

**SENATE COMMUNITY AFFAIRS LEGISLATION COMMITTEE**

**INQUIRY INTO THE  
PRIVATE HEALTH INSURANCE INCENTIVES AMENDMENT  
BILL 2004**

**SUBMISSION BY THE DEPARTMENT OF HEALTH AND AGEING**

**DECEMBER 2004**

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## **1. INTRODUCTION**

The *Private Health Insurance Incentives Amendment Bill 2004* (the Bill) amends the *Private Health Insurance Incentives Act 1998* and the *Income Tax Assessment Act 1997* to provide increases in the Private Health Insurance rebate for older Australians:

- from 30% to 35% for people aged from 65 to 69 years; and
- from 30% to 40% for people aged 70 years and over.

Detailed information on the amendments is contained in the Bill's Explanatory Memorandum, as tabled with the Bill.

The Senate Community Affairs Legislation Committee is considering the Bill, in particular:

- the effect of the Bill on the affordability of private health insurance for all older Australians, regardless of whether they currently hold private health insurance or not; and
- inequity implications relating to the affordability of private health insurance for other Australians arising from the changes proposed in the Bill.

The Department of Health and Ageing provides this submission to support the Committee's deliberations. Section 2 of the Submission gives an overview of the current arrangements for the Private Health Insurance Rebate and a summary of the changes made by the Bill. Section 3 addresses "the effect of the Bill on the affordability of private health insurance for all older Australians" (Issue 1). Section 4 addresses "inequity implications relating to the affordability of private health insurance for other Australians" (Issue 2).

## **2. THE PRIVATE HEALTH INSURANCE REBATE**

### **2.1 CURRENT ARRANGEMENTS**

The Private Health Insurance Rebate was introduced on 1 January 1999 to increase the affordability of private health insurance by reducing the cost of premiums by 30%. The rebate is available to all Australians who are eligible for Medicare, and who are either members of a registered health fund, or are paying the premium for another person. The rebate is available on hospital, ancillary or combined cover. The rebate can be claimed as a reduction in the premium paid, as a direct payment from Medicare offices, or as a tax rebate in the annual tax return.

The Private Health Insurance Rebate supports the affordability of private health insurance:

- A family with a combined hospital/ancillary policy with an annual premium of \$2,700 receives a rebate of \$810, leaving them with a net premium cost of \$1,890;

More than one million Australians on incomes less than \$20,000 per year have private cover; and more than one million people aged 65 and over are covered by private health insurance.

The Private Health Insurance Rebate is part of a package of measures that together have aimed to increase the number of people covered by private health insurance. The proportion of the population with private health insurance cover has increased from 30 percent in December 1998 to 43 percent in September 2004.

## 2.2 THE PRIVATE HEALTH INSURANCE INCENTIVES AMENDMENT BILL

The Bill will:

- Increase the Private Health Insurance Rebate from 30% to 35% for people aged from 65 to 69 years and to 40% for people aged 70 years;
- Apply the increased rebate to the whole premium of a private health insurance policy where one or more of the individuals covered qualifies for the age threshold.

Where a person is entitled to an increased policy because someone else on the policy qualifies for the age threshold, he or she will continue to be entitled to the higher rebate if the older person leaves the policy, due for example to death, divorce or separation. This provision will apply provided that the policy is not replaced by a couples or family policy with another person (other than adding a dependent child).

The Bill also makes a minor consequential amendment to the Lifetime Health Cover provisions in the *National Health Act 1953* to match the definition of a Gold Card introduced in the *Military Rehabilitation and Compensation Act 2004* from 1 July 2004.

## 3. AFFORDABILITY OF PRIVATE HEALTH INSURANCE FOR OLDER AUSTRALIANS

The Bill will make private health insurance more affordable for all older Australians, not just those who currently have private health insurance:

- For example, a couple where one partner is 66 and the other is 61 who currently have a couples-policy with an annual premium of \$2,500 are currently entitled to a 30% rebate of \$750;
- The Bill will increase their rebate to 35% or \$875, therefore reducing the cost of their private health insurance by \$125;
- If one partner were aged 70 or over, the Bill would increase their rebate to 40% or \$1,000, reducing the cost of their private health insurance by \$250.

### 3.1 LIFETIME HEALTH COVER

The increased rebate will apply to the whole premium paid, including any Lifetime Health Cover loading that may apply.

