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CHANGES TO PRIVATE HEALTH INSURANCE

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CHANGES TO PRIVATE HEALTH INSURANCE

The purpose of this supplementary submission is to provide information to the House of Representative Standing Committee on Health and Ageing for its inquiry into health funding about the changes to private health insurance. The supplementary submission will inform the private briefing to be provided by the Department on Wednesday, 9 August 2006.

Background

On 26 April 2006, the Australian Government announced significant changes to the private health sector. These changes are designed to ensure the long term sustainability of the private health insurance industry by increasing competition in the sector and encouraging people to choose private health care by improving the value of the private health insurance product.

The private health insurance sector is currently in a financially sound position. The industry has benefited from the strong economy and the reforms to the sector introduced over the last decade. Reforms to the sector saw the participation rate increase from 30% in December 1998 to the current rate of 43.1%. Participation in private health insurance is stable and premium growth in 2006 has been the lowest it has been since 2001.

Nonetheless, more can be done to ensure the long term sustainability of the private health insurance sector. The private health insurance product must ensure that the value of privately insured services is comparable to those available in the public sector.

Current regulation is complex and originated at a time when private health care was predominantly provided in hospital. The regulations that apply to the private health insurance sector have been amended on an average twice per year since the commencement of the *National Health Act* in 1953. The regulation, as it developed over time, has had the effect of insulating health insurers from market rigour, and restricting funds' ability to respond to their members' needs.

Advances in medical practice have meant that many health care services can now be safely and more appropriately provided outside the hospital. Existing regulation prevents health funds however from paying for services delivered outside the hospital through their hospital products. This creates an artificial incentive for hospitalisation when community based services may be more suitable.

In addition, the prevalence of lifestyle diseases has increased the cost burden on funds. Allowing funds to offer private health insurance products that reimburse their members when they manage their own health care is expected in turn to reduce hospitalisation. The flow on impact will improve the value of the private health insurance product for consumers.

The changes announced by the Government seek to remove the hurdles that inhibit funds from responding to the needs of their members in an efficient and competitive way. Allowing market disciplines to apply will create a more competitive environment conducive to industry sustainability and will also reinforce the legitimacy of private health care as an essential integrated part of the Australian health system.

Specifically, the changes to private health insurance centre around:

- providing greater choice in private health insurance products;
- waiving the Lifetime Health Cover loading after 10 years;
- providing advice to those who are approaching Lifetime Health Cover loading deadlines;
- improving the risk equalisation (reinsurance) arrangements;
- simplifying of the regulatory framework;
- requiring the publication of standard product information;
- the Private Health Insurance Ombudsman establishing an industry website which enables consumers to compare products;
- introducing uniform safety and quality standards for privately insured services; and
- improving the incidence of informed financial consent.

Greater choice in private health insurance products

Currently, privately insured health care services must be performed in-hospital if members are to receive a benefit from their health fund hospital tables. Ancillary insurance is only able to cover services such as dental, physiotherapy and chiropractics. As a result, many patients seek in-hospital treatment in order to use their private health insurance when safe and suitable out-of-hospital services may exist.

In order to better reflect current clinical practice and consumer expectations, from 1 April 2007 health funds will be able to offer products that cover a broader range of health care services that do not require admission to hospital but which are part of an episode of hospital care or substitute for or prevent hospitalisation. This will mean health funds will be able to, but not required to, cover for example assisted discharge programs and post admission services provided under Outreach Hospital in the Home programs.

These changes will mean that health funds will be able to design and offer products that help people better manage their own health. Disease management programs that provide a range of services that prevent disease progression, and the consequential need for hospitalisation will be able to be covered by these new private health insurance products. Many health funds currently administer disease prevention programs for their members, including diabetes and risk management programs, and these will able to be included in these new products.

It will not be mandatory for health funds to offer cover for broader health care services. However, products that cover these services, as all hospital products must now, will continue to cover psychiatric, rehabilitation and palliative care.

Health funds will be able to add these services to existing hospital products. The payment of benefits for broader health care services will be consistent with the payment of benefits for in-hospital services. In much the same way that the majority of hospital services are now covered, it is likely that many broader health care services will be provided under contractual arrangements between health funds and service providers. This will enable health funds to determine for themselves that the services provide value for money, both in terms of cost outlays for funds and health outcomes for their members. In addition, contractual arrangements will facilitate health funds' ability to negotiate no gap or known gaps for these services.

New products that include broader health care services will attract the Government's private health insurance rebates.

Broader health cover will not extend to GP consultations or aged care services.

It is expected that over time, this new type of cover will become the mainstream form of health cover, while not precluding the ongoing offering of hospital-only and ancillary products in more or less their current form.

