

25 January 2013

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

Dear Committee Secretary

Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012

The Consumers Health Forum of Australia (CHF) welcomes the opportunity to provide a submission to the Senate Community Affairs Committee Inquiry into the *Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012* (the Bill).

CHF is the national peak body representing the interests of Australian healthcare consumers. CHF works to achieve safe, quality, timely healthcare for all Australians, supported by accessible health information and systems.

CHF has considerable interest in private health insurance. Many healthcare consumers, particularly those with complex, chronic or multiple conditions, value private health insurance as a means of supporting their health costs and, in many situations, increasing choice and access to health services. For these consumers, the community rating system prevents discrimination in private health insurance and enables access to affordable and equitable private health cover.

CHF believes that the Lifetime Health Cover (LHC) loading plays a significant role in supporting the community rating system. Under current LHC arrangements, policy holders who take out private health insurance hospital cover after the age of 30 pay a financial loading. By encouraging people to take out and maintain hospital cover earlier in life, LHC provides balance to the overall demographic profile of policy holders and maintains the sustainability of the community rating system.

The Bill proposes to remove the Private Health Insurance Rebate from the loading component of a premium. Under the proposed changes, only the premium, not the loading, will attract the government rebate. Because the LHC measures are intended as a deterrent, CHF considers it inefficient to apply a rebate to the loading. The changes would also create a greater incentive to take up private health cover early, and generate a higher opportunity cost for delaying private health cover. On this basis, we support the Bill.

Although we support the changes, CHF considers it essential that any changes to the cost of premiums are clearly communicated to consumers. We recommend the development of consumer information on the changes to LHC arrangements, including a rationale for the proposed changes and case studies that illustrate the impact of any changes. CHF notes that some consumers are in more complex situations than others, and this should be factored into consumer information and communications from insurers. In some cases, the changes may also result in consumers making a decision to discontinue their cover, and consumer information should clearly outline the consequences of such decisions.

While it is outside the scope of the legislation under consideration by the Committee, CHF also notes that the announcement of the decision to remove the rebate from the LHC loading coincided with an announcement that, from 1 April 2014, the Private Health Insurance Rebate will be indexed according to the lesser of the Consumer Price Index or the annual premium increase. No further details have been released since the measure was announced as part of the 2012-13 Mid-Year Economic and Fiscal Outlook, and it is not clear how this will work in practice.

CHF is concerned that this measure may result in increased consumer confusion about the cost and value of private health insurance policies, possibly resulting in decisions to discontinue or not take up private health insurance. Insurers may make the decision to keep premiums lower by offering products with exclusions and restrictions, which could result in consumers purchasing products that will not meet all their needs. CHF is also concerned that there could be potential for 'gaming' practices, including the possibility that insurers could close existing products and move consumers to new products eligible for the full rebate, which is likely to further increase consumer confusion. While CHF recognises that this measure is not the subject of the current Inquiry, we emphasise the need for further information on this change to be released as soon as possible, to provide certainty for consumers.

CHF appreciates the opportunity to provide a submission to the Inquiry, and looks forward to reviewing the Committee's report. If you would like to discuss these comments in more detail, please contact CHF Deputy Chief Executive Officer Anna Greenwood.

Yours sincerely,

Carol Bennett
CHIEF EXECUTIVE OFFICER