Australian Democrats Additional Comments

Inquiry into Private Health Insurance Bill 2006 [provisions] and related Bills

The Private Health Insurance Bill 2006 (provisions) and related Bills represent significant changes to private health insurance arrangements – changes that have implications not only for the privately insured population but also for the 56% of the population who are dependent on the public system.

The Democrats start from the position that an individual's health care, and indeed their health status, should not be determined by virtue of their financial status or ability to buy and maintain health insurance. The Democrats are not opposed to private health care and indeed see some value in a viable private health care sector that complements the public health system. That notwithstanding, we disagree with the extent of public funding for the private sector and the escalating commitment by Government to subsidising private health insurance.

Over the last decade the Federal Government has introduced measures such as the 30% premium rebate, coerced individuals into taking out private health insurance through measures such as lifetime rating and provided tax-penalties for higher income earners – the latter meaning that many people are actually paid for taking up the product.

Ian McAuley, from the University of Canberra, commented that 'What we have had in private health insurance when we count measures such as the rebate, the one per cent tax penalty and the Lifetime Health Cover etcetera are five rounds of increasing industry assistance now costing about $4 billion a year. That is $3 billion in direct outlays and at least $1 billion in forgone revenue because of the one per cent incentive'[1].

The Democrats have commented on numerous occasions about the inefficiency of the 30% private health insurance rebate and the inappropriateness of spending billions of dollars of the health budget in a manner which undermines the health system as a whole. There is ample evidence that private health insurance is not only inflationary causing overall spending on health care to rise, but is inefficient, misallocates resources and undermines equitable access to health care.

Rather than taking the challenge of considering the most appropriate forms of health financing to meet the health needs of a wealthy developed country such as Australia in the 21st century, the Government has chosen to provide what is little more than industry protection for an inefficient intermediary in health care. McAuley states that 'there are more efficient ways of providing consumer choice and supporting private service providers than churning funds through a financial intermediary such as private insurance'[2].

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1 *Committee Hansard* 2.2.07, p.7 (Ian McAuley).

2 *Submission* 2, p.1 (Ian McAuley).

Substantial evidence suggests that a single national public health insurer is the most efficient and equitable way to fund health care. This is not the same as saying that all health care should be free or delivered by public organisations but simply that a single national insurer has the ability to contain costs and unnecessary usage.

The Government needs to delink the private health sector from the private insurance industry. It is entirely feasible to provide support for private health care and consumer choice by mechanisms other than supporting the private health insurance industry. The Government subsidy to private health insurance would be better spent through direct funding to private hospitals and service providers.

As McAuley notes such an approach "relieves the government of the need to regulate the insurance industry which….is very complex and difficult. It bypasses the billion dollars in administration costs. It gives the government some control over costs and usage, and it gives the government far more control over equity in the system. It particularly would provide equity for that 57 per cent of the population who do not have private health insurance but who meet these or similar expenses from their own pockets. We would have more consumer choice, more self-reliance and a reduction of the moral hazard which occurs, particularly given that insurers and the government are pushing strongly for 100 per cent cover and zero deductible policies"[3].

It is also noteworthy that these changes have been justified in part on the basis that they will reduce costs and therefore reduce pressure on health insurance premiums. It is difficult however to accept this premise. Providing services to patients in the community is not necessarily less expensive, and administration costs for managing these new processes may be substantial. MBF itself noted that 'any potential for health cost control through more innovative models of care are unlikely to be reflected in premiums overs the short term" and indeed suggested that the costs of covering [preventive programs] will be upfront resulting in a potential upward pressure on prices in the short to medium term'[4].

The Democrats have long been advocates for a greater orientation towards prevention and early intervention within Australia's health system and are strongly supportive of the principles that underlie moves in that direction. Similarly the Democrats support broader access to non-hospital based care.

Health care should be provided in the most appropriate and safe setting possible and funding mechanisms should be designed to support this. Equally it is desirable that processes should be in place to assist people to participate in preventative programs that better assist them in managing chronic conditions. The burgeoning rates of chronic diseases such as diabetes and their accompanying long-term health consequences and financial costs make it imperative that we look at earlier and more effective management of these conditions.

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3 *Committee Hansard* 2.2.07, p.8 (Ian McAuley).

4 *Submission* 15, p.10-11 (MBF).

However the Democrats are also concerned that the changes contained within this legislation may contribute to the dismantling of the public health insurance system. While it is not easy to predict the effect of changes to health insurance, it is true to say that if public health insurance were to play a lessor role in health care then the role of private health insurance would need to expand to fill in any gap created by the withdrawal of Medicare. This legislation appears to represent moves in that direction, albeit presented as offering benefits to the quality of health care for the privately insured.

As noted in the Chair's report while there are currently services covered by private health insurance that are not included in Medicare, Broader Health Cover will significantly expand the list of items covered by private health insurance but not Medicare. This undermines the universal nature of the health care system in Australia by providing access to services to those who have private health insurance that are not available to those who do not have private health insurance.

Given the increasing amount of public funding directed to private health insurance, it is timely that we re-evaluate its nature, role and degree of government support. However this re-evaluation must take place in the context of the broader health system and any changes to private health insurance must not be to the detriment of the system as a whole.

Indeed it is time that we revisited the whole health system, including the system of health financing. In designing a health care system that is equitable and efficient and best adapted to meet 21st century health care needs, the sanctity of private health insurance should not be above examination.

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