

4 June 2009

The Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Sir/Madam,

**Re: Inquiry into 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 Private Health Insurance Intermediaries Association Inc. (PHIIA) is the peak body representing health insurance agents and brokers in Australia, and is the primary independent interface between health funds and consumers. PHIIA's members communicate with thousands of Australians each day to explain the intricacies of the Australian Private Health Insurance system.

PHIIA notes that 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 incorporate significant changes which we believe will not only adversely affect the premiums many Australian consumers pay for their health insurance, but will further complicate an already complex system, and in all likelihood, add a significant administrative burden.

Consumers have already and will face, at various times in just over two years, changes by way of three premium increases, two amendments to the Medicare Levy Surcharge thresholds and changes to the PHI rebate (at this stage), with no guarantees that there will not be further changes. This sends a very confused message to policy holders and has started to undermine the confidence of Australians about private health insurance.

In our opinion, revised Medicare Levy Surcharge thresholds which applied from October 2008 have not been operative long enough to gauge the impact of those changes on the participation rate in the private health and, we believe, fuller impacts will not be measurable or open to evaluation until at least following the end of the current financial year.

We believe consumers are still confused about previous changes and will be further confused by the multi faceted complexities inherent in the proposed budgetary measures.

The detail regarding the implementation and management of the proposed Bills have not been spelled out and we have specific concerns regarding issues associated with premium prepayments and members facing wage and salary increases or decreases (including unemployment). While noting that the Bills empower the Australian Taxation Office to seek recovery, we are concerned that if rebates are not available at point of sale, fund members will face premiums increases of up to 67%, even though those increases may be (partially) refundable at tax time. Such an outcome would have a material negative impact on health insurance membership and ultimately premiums.

It is highly likely that members faced with significant premium increases will drop ancillary cover which has no MLS effect. Hospital table gross margins equate to approximately half that of ancillary tables and are thereby cross subsidized. Any drop out of ancillary will lead to rate increases in hospital.

The “company paid” health insurance market in Australia constitutes a small but profitable segment which underwrites general premiums through the operations of community rating. We fear that the proposed changes may impact significantly on this segment through the multiplier effect of fringe benefits tax on increased company paid premiums and initiate flow on increases across all premiums.

PHIA is also concerned that the ‘carrots and sticks’ approach do not apply consistently across all Income Tiers in that Tier 1 does not provide sufficient ‘stick’ to achieve the effect apparently sought by the Bill.

### **Summary**

PHIA believes that a wider enquiry encompassing the above matters should be convened, that the outcomes and recommendations of both the Productivity Commission Inquiry into the Public/Private Hospital mix, and the National Hospital and Health Services Commission, should be considered. Consultation with the industry should also be a mandatory.

Health insurance in Australia is a complex business and is now being further complicated; PHIA believes that the changes implemented to date should be measured and evaluated before further changes are contemplated.

rHIA, most of all believes that the average Australian needs to have certainty about their health and that Government should guarantee that they have a vision for the future, spell out that vision, and provide people with certainty about their future health care.

Yours faithfully

Peter Kerestes  
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