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PRESIDENT
Mr Richard Bowden
CHIEF EXECUTIVE
Hon Dr Michael Armitage

Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Hawkins

SUBMISSION – INQUIRY INTO FAIRER PRIVATE HEALTH INSURANCE INCENTIVES BILL 2009

Summary

The Australian Health Insurance Association (AHIA) thanks the Senate for the opportunity to make a submission to the Senate Economics Committee's inquiry into the provisions of the *Fairer Private Health Insurance Incentives Bill 2009*.

The AHIA is the peak body for the Australian Private Health Insurance Industry. The AHIA represents 23 health funds, which provide healthcare benefits to over 10 million Australians.

The AHIA strongly opposes this legislation, as it believes that any move to means-test the 30% Rebate on private health insurance will place increased pressure on our public hospital system, a scenario the Minister for Health and Ageing has already conceded will occur.

The government's own Budget forecasts suggest that over the next five years, this measure will result in a loss of funding to the Australian health system of up to \$6.3 billion if those Australians who will no longer be eligible to receive the 30% Rebate exit their private cover.

The AHIA also contends that this legislation will ultimately result in higher premiums, particularly for older Australians (who currently enjoy the higher 35% and 40% rebates on private cover), as more people exit or downgrade their cover in response to the dismantling of the current rebate structure.

The AHIA estimates, based on market research, that up to 240,000 Australians with private hospital insurance are likely to exit their cover as a result of this legislation. This number represents a decline in private membership ten times greater than that projected by the Department of Treasury.

Further, the AHIA has calculated that 730,000 Australians are likely to "downgrade" their level of private hospital cover, and an additional 775,000 Australians will exit their General Treatment (Extras) cover as a consequence of the policy.



The significant number of Australians exiting or downgrading their private health insurance will have a detrimental impact on our public hospital system and result in additional pressure on premiums as Private Health Funds attempt to balance increasing costs with a diminished membership pool.

In making our submission to the Committee, the AHIA expresses its concern at the apparent haste associated with the conducting of this inquiry into the legislation. The Association is particularly concerned that, in its rush to report to the Senate by 16 June 2009, this Committee (which is reviewing legislation that is not due to take effect until July 2010) may be pre-empting the outcomes of other inquiries currently being conducted into relevant aspects of the Australian health system.

For instance, the National Health and Hospitals Reform Commission's Final Report is due to be presented to government for consideration shortly. It is interesting to note that in its Terms of Reference, the Commission was explicitly precluded by the Rudd Government from making any recommendations related to the 30% Rebate.

Further, the Productivity Commission's study into the performance of the public and private hospital systems is due to make recommendations on certain aspects of this legislation relating to the indexation of the Medicare Levy Surcharge thresholds in November 2009.

The AHIA is concerned that this legislation is a clear breach of an election commitment made by the Prime Minister, Mr Rudd, ahead of the 24 November 2007 poll. In correspondence to the AHIA dated 20 November 2007, Mr Rudd stated that:

"Federal Labor is committed to retaining the existing private health insurance rebates, including the 30 per cent general rebate and the 35 and 40 per cent rebates for older Australians".

This proposed measure is in clear violation of the government's commitment to the Australian public at the last election. I have attached a copy of Mr Rudd's guarantee for the consideration of the Committee.

The Importance of Private Health to the Australian Health Care System

Private health insurance plays an important role in providing affordable access to quality health care in Australia. In the 12 months to March 2009, the Private Health Insurance Administration Council (PHIAC) reported that the total benefits paid by Private Health Funds to the 11 million Australians who hold some form of private health cover was \$10.9 billion, an increase of 12.5 per cent over the previous year.¹

The Australian Institute of Health and Welfare (AIHW) reports that Private Health Funds also contribute towards important hospital care, with private health funding 56 per cent of all surgery in hospitals. This funding includes for example, supporting 55 per cent of procedures for malignant breast conditions, 55 per cent of chemotherapy cancer treatments and 70 per cent of same day mental health episodes.²

