



Health Insurance Restricted
Membership Association of Australia

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HIRMAA Submission

to the

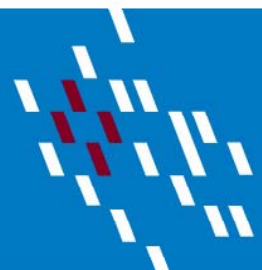
Senate Standing Committee on Economics

***Inquiry into the Fairer Private Health Insurance
Incentives Bill 2009 and related bills***

9 June, 2009

www.hirmaa.com.au

President – Mr John Rashleigh, Navy Health
Executive Director – Mr Ron Wilson



HIRMAA welcomes the opportunity to lodge a submission to the Senate Economics Committee regarding the *Fairer Private Health Insurance Incentives Bill 2009* and related bills.

HIRMAA is the peak industry body representing all thirteen restricted private health insurers and four open regional insurers (Attachment A). In summary, HIRMAA funds exist because of their unique historical and contemporary links to various professions, trades, industries, unions, employers and geographic regions. They are *not-for-profit* organisations with over 430,000 contributors providing private health insurance (PHI) coverage for approximately one million Australians.

Since its formation in 1978, HIRMAA has advocated for the preservation of competition, believing it to be fundamental to Australians having access to the best value health care services. HIRMAA has done this by:

- promoting legislation, regulations, policies and practices which increase the capacity of its member organisations to deliver best value health care services; and,
- vigorously resisting the efforts of those who seek to gain by concentrating the provision of private health insurance into the hands of a few large organisations.

A number of characteristics distinguish the HIRMAA member funds. They:

- are value-based as opposed to being profit-based;
- continue to offer various levels of insurance at highly competitive premiums;
- optimize benefit entitlements and premiums;
- continue to tangibly grow their membership numbers in a greater proportion from the overall industry;
- in the case of restricted funds, they have had their unique nature acknowledged in the *National Health Act 1953* and now in the *Private Health Insurance Act 2007*.

Concurrently, the HIRMAA organisation :

- founded and provides the majority membership of the Australian Health Service Alliance. This organization is recognized as a highly effective negotiator of hospital and medical arrangements and the developer of the most comprehensive database in the country;
- shares critical performance and operational information to promote enhanced efficiency and capability throughout its total membership;
- founded and provides the majority membership of HAMB Systems, the software provider and developer for 23 registered funds;
- provides objective input and underlying support to government and industry initiatives;
- provides an educational forum for all member funds and their staff; and,
- works cohesively and positively with the regulator, Ombudsman, Government and other relevant parties.

Fairer Private Health Insurance Incentives Bill 2009

Under the proposed changes to the PHI rebate incentives, the Federal Government will introduce three new PHI Incentive Tiers, effective from 1 July, 2010.

- **Tier 1** : for singles earning \$75,001 - \$90,000 (couples/families \$150,001 - \$180,000), the PHI rebate will be 20 per cent for those up to 65 years (25 per cent for those aged 65-69 and 30 per cent for those aged 70 and over). The Medicare Levy Surcharge (MLS) for those who do not have appropriate PHI will remain at 1 per cent.
- **Tier 2** : for singles earning \$90,001 - \$120,000 (couples/families \$180,001 - \$240,000), the PHI rebate will be 10 per cent, for those up to 65 years (15 per cent for those aged 65-69 and 20 per cent for those aged 70 and over). The MLS for those who do not have appropriate PHI will be increased to 1.25 per cent.
- **Tier 3** : for singles earning \$120,001 and more (couples/families \$240,001 and more) no PHI rebate will exist. The MLS for those who do not have appropriate PHI will be increased to 1.5 per cent.

At the outset, HIRMAA is obviously disappointed that the Federal budget contained changes to the PHI rebate. Our disappointment is magnified by the frequent reassurances that the established incentives would be left intact. However, we believe that the HIRMAA funds' unique products and unconditional service commitment have us best placed to continue to satisfy the needs and requirements of our existing membership. At the same time, we do anticipate that future growth plans targeting younger and healthier members will now be significantly more difficult.

