



6 June 2013

Committee Secretary
Community Affairs Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

Private Health Insurance Legislation Amendment (Base Premium) Bill 2013

The Consumers Health Forum of Australia (CHF) welcomes the opportunity to provide a submission to the Senate Community Affairs Legislation Committee Inquiry into the *Private Health Insurance Legislation Amendment (Base Premium) Bill 2013* (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.

Under current arrangements, the Government makes a contribution to the cost of private health insurance through the means-tested Private Health Insurance Rebate. In the past, the rate of premium increases has generally been higher than the increase in the CPI. CHF considers that this trend is likely to continue, with factors such as an ageing population, the high and growing prevalence of chronic diseases, and the availability of health technology continuing to add pressure to the costs of health services.

This Bill proposes that from 1 April 2014, the rebate will be calculated on a 'base premium', which will be indexed annually by the lesser of the Consumer Price Index (CPI) or the commercial premium increase. For consumers, this will mean that the rebate will not keep pace with the rise in their annual premiums. While the nominal rebate percentage will remain the same, the value of their rebate will decrease over time, making the cost of private health insurance less affordable.

CHF notes that the Department of Health and Ageing has demonstrated a potential scenario resulting from this Bill, using the example of a consumer with an annual premium of \$1000 who is entitled to a 30 per cent rebate.¹ Under the proposed arrangements contained in the Bill, it is estimated that the consumer will receive \$7.50 a year less from their rebate, a relatively small amount.

This example fails to demonstrate the regression of the real value of the rebate over time due to the compounding effect of linking the rebate to the smaller increase of the CPI, relative to the greater increase in annual premiums. As no end date is provided for this proposed arrangement, no information can be provided as to any ameliorating response that may be applied as the real value of the rebate progressively declines.

While we acknowledge the Government's efforts to identify savings measures, particularly in the context of an unexpectedly high Budget deficit, we believe this Bill will add an unnecessary level of complexity to the already highly complex nature of private health insurance, leading to increased confusion for consumers. Consumers, particularly those with chronic conditions, depend on private health insurance to help them spread the cost of their health care over time. The introduction of this Bill will make it more difficult for consumers to determine the value of their rebate from one year to the next, and consequently, the cost and value of their private health insurance policies. This may result in decisions to discontinue, downgrade or not take up private health insurance at the margins.

CHF is also concerned that insurers may decide to keep premiums lower by offering products with exclusions and restrictions. This could result in 'under-insurance' by consumers purchasing products that will not meet all their needs. For example, lower cost policies promoted to the youth market and others perceived to be 'lower risk' typically place restrictions on psychiatric and orthopaedic services, when the prevalence of mental health and injuries among young adults is high.

Finally, CHF is concerned that the introduction of the Bill may also result in 'gaming' practices, based on the possibility that insurers could close existing products and move consumers to new products, which is likely to further increase consumer confusion. We note that under the proposed arrangements, products that become available after 1 April 2013 will have base premiums determined by using a 'weighted average ratio.' We look forward to more information on this aspect of the Bill.

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 Policy Officer, Ms Dewi-Inala Zulkefli.

Yours sincerely,

Carol Bennett
CHIEF EXECUTIVE OFFICER

¹ <http://www.health.gov.au/internet/main/publishing.nsf/Content/health-privatehealth-gov-cont> accessed on 31 May 2013