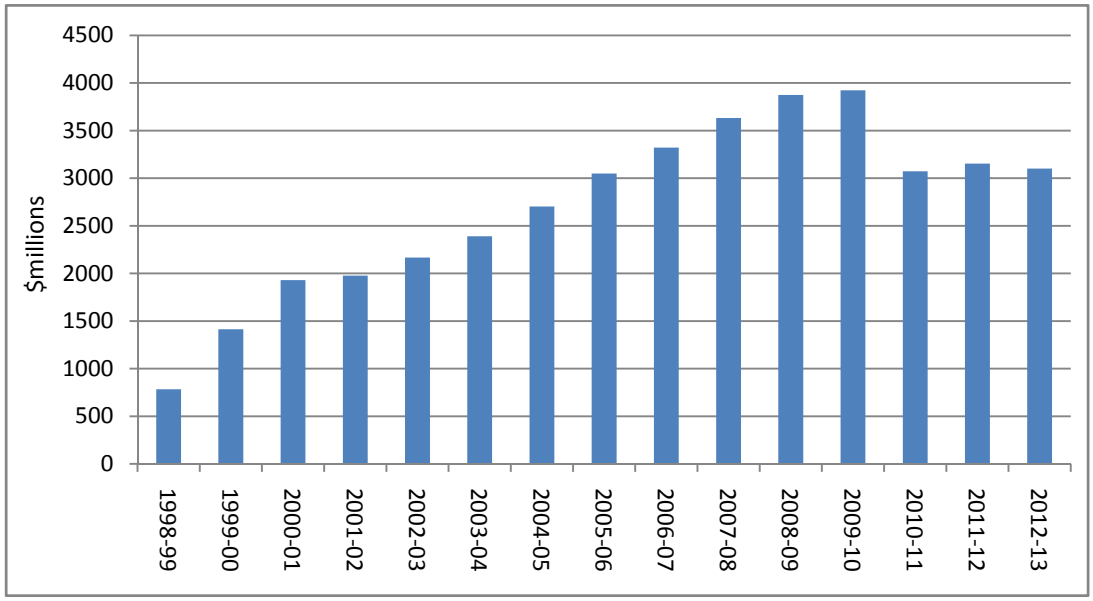
Chapter 2

The bills

Background

2.1 In his Budget Speech of 12 May 2009, the Treasurer the Hon. Wayne Swan noted that 'spending on the private health insurance rebate is growing unsustainably [Chart 2.1], and disproportionately favours those on higher incomes'. He announced that from 1 July 2010, the 30 per cent private health insurance (PHI) rebate will be reduced for higher income earners and the Medicare Levy Surcharge (MLS) will be increased for those in higher income brackets.[1] Mr Swan added that Treasury modelling shows that private health insurance coverage 'will remain at more than 99 per cent of its current levels'.[2]

Chart 2.1: Payments under the Private Health Insurance Act 1998



Source: Data taken from Department of Health and Ageing, Portfolio Budget Statements 2009–10, p. 254; Department of Health and Ageing, Annual Reports, various years.

2.2 The Minister for Health, the Hon. Nicola Roxon, explained that the bill brings Government support for private health insurance in line with the principle that the

1 The Medicare Levy Surcharge is imposed on all people who earn over $70,000 per annum and do not hold private health insurance. It is levied at a rate of 1 per cent of total income. For example, a person earning $75,000 per annum without PHI would be liable to pay an MLS of $750 per annum.

2 The Hon. Wayne Swan, *Budget Speech*, 12 May 2009.

largest benefits be provided to those on the lowest incomes.[3] In evidence to the committee, Mr Mark O'Connor from Treasury's Revenue Group highlighted the inequity of current arrangements to finance the 30 per cent rebate, and the bill's redress:

2.3 Under current projections, by 2010-11 it is estimated that approximately 14 per cent of single tax-filers who have incomes above $75,000 would receive about 28 per cent of the total private health insurance rebate paid to singles. Under the new reforms introduced via these bills, they will receive around 12 per cent. Similarly by 2010-11, it is estimated that approximately 12 per cent of coupled tax-filers who have incomes above $150,000 would receive approximately 21 per cent of the total private health insurance rebate paid to couples. Under the new reforms, they will receive around nine per cent.4

The bills' measures

2.4 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 taper the rate of the PHI rebate and increase the MLS for higher income earners.5 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. The amendments will apply to income years starting on or after 1 July 2010.

2.5 Table 2.1 summarises the measures in these bills. It also notes that the higher PHI rebate currently given to insurees aged 65–69 (35 per cent) and insurees over 70 (40 per cent) will also be reduced for the three income tiers.

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3 The Hon. Nicola Roxon, Second Reading Speech, *House of Representatives Hansard*, 27 May 2009, p. 3.

4 Mr Mark O'Connor, *Proof Committee Hansard*, 9 June 2009, p. 3.

5 The Fairer Private Health Insurance Incentives Bill 2009 proposes amendments to five Acts: the *Income Tax Assessment Act 1936*, *Income Tax Assessment Act 1997*, *Private Health Insurance Act 2007*, *Taxation Administration Act 1953* and *Taxation (Interest on Overpayments and Early Payments) Act 1983*. The bill introduces new income tiers for the private health insurance rebate, allows the Commissioner of Taxation to require the provision of certain information and allows for the recovery of payments that are recoverable as debts due to the Commonwealth and pay interest on overpayments.

The Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2009 proposes amendments to the *Medicare Levy Act 1986* which determines whether an individual is liable to pay the Medicare Levy Surcharge on their taxable income.