Changes to Lifetime Health Cover

The introduction of the Lifetime Health Cover (LHC) loading in 2000 was highly effective in improving participation in private health insurance. However, the policy is often perceived as being an unfair penalty, particularly as the loading cannot be removed. In addition, the application of the loading on future membership is not a deterrent for members contemplating opting out of their current membership.

Waiver of LHC loadings

To reward those members who maintain their private health insurance, the LHC loading will be waived for members who have held private health insurance, on which they have paid a loading, for 10 years continuously. The waiver will apply as long as the member retains their private health insurance. If they leave private health insurance for any reason, the original LHC provisions will apply should they rejoin at a later stage.

While the legislation giving effect to the waiver provision will commence on 1 April 2007, the first loadings will not be waived until July 2010 (ie. ten years after the first loadings were applied in July 2000). Over 350,000 people now have hospital level cover with a LHC loading and after July 2010, up to 60,000 people per year, on average, will have the loading removed.

Direct communication campaign

Many consumers inadvertently miss their LHC deadline, through either a lack of awareness or forgetfulness. Medicare Australia will identify those consumers who are facing LHC deadlines (those approaching 30 years of age and new migrants) and write to them to notify them of the deadline and to promote the benefits and Government incentives for private health insurance.

The Department is working with Medicare Australia on this initiative. Letters to affected consumers will start being sent each year from 2007.

Improving the risk equalisation arrangements

Community rating for private health insurance means that insurers cannot discriminate against current or potential members based on their risk of using health care services. Risk equalisation protects community rating by sharing financial risk between funds, thereby removing any financial incentive to discriminate against high risk members. The current risk equalisation arrangements do not provide adequate incentives for funds to reduce benefit outlays by covering lower cost care provided in the community setting or by promoting members' health.

From 1 April 2007 new risk equalisation arrangements will operate to improve the level of risk sharing between funds; to protect small funds from catastrophic claims; and to remove an existing financial penalty on single parents. The new arrangements will be sufficiently flexible to incorporate the introduction of cover for broader health care services. Services covered by ancillary products will continue not to be included in the risk equalisation arrangements.

The model for these arrangements is to be agreed to by industry. The Department is currently undertaking consultations with industry about the final details of the new arrangements. The new arrangements will take effect from 1 April 2007.

Rewriting the regulation

The legislative framework for private health insurance is currently focussed on the regulation of health funds cover for hospital care. The framework will be rewritten to accommodate the changes, including a shift in the regulatory approach that will involve focussing regulation on the private health insurance product.

The existing regulatory regime is expressed in nine primary Acts and a vast array of associated subordinate legislation. In amending the regulation to introduce cover for broader health care and to implement the other changes announced by the Government, the legislative framework will be updated so that the regulation of the industry is the minimum necessary to ensure that the Government's policy objectives are met and the public interest is protected.

The current legislative framework will be consolidated as far as possible into a single Private Health Insurance Act that will set out all the requirements for the conduct of private health insurance business. The Private Health Insurance Administration Council (PHIAC)'s regulatory activity will be largely unchanged. However, other aspects of the regulation will change. The focus will be on regulating private health insurance products, rather than the activities of health funds as is now the case. The overall structure of the new Act will reflect the following themes:

- Rules regulating private health insurance products, which attract the private health insurance rebates;
- Rules regulating providers of complying health insurance products and providers of services; and
- Rules that provide incentives for people to purchase health insurance products.

The existing prudential standards for health funds will be incorporated into the new Act, as will the current expression of community rating.

In the process or rewriting the regulation, obsolete and redundant provisions will be removed with a view to achieving deregulation of the industry overall.

These changes will improve considerably the expression of private health insurance policy and provide a more streamlined framework for regulating the industry.

Better information

Consumers often find it difficult when selecting a health insurance fund, to compare and select from the large range of private health insurance products on offer. Similarly, consumers find it difficult to check their entitlements in general terms.

From 1 April 2007 health funds will be required to publish the most important facts about private health insurance products so that they can be more easily compared by consumers. Standard product information will include details on:

- premiums;
- waiting periods;
- exclusions;
- hospital and medical gaps; and
- excesses.

The Private Health Insurance Ombudsman will manage a new industry website to provide consumers with access to unbiased information about health funds and their products. The website will include the standard product information and will be a tool people can use when comparing products and health funds. The website will be available from 1 April 2007.

The Department is working with industry, consumer representatives and the Ombudsman to develop the most effective format for standard information.

Uniform safety and quality standards

Currently, safety and quality standards for public hospitals, private hospitals, private day hospital facilities, specialists and 'mainstream' ancillary services vary between health insurance funds and between jurisdictions. This is administratively burdensome for providers (facilities and individuals) and confusing for consumers.

From July 2008, uniform safety and quality standards will apply to privately insured services to ensure services are provided by suitably qualified providers and in accredited facilities. The Department will work with the private health industry and the Australian Commission on Safety and Quality in Health Care to develop the standards. The Commission has identified private health care services as a priority area. The Department has had preliminary discussions with the Commission about the proposed approach.