- Some older people who may be encouraged by the Bill to take out private health insurance for the first time may have a Lifetime Health Cover loading applied to their premium.
- A person who is aged over 30 when taking out hospital cover for the first time will have a loading of 2% of their premium for each year their Lifetime Health Cover Age exceeds 30. The maximum loading is 70%. This will be paid by a person who takes out hospital cover after the 1 July following their 65<sup>th</sup> birthday.
- The Lifetime Health Cover loadings do not apply to people born before 1 July 1934. This means that when the Bill takes effect on 1 April 2005, a person aged 70 or over will not have to pay a loading.

### **3.2 PREMIUMS FOR OLDER PEOPLE**

The Bill will not cause health funds to increase the premiums paid specifically by older people. This is because funds do not set their prices according to the age or health risk of the individual or family covered. Private health insurance in Australia is community rated rather than risk rated. Older people are protected from paying substantially higher premiums than younger, healthier people and their premiums do not increase as they get older and sicker.

Apart from the provisions of Lifetime Health Cover which only apply to people taking out private health insurance for the first time, Australian health funds charge everyone who purchases a particular product the same premium, regardless of their age or health status. The Bill does not change this.

### **4. INEQUITY IMPLICATIONS RELATING TO THE AFFORDABILITY OF PRIVATE HEALTH INSURANCE FOR OTHER AUSTRALIANS**

The main impact of the increase in the private health insurance rebate proposed in this Bill is anticipated to be a reduction in the number of older people dropping their cover. It is not expected to result in significant numbers of older people taking out private health insurance for the first time. For this reason, the Department expects that the Bill will have a little or no impact on premium growth.

There will be a small increase in the proportion of older people in the insured population and a small increase in health fund expenditure on older members' claims. However, the net effect on premiums is expected to be relatively minor compared with the costs of the general ageing of the population.

#### **4.1 THE EFFECT OF THE BILL ON THE NUMBER OF OLDER PEOPLE COVERED BY PRIVATE HEALTH INSURANCE**

The introduction of the 30% Private Health Insurance Rebate in 1999 did not encourage significant numbers of older people to take out private health insurance. Between March 1998 and March 2000 (the period when the Private Health Insurance Rebate was first introduced), the participation rate for the under 65's grew by 1.3 percentage points while the rate for the 65 and over group fell by 0.7 percentage points:

- March 1998 participation rates
  - under 65's – 30.3%
  - 65 and over – 37.4%
  
- March 2000 participation rates
  - under 65's – 31.6%
  - 65 and over – 36.7%

As the introduction of a 30% rebate on premiums did not lead to an increase in the insured population in the 65+ group it is not expected that the proposed higher rebate will encourage significant numbers of new joiners.

The proportion of the older population covered by private health insurance has remained relatively stable in recent years. However, after the age of 65, each five-year age cohort has a lower participation rate than its predecessor. The reasons for this fall are not clear. One factor may be older people choosing to drop their private health insurance as they move onto fixed and low to moderate retirement

incomes. Another may be older people taking advantage of the availability of 'seniors' health benefits, including those offered by the Department of Veterans Affairs.

To the extent that the fall in participation among the aged is due to declining income, it is expected that the increased affordability due to the Bill will increase the retention rate slightly among older people with private health insurance.

- The estimated effect of the Bill was derived by first estimating the number of people who drop their cover as they age then applying an increase in retention.
- The result is an estimated increase in the 65+ covered population of about 10,000 people.
- This slight increase is expected to happen over four or five years.

#### **4.2 THE IMPACT ON FUND OUTLAYS AND PREMIUMS OF THE ADDITIONAL OLDER PEOPLE**

The estimated additional 10,000 people in the 65+ age cohorts who will retain their cover will cause a slight net increase to health funds expenditure because in general older people cost more per person in benefit outlays than they bring in contribution income. However, because the anticipated increase in this cohort is small, the additional net cost is expected to be small compared to total benefit outlays across all insured persons.

The additional cost is also expected to be very minor when compared to other anticipated cost pressures that impact on both the public and private health sectors, including workforce, technology and the ageing of the population.

The combination of these factors leads to the conclusion that the Bill will have a negligible impact on premium growth while encouraging affordability for older Australians.

**Department of Health and Ageing  
Submission to Senate Community Affairs Legislation Committee  
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