The Fairer Private Health Insurance Incentives (Medicare Levy Surcharge—Fringe Benefits) Bill 2009 proposes amendments to *A New Tax System (Medicare Levy Surcharge) Act 1999*. This Act determines whether an individual is liable to pay the Medicare Levy Surcharge in respect of a reportable fringe benefit they or their spouse may have.

See Mandy Biggs, *Bills Digests nos. 152, 153 and 154*, Parliamentary Library, 5 June 2009.

Table 2.1: The bill's measures

	Current surcharge thresholds	Tier 1	Tier 2	Tier 3
Single	$0 - $75,000	$75,001 - $90,000	$90,001 - $120,000	$120,001+
Families	$0 - $150,000	$150,001 - $180,000	$180,001 - $240,000	$240,000+
Medicare levy surcharge	Nil	1%	1.25%	1.5%
Private health insurance rebate				
Less than 65 years	30%	20%	10%	nil
65 to 69 years	35%	25%	15%	nil
70 years or over	40%	30%	20%	nil

Source: Budget Paper No. 2, p. 311.

2.6 Table 2.2 shows that these measures will save $1.9 billion over five years. Government expenditure on the private health insurance rebate will reduce by $1.8 billion over four years, while revenue through the surcharge will increase by $145 million between 2011–12 and 2012–13. It will cost the Australian Taxation Office $67 million over five years to implement the measure.

Table 2.2: Impact on cost from the bill's measures

Expense ($million)	2008–09	2009-10	2010–11	2011–2012	2012–2013
Department of Health & Ageing	-	119.3	-713.5	-613.8	-614.9
Australian Taxation Office	1.0	4.8	18.1	33.6	9.1
Medicare Australia	-	0.3	-	-	-
Total	**1.0**	**124.3**	**-695.4**	**-580.2**	**-605.8**

Source: Budget Paper 2, p. 310.

2.7 Treasury told the committee that means testing the PHI rebate will affect the top 23 per cent of the privately insured population (measured as Single Equivalent Units (SEU) by income level). It estimates that nine per cent of those with PHI are within Tier 1, around seven per cent are in the second income tier and a further seven per cent are in the top tier. Treasury also noted that while people aged 65 or over

constitute 12 per cent of privately insured SEU's, the proportion of this age group affected by the measure will be less than two per cent.[6]

Support for the bill

2.8 Several witnesses and submitters were supportive of the bill's measures on the grounds that they offered greater equity in the structure of taxpayer support for health insurance and health service funding.

2.9 Underpinning this support was pointed criticism of the current private health insurance rebate. Dr John Deeble, notably, argued that the PHI rebate has been 'wasteful' and 'ineffective in raising more private money for health'.[7] In the context of the Government's pledge to retain the rebate, however, he argued that the bill's measures go 'some way towards a more equitable and sustainable system'.[8]

2.10 Similarly, the Australian Nursing Federation 'strongly' supported the legislation, but in the broader context that 'it should not be the Government's responsibility to provide incentives for the private health insurance industry to attract buyers to its membership products'.[9]

2.11 The Australian Healthcare and Hospitals Association also offered strong support for the legislation. It also refuted claims that the rebate had either attracted members to the funds or that it had taken pressure off the public hospital system.[10] Moreover, the Association highlighted that the rebate has been an 'extremely inefficient' use of taxpayer dollars in that it funds a commercial insurance industry rather than health service delivery.[11]

2.12 Ms Michelle Kosky, Executive Director of the Health Consumers Council of Western Australia, expressed her support for the bill's intent:

> I have no problem at all with taking the view that people who can afford it should have private health insurance to enable people who cannot afford it

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6 Mr Mark O'Connor, Senate Economics Legislation Committee, *Private Briefing*, 9 June 2009, p. 3.

7 Dr John Deeble, AO, was co-author of the original proposals for universal health insurance in 1968, Special Adviser to the Ministers for Health in the Whitlam and Hawke governments, Chairman of the Planning Committees for both Medibank and Medicare and a Commissioner of the Health Insurance Commission for 16 years to 1999. See http://www.health.act.gov.au/c/health?a=da&did=10084012&pid=1192599114 (accessed 23 July 2009).

8 Dr John Deeble, *Submission 6*, p. 1.

9 Australian Nursing Federation, *Submission 8*, p. 1.

10 The Association's submission cites V. Sundararjan, K. Brown and D. Hindle, "Effect of increased private health insurance on hospital utilisation in Victoria", *Australian Health Review*, Vol. 28, No. 3, 2004, pp. 320–329.

11 Australian Healthcare and Hospitals Association, *Submission 9*, p. 1.

> to access the public hospital system…I also think that means-testing a private health insurance rebate for wealthy people is not an unreasonable attitude for government to take at this time. By wealthy, I suppose I mean people on over $100,000 a year.[12]

2.13 Dr Deeble also praised the legislation for introducing a more progressive Medicare levy structure. In last year's Senate inquiry into the Medicare Levy Surcharge thresholds, Dr Deeble noted the MLS is unique among income-related charges in that it sets an extraordinarily high marginal tax rate. He noted in his submission to this inquiry that 'the proposed changes will not remove that problem but when the new surcharges are included, they will make the Medicare levy structure more progressive and much more like the income tax'.[13]

2.14 The following chapter presents a closer analysis of the likely impact of the legislation, including the Treasury's modelling and concerns that the measures will lead to a significant drop in PHI membership and place corresponding stress on public hospitals.

12 Ms Michelle Kosky, *Proof Committee Hansard*, 10 July 2009, p. 17.

13 Dr John Deeble, *Submission 6*, p. 2.