Further, AIHW data also demonstrates that the private health sector has contributed to a greater increase in the provision of in-hospital treatments since the introduction of the 30% Rebate when

¹ Private Health Insurance Administration Council, 2009, Quarterly Statistics

² Australian Institute of Health and Welfare, 2008, Selected Episodes: Hospital Statistics 2006-07



compared to the performance of the public system. Since 1998-99, in-hospital treatments in the private sector have risen by over 60 per cent, compared to a 25 per cent increase in the public sector's capacity over the corresponding period.³

Private health cover also ensures that Australians on modest incomes are able to access quality health services, including their choice of treating doctor and hospital. The AHIA estimates, based on Australian Bureau of Statistics income data, that 1 million Australians with private health insurance live in households with an annual income of less than \$26,000.⁴

The 30% Rebate represents an effective investment in the health system by the Australian Government because every dollar that the government contributes towards the private health insurance rebate is matched by more than two dollars by the individual. The AHIA is concerned that the means-testing of the rebate, with its projected savings-to-government of \$1.9 billion over five years, could reflect a total withdrawal from the health system of up to \$6.3 billion in funding over that period.

This estimated loss of \$6.3 billion to the health system is based on a worse-case scenario of all those Australians who are affected by the means-testing of the rebate exiting their private cover, once government contributions to Private Health Fund premiums - \$1.9 billion- and individual contributions of \$4.4 billion are considered.

The Impact of the 2008 Changes to the Medicare Levy Surcharge Thresholds

In the 2008 Budget, the Rudd Government proposed to double the Medicare Levy Surcharge (MLS) thresholds to \$100,000 for singles and \$150,000 for couples and families. Following a review of the legislation by this Committee, the Senate amended the original proposal, creating threshold levels of \$70,000 for singles and \$140,000 for families.

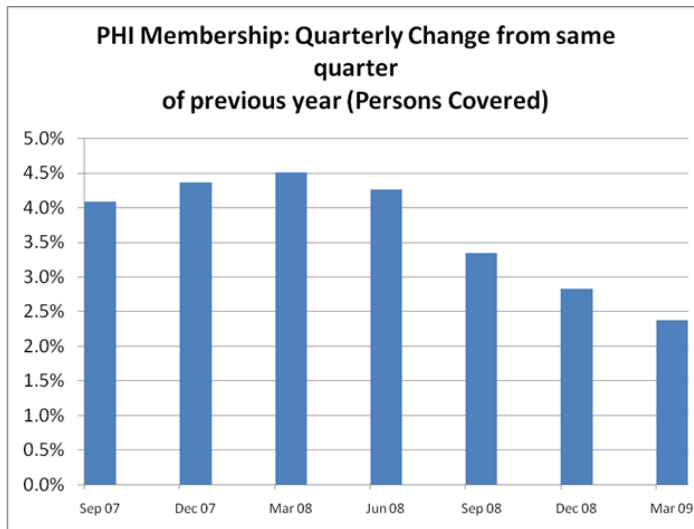
On announcing the compromise policy on 16 October 2008, the Minister for Health and Ageing said that the Government still expected, based on Department of Treasury estimates, 492,000 Australians to exit their private cover as a result of the increased MLS thresholds.⁵ This projection of a reduction of almost 500,000 in private health insurance membership as a consequence of the MLS changes was confirmed by both Treasury and Department of Health and Ageing officials at the recent June 2009 Estimates hearings.

The AHIA can confirm that since the announcement of the MLS threshold changes in May 2008 there has been a considerable slowing in the growth in private health insurance membership. The graph below, based upon official PHIA information, demonstrates that growth in private hospital cover membership has halved from 4.5 per cent in March 2008 (the quarter prior to the policy change announcement) to 2.4 per cent in the March 2009 quarter (the first quarter to reflect the new MLS thresholds):

³ Australian Institute of Health and Welfare, 2008, Change in In-Hospital Treatments by Hospital Type

⁴ Australian Bureau of Statistics, 2005, National Health Survey

⁵ Transcript, Press Conference including the Minister for Health and Ageing, 16 October 2008



Source: Private Health Insurance Administration Council, Quarterly Statistics, May 2009

The AHIA estimates that if the growth in private health insurance membership occurring prior to the 2008 Budget had continued, private hospital cover today would stand at 9.9 million Australians, compared to the 9.7 million who held insurance as at 31 March 2009. This differential represents a loss in potential private health insurance membership of 200,000 Australians over a 12 month period.

