

Chapter 1

Introduction

Background

1.1 On 12 May 2009, the Treasurer the Hon. Wayne Swan and the Minister for Health and Ageing, the Hon. Nicola Roxon, announced that the government would:

...rebalance the suite of policies supporting private health insurance – so that those with a greater capacity to pay for their own private health insurance do so... high income earners will receive less Government payments for their private health insurance, but will face an increase in costs should they opt-out of their health cover.¹

1.2 The Fairer Private Health Insurance Incentives Bill 2009, the Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2009 and the Fairer Private Health Insurance Incentives (Medicare Levy Surcharge—Fringe Benefits) Bill 2009 ('the bills') were introduced into the House of Representatives on 27 May 2009 to give effect to this proposal. The bills are intended to ensure that those with a greater capacity to pay make a larger contribution towards the cost of their private health insurance.

Purpose of the bills

1.3 Currently, people who have a private health insurance policy receive a 30 per cent rebate on the cost of this policy: those without private health insurance earning more than \$70,000 per annum are liable for a one per cent Medicare levy surcharge on their taxable income.

1.4 The bills taper the rate of the private health insurance rebate and increase the Medicare levy surcharge for higher income earners.

1.5 The bills give effect to three new Private Health Insurance Tiers. For those under 65 years of age with a private health insurance policy:

- (a) singles earning more than \$75,000 per annum and couples/families earning more than \$150,000 per annum will have their private health insurance rebate reduced by 10 per cent. The Medicare levy surcharge will remain at 1 per cent for those singles and couples/families that do not hold appropriate private health insurance;
- (b) singles earning more than \$90,000 per annum and couples/families earning more than \$180,000 per annum with a private health insurance policy will have their private health insurance rebate reduced by 20 per

1 Treasurer and Minister for Health and Ageing, *Press Release*, 12 May 2009.

cent. The Medicare levy surcharge will be increased by 0.25 percentage points for those singles and couples/families that do not hold appropriate private health insurance;

- (c) singles earning more than \$120,000 per annum and couples/families earning more than \$240,000 per annum will no longer receive any private health insurance rebate. The Medicare levy surcharge will be increased by 0.5 percentage points for those singles and couples/families that do not hold appropriate private health insurance; and
- (d) existing private health insurance rebate arrangements will remain unchanged for singles with income of less than \$75,000 per annum and couples/families with a combined income of less than \$150,000 per annum.

1.6 These amendments apply to income years starting on or after 1 July 2010.

Conduct of the inquiry

1.7 Under a Senate Resolution of 14 May 2009, the bills were referred to the Senate Economics Legislation Committee on their introduction into the House of Representatives on 27 May 2009. The resolution required the Committee to report to the Senate on 16 June 2009.

1.8 On 9 June 2009, the Senate Economics Legislation Committee held a public hearing into the provisions of the legislation. The same day, the Economics Committee held a private briefing with officials from the Treasury and the Department of Health and Ageing.

1.9 On 15 June, the Senate transferred the inquiry from the Economics Committee to the Senate Community Affairs Legislation Committee and extended the reporting date until 5 August 2009. The transfer also included the submissions and evidence received by the Economics Legislation Committee during its period in control of the inquiry.

1.10 The committee received 13 submissions, which are listed at Appendix 1 of this report. These submissions are also available at the committee's webpage: http://www.aph.gov.au/Senate/committee/clac_ctte/fairer_private_health_09/submissions/sublist.htm

1.11 In addition to the hearing held by the Economics Committee, the Community Affairs Committee held four further public hearings: on 8 July in Canberra, 9 July in Melbourne, 10 July in Perth and 14 July in Canberra. The committee thanks all the witnesses who appeared these hearings to give evidence.

Outline of the report

1.12 Chapter 2 of this report details the purpose, cost and comments in support of the legislation. Chapter 3 investigates the likely impact of the legislation, including Treasury's modelling and concerns that the measures will lead to a significant cut in private health insurance membership and place corresponding stress on public hospitals.