HIRMAA also takes this opportunity to reiterate our contention that contributors, eligible for any of the levels of the PHI rebate after 1 July 2010, must be able to access this incentive or rebate as a reduction in premium at the time of payment. This is of the utmost importance. We would argue that any other form of accessing the rebate would remove the incentive to take-out and maintain private health insurance coverage leading to widespread membership losses and, in turn, a substantial escalation in premiums. We welcome and appreciate the opportunity to liaise with the Department of Health and Ageing (DoHA) regarding the implementation of this policy.

HIRMAA funds are most anxious to establish that there is no intention to implement further changes to the eligibility structure of the PHI rebate. We note that this is the second time since the election of the Rudd Government that PHI has been the subject of major changes via the Federal Budget mechanism. The Senate Committee will recall that in the 2008-09 Federal Budget there were significant changes to the Medicare Levy Surcharge and health insurers are still awaiting an accurate assessment of these changes when contributors complete their 2008-09 taxation returns. The introduction of further limitations on the eligibility criteria of the PHI rebate would have a disastrous impact on membership and send a clear (if unintended) signal to the community that the medium term objective is to totally abolish the rebate and ultimately diminish the role of PHI and, as a direct consequence, the private health sector in Australia's health system.

HIRMAA is aware of the wide variation in the estimates of the impact these changes will have on PHI membership. The Federal Government estimates that the impact will be as little as 25,000 less

memberships (99.7 per cent retaining their PHI¹) while some industry predictions² are as high as a loss of 241,000 members with hospital cover with an additional 728,000 downgrading their hospital cover. The same industry predictions include 774,000 likely to drop their General Treatment Cover (ancillary cover). HIRMAA is not in a position to assess the accuracy of these estimates and urges the Federal Government and its agencies to closely observe any adverse membership trends after the implementation of the policy.

HIRMAA reiterates its contention to the Minister for Health and Ageing and the DoHA that to allow the industry to stabilise its position, after two Federal budgets containing significant changes to PHI, it is imperative that the 2010-11 Federal Budget, and subsequent budgets, not contain further reductions to or diminution of PHI incentives. To do otherwise, will create a justifiable belief by consumers that their PHI products are becoming increasingly less attractive and affordable.

In summary :

- HIRMAA is disappointed that the 2009-10 Federal Budget contained significant changes to the PHI rebate given election and post-election promises and statements to the contrary;
- HIRMAA submits that the implementation of the policy changes must not create administrative difficulties, including privacy provisions, for insurers or consumers. As such, it is essential that consumers will be able to access their rebate in any of three ways:
 1. Up-front premium deduction by the insurer after one-off income declaration by the consumer,
 2. Rebate refund at Medicare offices by presentation of a premium receipt, and,
 3. Claiming the rebate through tax return at the end of the financial year;
- HIRMAA believes that it is essential that at no stage are health insurers expected or obliged to act as agents of the Australian Taxation Office;
- HIRMAA believes that to allow the PHI industry to stabilise its position, it is imperative that the 2010-11 Federal Budget, and subsequent budgets, not contain further reductions to or diminution of PHI incentives.

HIRMAA remains committed to a balanced health system and will apply its best efforts to ensuring that the private sector continues to make an invaluable contribution to Australia's health system. Of course, we can only achieve this objective with the continued support of the Federal Government and its agencies.

1 Media Release, Treasurer and Minister for Health and Ageing, 12 May 2009

2 Media Release, Australian Health Insurance Association, 22 May 2009

Attachment A

ACA Health Benefits Fund Ltd

CBHS Health Fund Ltd

Defence Health Ltd

Health Care Insurance Ltd

Health Partners Ltd*

Lysaght Peoplecare Ltd*

Navy Health Ltd

Phoenix Health Fund Ltd

Queensland Country Health Ltd*

Queensland Teachers' Union Health Fund Ltd

Railway and Transport Health Fund Ltd

Reserve Bank Health Society Ltd

South Australian Police Employees' Health Fund Inc

Teachers Federation Health Ltd

The Doctors' Health Fund Ltd

Transport Health Pty Ltd

Westfund Ltd*

* denotes regional open fund