This decline in the growth of private cover membership has occurred in only a short period of time and before any significant level of effect of the new MLS thresholds would be expected to be experienced. It is considered that, due to the 1 January 2009 introduction of the amended MLS thresholds, the policy's full impact on private health membership levels will not occur until at least the 2009-10 financial year when people have had an opportunity to relate the new MLS thresholds to their income as part of their annual tax assessment process.

A review of the indexation method to be applied to the new MLS thresholds formed part of the government's compromise with the Senate in October 2008. This review is currently being considered by the Productivity Commission's study into the performance of the public and private hospital systems. The AHIA is concerned that the announcement by the Minister for Health and Ageing, that the Private Health Insurance Incentive Tiers will be linked to Average Weekly Earnings, in her Second Reading Speech to this legislation on 27 May 2009, pre-empts the efforts of the Commission, which is due to report in November 2009.

The Inadequacy of Treasury Modelling

The AHIA believes that the Rudd Government has significantly underestimated the impact this legislation will have on private health insurance membership. The Minister for Health and Ageing has stated that the government expects 25,000 Australians to exit their private health cover as a result of the dismantling of the 30% Rebate.⁶

At the recent June Senate Estimate hearings, Treasury estimated that 2.3 million Australians will experience increased premiums as a result of the new Private Health Insurance Incentive Tiers. People who are affected by the means-testing of the private health insurance rebate will be exposed

⁶ Australian Parliamentary Hansard, House of Representatives, 27 May 2009



to rises in their premiums of between 14.3 per cent and 42.9 per cent. For older Australians who currently enjoy of a rebate of up to 40 per cent based on their age, the corresponding increase in their premiums will be as much as 66.7 per.

The AHIA is concerned that the modelling Treasury has used to assess the impact of this policy measure is substandard. For instance, Treasury has based its estimates on old income data (from 2005-06) and through the Estimates process it has been revealed that Treasury has been unable to provide an assessment of the impact this legislation will have on premiums.

The AHIA is also concerned that Treasury has not performed any modelling on the impact this measure will have on people “downgrading” their private hospital cover and the exiting of General Treatment cover as people respond to a reduction in the level of rebate received. As neither the Medicare Levy Surcharge, nor Lifetime Health Cover, applies to General Treatment cover it is likely that a significant number of people will exit this form of cover in response to an increase in the cost of their health insurance.

Treasury has indicated at the recent June 2009 Senate Estimates hearings that it is unable to model the effects of the rebate changes on General Treatment cover as it does not have income data for those 1.4 million Australians who hold Extras cover exclusively (ie. they do not hold private hospital cover). This admission, in addition to the use of four year old income data by Treasury suggests that its attempt to model this policy’s impact is severely compromised.

Industry Analysis of the Impact of Means-Testing the 30% Rebate

The AHIA has calculated, based on detailed Industry analysis of market research conducted by Roy Morgan and IPSOS, that as a result of the proposed changes to the 30% Rebate:

- Up to 240,000 people with private hospital cover are very likely to drop their cover;
- 730,000 people with private hospital cover are likely to downgrade their cover; and
- 775,000 people with private health cover are very likely to exit their General Treatment (Extras/Ancillaries) cover.

Such a significant decline in the number of people holding private hospital cover (at a rate of up to ten times that estimated by Treasury) and the projection that nearly three-quarters of a million Australians will “downgrade” their private cover as a result of this legislation will place increased pressure on the premiums of all those who maintain their private health insurance membership.

The rise in private health insurance premiums as a consequence of this policy will impact significantly in time on those 8 million Australians who hold private cover and earn under \$75,000 for singles and \$150,000 for families (ie. those who will still be entitled to the 30% Rebate). The expected increase in premiums will also disadvantage those older Australians who comprise 13 per cent of the membership pool but receive half of the benefits paid by Private Health Funds for hospital treatment.

