HEALTH INSURANCE AMENDMENT (MEDICARE SAFETY-NETS) BILL 2005

THE INQUIRY

1.1 The Health Insurance Amendment (Medicare Safety-nets) Bill 2005 (the Bill) was introduced into the House of Representatives on 23 June 2005. On 10 August 2005, the Senate, on the recommendation of the Selection of Bills Committee (Report No. 7 of 2005), referred the provisions of the Bill to the Committee for report.

1.2 The Committee considered the Bill at a public hearing on 18 August 2005. Details of the public hearing are referred to in Appendix 2. The Committee received 11 submissions relating to the Bill and these are listed at Appendix 1. The submissions and Hansard transcript of evidence may be accessed through the Committee's website at http://www.aph.gov.au/senate_ca

1.3 The Parliamentary Library Bills Digest No 17 dated 9 August 2005 also discusses a number of issues relating to the Bill and may be accessed at www.aph.gov.au/library/pubs/bd/2005-06/06bd017.htm

THE BILL

1.4 The purpose of the Bill is to amend the *Health Insurance Act 1973* to increase the annual thresholds above which benefits under the extended Medicare safety net are payable. The thresholds will increase from $306.90 to $500 for concession card holders and families in receipt of Family Tax Benefit Part A (FTB (A)) and from $716.10 to $1,000 for all other families and individuals from 1 January 2006. The Bill also changes the date for beginning the indexation for both the upper and lower thresholds from 2005 to 2007.[1]

1.5 The Minister for Health and Ageing stated that the measures will:

> maintain the sustainability of the extended Medicare safety net and ensure Australians will continue to receive additional protection for high out-of-pocket medical costs.[2]

ISSUES

1.6 The extended Medicare safety net came into effect on 12 March 2004. The extended safety net covers 80 per cent of the out of pocket costs for Medicare services provided outside hospital once an annual threshold is met. It was estimated that the cost of the safety net would be just over $440 million over four years to 2006-07. The Minister for Health and Ageing stated that 'after the safety net came into operation it

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1 Explanatory Memorandum, p.4.

2 Minister for Health and Ageing, Second Reading Speech, 23.6.05.

became clear that these estimates needed to be revised'. The increase in costs was due to three factors: more people than expected qualified for safety net benefits; out-of-pocket medical expenses were higher; and some specialities shifted charges on to Medicare out of hospital items so that their patients could claim safety net entitlements. The Minister concluded 'if the Government had not acted quickly, costs would have blown out to $1.4 billion over the four year to 2007-08'.[3]

1.7 The measures in the Bill have a total saving over 2005-06 to 2008-09 of $499 million.[4]

Impact on affordability of medical services

1.8 The primary area of concern for witnesses was the impact of the change to the threshold on the affordability of medical services, particularly for low income earners and those with chronic medical conditions.[5] The Australian Medical Association (AMA) stated that the safety net should have been given more time to settle in as:

> …the measure will impact hardest on those who are in most need of health services (chronically ill) and those least able to afford to pay for such services (low income groups). Although we think the threshold provisions of the new Bill are a step back from the original thresholds, we still consider the new thresholds are a big step forward from where we were prior to March 2004.[6]

1.9 The AMA stated that, although it was concerned about the thresholds proposed, it still supported the safety net 'quite strongly'. It noted that the safety net uses real fees as opposed to the schedule fee as its basis and commented that this 'is significant. It emphasises that the safety net is catching up with real life'.[7]

1.10 Catholic Health Australia (CHA) described the changes to the thresholds as a 'cruel blow' to average and lower income earners and that it was in effect a $200 per year health tax.[8]

1.11 The Australian Consumers Association (ACA) commented that the changes will exacerbate the existing problems and inequities in the system. In particular, the ACA stated that the Safety Net 'disproportionately benefits those who see private specialists, and access expensive out-of-hospital medical treatment such as diagnostic scans, where the gap between the schedule fee and the fee charged is much greater'.[9]

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3 Minister for Health and Ageing, Second Reading Speech, 23.6.05.

4 Explanatory Memorandum, p.1.

5 *Submissions* 7, p.4 (RDAA); 11, p.1 (Public Health Association).

6 *Submission* 5, p.2 (AMA).

7 *Committee Hansard* 18.8.05, p.1 (AMA).

8 *Submission* 9, p.5, *Media Release,* 'Safety Net change a cruel blow to the sick and poor', 14.5.05 (CHA).

9 *Submission* 4, p.1 (ACA).

