Senate Community Affairs Committee

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH PORTFOLIO

Budget Estimates 2015 - 2016, 1 – 2 June 2015

Ref No: SQ15-000396

OUTCOME: 6 - Private Health

Topic: Private Health Insurance

Type of Question: Written Question on Notice

Senator: Xenophon, Nick

Question:

Private health insurance excess levels have remained fixed since 2000. Adjusting based on CPI or wage inflation would permit policy holders the option of choosing a higher excess in exchange fora lower annual premium. For example, indexing the present $500 excess level by wage inflation over the preceding 10 years would increase the level to between $700-800. This may enable a one-off premium decrease in the vicinity of 5-10%.

a) Why are excesses in private health insurance regulated?
b) Why does regulation require excesses to be fixed at year 2000 levels?
c) What would be the maximum level of excess if it had been annually adjusted by CPI since 2000?
d) What would be likely impact on prices if excess had been annually adjusted by CPI since 2000?

Answer:

a) The Medicare Levy Surcharge (the Surcharge) requires people earning above certain income thresholds to pay either 1.0% or at higher incomes 1.5% if they fail to take out a compliant private health insurance policy. A compliant private health insurance policy must not allow excesses greater than $500 for singles and $1000 for families on hospital products.

The restriction on private health insurance excesses was introduced for the purposes of preventing consumers from purchasing private health insurance policies with low premiums and high excesses. These policies were essentially aimed at consumers avoiding the Surcharge through purchasing policies which they would find unaffordable to claim under due to their high excesses upon admission.

In 2015-16, the Government intends to consult on reforms to reduce and amend existing regulation that impedes the efficient operation of the private health insurance sector to support the Government's broader deregulation agenda.

b) The Surcharge excess levels were first set in July 2000, alongside the introduction of the Lifetime Health Cover loading, and have not been revised since. There is a risk that higher excess limits may result in more people purchasing private health cover as a means of tax avoidance and then opting for treatment in a public hospital in order to avoid large excess payments on admission to a private facility.

c) If the Surcharge had been adjusted in line with the national consumer price index since July 2000, the maximum level of excess would now amount to approximately $737 (for single policies) and $1,475 (for family policies) (*based on the All groups CPI weighted average of eight capital cities, percentage change from previous financial year*).

d) The current Government policy on private health insurance premiums is provided in the response to question (a). The private health insurance sector is a competitive market of 34 insurers and therefore any price impact would be driven by a market response.