In the meantime, existing state and territory licensing arrangements and accreditation arrangements for providers and facilities will be adopted as the minimum requirement. It may be necessary for specific arrangements to be put in place where licensing and accreditation is not available for some health care providers/facilities.

It is expected that through their contractual arrangements with providers health funds will play a key role in ensuring that the services they provide benefits for are of the highest quality, are delivered safely and meet consumer expectations.

Informed financial consent

Informed financial consent is where a person is fully informed, in writing, about the cost of treatment. To the greatest extent possible, informed financial consent should be given by patients prior to treatment being carried out, i.e. prior to hospital admission. This is because the failure to obtain informed financial consent from a patient, when there is a reasonable opportunity to do so, is depriving that patient of fundamental and crucial information he or she is entitled to as a consumer.

The Government believes that in elective cases it should almost always be possible for medical practitioners to obtain informed financial consent, either in their own right or on behalf of a medical team that they may lead.

In 2004, the Australian Government commissioned research into the incidence of informed financial consent for privately insured patients treated at private and public hospitals. The survey found that in 19% of hospital episodes there is a lack of informed financial consent and an associated gap for doctors' fees. It is good that four out of five episodes involve informed financial consent, but the Government believes that the rate is still too low.

The Australian Government therefore is strongly committed to improving the incidence of informed financial consent for privately insured services, in the first instance through a self-regulatory approach.

The Australian Government and the Department have recognised that improving the incidence of informed financial consent requires a multi-pronged approach:
- doctors must tell patients what their treatment will cost;
- hospitals should tell patients how much they will be charged for the hospital stay; and
- health funds must advise members what benefits they are entitled to.

In many respects this is a cultural and generational issue in the medical profession, and the Government appreciates that it has been difficult for medical profession groups to show leadership among their peers in this regard. To assist real change, the Government and the Department are encouraging and funding the Australian Medical Association (AMA) in an action plan that:
- provides doctors and patients with better information on informed financial consent;
- promotes awareness within the medical profession of informed financial consent; and
- targets doctors who have limited patient contact.

The Department is also supporting an industry dialogue on the issue through the Promoting Private Health Group, a committee comprising representatives from key organisations in the private health sector, which is chaired by Dr Bill Glasson. Through this group, there have been constructive discussions between parties with diverse views on implementing informed financial consent, and the Government welcomes their goodwill and cooperation.

It has been made clear by the Government that if there is no significant improvement by May 2007, the Government will move to legislate to require doctors to obtain informed financial consent. To measure how effective the AMA action plan has been in improving the incidence of informed financial consent the Department will repeat the consumer survey in late 2006 and early 2007.

Implementation process

Industry consultation forms an integral part of the implementation of the changes. The Department is consulting widely with industry on the practical aspects of the changes and to identify and resolve development and implementation issues through consultation forums and the circulation of documents.

Discussion paper

The Department issued a discussion paper entitled *Private health insurance: cover innovation and regulatory reform* in June 2006 (Private Health Insurance Circular 34/06, 15 June 2006). The purpose of the paper was to facilitate discussion of potential issues at industry consultation forums held in June and July 2006. The Department also sought written submissions on the discussion paper.

A copy of the discussion paper is provided at Attachment A.

Industry consultation forums

Following the release of the discussion paper, the Department held a series of industry consultation forums in June and July 2006 in the major capital cities. At the request of health funds, additional forums specifically for funds were held in Sydney and Melbourne. The forums provided an opportunity for the Department to provide stakeholders with additional information about the changes, and for stakeholders to provide their ideas and perspective on the changes. The forums have assisted the Department to further develop the legislation and policy detail.

Directions paper

The Department will distil the ideas from the consultations forums and the written submission and prepare a directions paper on broader health cover and other aspects of the changes. The directions paper will be circulated to industry in mid August 2006. Stakeholders will have a two week period in which to submit further written comments.

Passage of legislation

The changes to private health insurance will be subject to the passage of enabling legislation. Subject to the Prime Minister's agreement, an exposure draft of the legislation will be circulated to industry in early October 2006. The industry will have a further two weeks in which to provide written comments on the draft legislation.

The Government will introduce legislation in the Parliament in November 2006 to enable passage in time for commencement on 1 April 2007.

Ongoing consultation

The Department anticipates that during the drafting process it will need to discuss and clarify various aspects of the legislation with peak organisations. The Department welcomes discussions with individual health funds and other organisations in the meantime.

Following the introduction of the legislation, the Department may undertake further consultations with health funds about the activities they will need to undertake in the lead up to the commencement of the legislation on 1 April 2007.

The Department welcomes discussions with individual health funds and other organisations in the meantime.

Department of Health and Ageing
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