect the Weighted Average Ratio will have on competition and barriers to entry to the market.

PROPOSED CHANGES

1. **Health CPI as the relevant index**

As presently drafted, the proposed legislation is likely to drive competition based on price and margins rather than value to the consumer.

This will potentially lead to insurers over time stripping benefits and stifling true innovation in the industry at the expense of maintaining minimal divide between the base premium and commercial premium applied.

This is best demonstrated by observing the gap between All Groups CPI over 10 years and Health CPI:

	Average over 10 years
All Groups	2.8% pa
Health	5.1% pa
Medical, dental and hospital services	6.1% pa

To ensure the value proposition of health insurance is maintained and does not become a pure pricing decision, one that will potentially drive further pressure onto the public health system, Australian Unity proposes AGR increases are linked to a more appropriate index such as Health CPI rather than All Groups.

2. **Apply Index to AGR based on average premium increases across the industry.**

The stated objective of the proposed legislation is to provide the Federal Government with certainty of expenditure in relation to the ongoing AGR outlays.

Australian Unity believes the Bill could be applied in a more transparent and less complicated manner to avoid consumer confusion while still achieving the Government's objectives. We propose simply applying a formula to adjust the AGR percentages each year for each tier based on average premium increases across the industry.

Historically, insurers have advertised premiums inclusive of the 30 per cent AGR. We suggest requiring insurers advertise the commercial premium (with no AGR applied). Upon purchase, the consumer nominates the relevant tier and the insurer applies the reducing AGR percentage and advises the customer of a $ rebate entitlement applied to the policy.

This would provide greater visibility to the consumer of the direct contribution the Government is making to their health insurance.

The benefits to adopting such an approach are:

- it delivers on the Government's objective of achieving certainty of savings
- it works in a manner that consumers are currently familiar with
- insurers would only be required to make minor adjustments to their systems to implement and ongoing maintenance costs would be minimised saving tens of millions of dollars
- minimises the risk of insurers 'gaming' the system or cross subsidising less profitable products from more profitable products to maintain increases in line with CPI
- won't stifle innovation in the industry
- minimises the risk of insurers stripping benefits from products to maintain price increases near to CPI