We are
hirmaa

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Committee Secretary
Senate Standing Committees on Community Affairs
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Dear Committee Secretary

Thank you for the opportunity to make a submission to the Senate Standing Committee on Community Affairs regarding the *Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012* (the Bill).

By way of introduction, hirmaa is a peak industry body representing all thirteen (13) restricted access insurers and five (5) open access regional private health insurers.

Since its formation in 1978, hirmaa has advocated for the preservation of competition, believing it to be fundamental to Australians having access to the best value health care services. hirmaa has done this by promoting legislation, regulations, policies and practices which increase the capacity of its member organisations to deliver best value health care services and vigorously resisting the efforts of those who seek to gain by concentrating the provision of private health insurance (PHI) into the hands of a few large organisations.

A number of characteristics distinguish the hirmaa member funds. They:

- are value-based as opposed to being profit-based;
- continue to offer various levels of insurance at highly competitive premiums;
- optimise benefit entitlements and premiums;
- continue to tangibly grow their membership numbers, sometimes in contrast to the overall industry trend;
- in terms of the restricted insurers, have their unique nature acknowledged in the *Private Health Insurance Act 2007(PHI Act).*

Although the Bill relates to the Lifetime Health Cover (LHC) loading only, it should be read in the context of the Government's other executed and announced proposals to change the PHI rebate arrangements.

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Firstly, the legislative package of 2011/12 (*Fairer Private Health Insurance Incentives Act 2012* and allied legislation) introduced three new private health insurance incentive tiers reducing the amount of PHI rebate for an eligible person with a complying PHI policy. These changes were first announced in the 2009-10 Budget despite an unambiguous election commitment by the Australian Labor Party to the contrary. These changes became effective on 1 July 2012. The Government projected savings of $2.8 billion over four years. hirmaa vigorously opposed these changes and our position is clearly on the public record.

Secondly, the Government announced in the *2012-13 Mid-Year Economic and Fiscal Outlook* (MYEFO) statement that its contribution (the rebate) to PHI will be calculated using commercial premiums and then indexed annually by the lesser of CPI or the actual increase in commercial premiums. This will be used to determine an individual's PHI rebate. The measure will take effect from 1 April 2014 and will result in savings of $699 million over four years.

Thirdly, the *Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012* amends the *PHI Act* so that the Australian Government rebate on PHI is no longer payable on the component of PHI premiums that have been increased because of Division 34 of the PHI Act (the Lifetime Health Cover loading). The Bill will also cease the Incentive Payments Scheme to streamline the payment of the rebate with effect from 1 July 2013. The Government projects savings of $386 million over four years.

When you contrast the two latter policy initiatives, the changes to the LHC are far more damaging to consumers in general, and to low income earners in particular.

In summary (and using rounded figures):

- The CPI and LHC changes result is an approximate saving of $1.1billion over 4 years;
- $700m is in respect of a reduction in the PHI rebate that impacts on 11 million Australians ;
- $400m is in respect of the LHC loading that impacts on1 million Australians ;
- There is clearly a disproportionate impact from the MYEFO cuts on those paying LHC.

Impact on lower income earners

The impact increases with the higher the level of rebate policyholders currently receive, resulting in lower income earners (those not in the means tested tiers) being the most disadvantaged by the proposed changes. It has been estimated by a typical hirmaa fund that this impact will amount to an average 8.4% premium increase in the first year of implementation (commencing 1 July 2013). For those with significant loadings, the premium increases will be much higher.

For the significant number of policyholders impacted by an increase in premium payments from 1 July 2013 this will be a likely trigger for hospital cover downgrades if not departure from PHI by these policyholders and a move back to utilisation of the public hospital system.

The measure provides a disincentive to everyone without PHI who is over 31 years of age from purchasing PHI. It presents an additional barrier to those who do not have PHI. For those policyholders who are paying a LHC loading, removal of the rebate on the LHC loading component for those who are close to having held hospital cover for 10 years will likely be perceived by these policyholders as being grossly unfair – they may well feel aggrieved that having paid a loading amount for close to 10 years and with relief in sight, they are then asked to pay an additional loading amount for the residual time before the loading is removed.

The 10 year limit for LHC loading application was designed to act as an incentive for those considering take-up of hospital cover after the age of 31 years as it applied a time limit to the 'penalty'. If the penalty is increased by removal of the rebate on the LHC component, it would reduce the attractiveness of the time limit of the incentive as the additional cost over the 10 years would be balanced against payment (if any) of the Medicare Levy Surcharge over some or all of that period of time.

When LHC was introduced it was "grandfathered" so that those people over 31 years without PHI were not subject to the loading if they took out PHI immediately. To avoid the unfair, retrospective impact of this measure, the change to the rebate for LHC loading should only be applied to those policyholders that accrue a loading after the legislation is enacted.

The systems changes for health funds will be difficult and it is very unlikely that all health insurers will be able to make the necessary system changes by 1 July 2013. The proposed changes only add to the administrative burdens placed on insurers by other rebate changes with the biggest impact being on the smaller insurers with limited resources.

Incentives Payments Scheme

hirmaa supports the removal of the Incentives Payments Scheme (IPS) noting that over 99.9% of rebate claims are made via the Premium Reduction Scheme and tax offset claiming options.

hirmaa agrees that ceasing the IPS claiming option is a simple and low cost option to reduce the administrative burden on insurers, the Department of Human Services and the Australian Taxation Office.

hirmaa is concerned that the proposed changes to private health insurance contained in the *Private Health Insurance Amendment (Lifetime Health Cover Loading and Other*

Measures) Bill 2012, with the exception of the removal of the IPS, further complicates the provision and erodes the value of PHI.

Since the announcement of the changes to the PHI rebate announced in the 2009-10 budget, PHI has been the subject of significant changes. PHI has become a far more complicated and complex product with many policyholders experiencing very steep increases in the cost of their policies. Many of those same policyholders will inevitably decide to drop or downgrade their PHI cover resulting in a significant impact upon the public hospital system - a system which is already stressed and too often fails to provide appropriate healthcare in a timely manner.

Thank you for considering this submission.

Yours sincerely

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