The National Rural Health Alliance (NRHA) also commented that evidence from the early days of the safety net 'suggested that doctors in affluent areas were the ones charging more and leading to their patients incurring costs against the safety net'.[10]

1.12 The Department of Health and Ageing noted that it is expected that 1,070,840 fewer people will qualify for the safety net in 2006. Those that are eligible for the lower threshold will need to incur additional out of pocket costs of $184.90 before the safety net benefits become payable, while those eligible for the higher threshold will need to incur an additional $264. The maximum out of pocket over the course of 2006 for those on the lower threshold is estimated at $147.92 and for those on the higher threshold an estimated $211.68 (over and above the out of pocket cost expected under the current thresholds).[11]

1.13 In relation to the impact of the change, the Department commented that it did not have evidence to indicate that those with chronic illness would be hardest hit. The Department stated that 'you need to be a heavy user of GP services to access the safety net. Typically, it will be diagnostic services – services like radiotherapy – that will take you over [the threshold]'.[12]

1.14 The Department concluded:

> The extended Medicare safety net continues to provide protection against high out of pocket costs for out of hospital services for all Australians. It benefits every Australian by providing certainty that Medicare will provide additional assistance with their expenses if they incur costs above the thresholds. It is expected to directly benefit about 1.5 million people in 2006 through additional benefits.[13]

Impact on costs of medical services

1.15 Submissions raised the practice of shifting charges on to Medicare out of hospital items to ensure that they were caught under the safety net provisions. Professor Stephen Leeder noted the case of IVF treatment:

> The Medicare benefit is around $1000 and the procedure costs at least $3000. Before the safety net, two accounts would be rendered to the patient, one for submission to Medicare and the other to be paid out of pocket. Now they are rolled together because the remaining $2000 can be covered through the net.[14]

10 *Submission* 8, p.3 (NRHA).

11 *Submission* 6, p.1 (DoHA).

12 *Committee Hansard* 18.8.05, p.15 (DoHA).

13 *Submission* 6, p.2 (DoHA).

14 *Submission* 1, p.1 (Prof Stephen Leeder).

1.16 The ACA also noted that once the safety net is reached there is no incentive for consumers to limit the number of times they access service and no incentive for service providers to reduce fees.[15] CHA commented:

> This impost on families is unlikely to address the major reason for the budget blow-out which has been caused by much higher charges by some medical specialist groups since the safety net was introduced.[16]

1.17 The AMA stated that:

> On the evidence available to us, doctors' charges did not cause higher expenditure on the safety net. Our understanding is that doctors' charges have risen in line with increases in the Medicare Benefits Schedule as indexed by the Government. There has been a small drift upwards in the complexity of items used but this is an entirely expected continuation of past trends as medicine becomes more complex and affordable to Australians.[17]

The AMA stated that it would be concerned if doctors could not justify a fee.[18] It indicated that it had developed policies for responsible behaviour under the safety net including that doctors should not alter the actual location of the service to financially benefit the patient, nor shift an inpatient gap to an associated outpatient consultation. The AMA has promulgated these policies widely to the AMA membership.[19]

1.18 The Department also commented that there was no evidence that the introduction of the safety net had led to an increase in medical fees:

> With the exception of the initial phenomenon around obstetric items coming within the scope of the safety net, which evidenced itself as an increase in fees but was actually a widening of the scope of Medicare, there has been nothing of great concern. We have also looked at IVF as another area where there has been some growth but, other than those two, we have seen no systematic evidence of anything other than normal inflationary increases in fees – normal secular trends in fee growth.[20]

The Department advised that it has also taken steps to ensure that certain items can only be claimed as an in-hospital item and 'therefore cannot be brought into the scope of the safety net'.[21]

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15 *Submission* 4, p.1 (ACA).

16 *Submission* 9, p.5, *Media Release,* 'Safety Net change a cruel blow to the sick and poor', 14.5.05 (CHA).

17 *Submission* 5, p.1; *Committee Hansard* 18.8.05, pp.4-5 (AMA).

18 *Committee Hansard* 18.8.05, p.6 (AMA).

19 *Submission* 5, p.1; *Committee Hansard* 18.8.05, p.6 (AMA).

20 *Committee Hansard* 18.8.05, p.11 (DoHA).

21 *Committee Hansard* 18.8.05, p.16 (DoHA).

Recommendation 1

The Committee reports to the Senate that it has considered the Health Insurance Amendment (Medicare Safety-nets) Bill 2005 and recommends that the Bill be passed without amendment.

Senator Gary Humphries
Chairman

September 2005