The effect of 775,000 Australians leaving their General Treatment cover as estimated by the AHIA will result in increased pressures on the public health system, particularly the dental system, as approximately 50 per cent of the total \$2.6 billion in benefits paid through Extras cover by Private Health Funds in 2008 was for dental services and treatment.

The AHIA rejects the Rudd Government’s claim that the cost of the 30% Rebate has become “unsustainable” and that this legislation has been introduced as a cost-control measure. In her



Second Reading Speech to this legislation, the Minister for Health and Ageing said that spending on the rebate is “expected to double as a proportion of health expenditure within the next 40 years”.⁷

However, in the 2008 Budget when the Rudd Government committed to the 30% Rebate policy, its Budget Outcomes projected that 9.3 million Australians would hold private hospital cover.⁸ Today, some 9.66 million people hold private cover, a change of 4 per cent on the original 2008 Budget projections of private health insurance membership. Therefore, the AHIA contends that it is disingenuous of the government to suggest the cost of the rebate has become unsustainable as a result of an additional 366,000 Australians (above its 2008 estimates) holding private cover.

Impact on the Public Hospital System

In her Second Reading Speech to this legislation, the Minister for Health and Ageing said that “the impact of the measure (on public hospitals) will be insignificant” with an estimated 8,000 additional public hospital admissions required over the next two years.⁹

The AHIA contends that any measure which results in more Australians having to rely on the public system is poor policy. The AHIA has estimated that, as a result of people exiting their private health insurance because of this policy, there will be a loss of almost 75,000 episodes from the private sector, representing nearly 190,000 bed days a year. The transfer of these procedures to the public hospital system reflects an additional annual cost burden of \$195 million on State and Territory governments, as more Australians exit their private cover to depend solely on the public system for care.

The Costs of Implementing a Means-Tested Rebate

The AHIA is concerned that additional burdens will be placed on our Fund Members as part of the implementation and administration of this legislation. A briefing to Industry from the Department of Health and Ageing following the Budget announcement suggests that Private Health Funds will be required to request that fund members self-identify which rebate level they are entitled to, before their eligibility is then reconciled by the Australian Taxation Office as part of the individual’s annual tax assessment.

This process is likely to lead to confusion amongst policy holders as to their entitlement if their income level varies from year-to-year and will also add cost imposts on Private Health Funds as they implement new systems to accommodate the policy change.

The AHIA notes that the cost to government to implement this policy is \$69 million over five years, with additional public funding required to assist the Australian Taxation Office, the Department of Health and Ageing and Medicare Australia to administer the means-testing of the rebate.

⁷ Australian Parliamentary Hansard, House of Representatives, 27 May 2009

⁸ Australian Government, 2008-09 Budget Papers, Department of Health and Ageing Outcome 9, page 149

⁹ Australian Parliamentary Hansard, House of Representatives, 27 May 2009



Conclusion

The AHIA considers the means-testing of the 30% Rebate is bad public policy because it will not deliver one improved health outcome for patients, while its impact will place increased pressure on our public hospitals system and premiums. This legislation does not address the desire that Australians with private health insurance have to:

- obtain full Informed Financial Consent in relation to the cost of their treatment in the private system;
- access information related to the performance of the hospitals they receive care in, particularly in regards to infection rates; and
- ensure that the prostheses devices used as part of their treatment have been clinically tested to guarantee safety and effectiveness.

The AHIA would enthusiastically welcome an opportunity to work together with the Rudd Government to implement policy initiatives which address these issues, leading to an enhanced level of quality and safety in the Australia health system.

Instead of improving access to health care for Australians, this legislation will place increased pressure on our public hospital system as people exit and downgrade their private health cover. The resulting increase in premiums from people leaving private health cover will affect everyone one of those who maintain their private health insurance, including those Australians who will still be entitled to the 30% Rebate.

Therefore, the AHIA strongly urges the Committee to recommend that the Senate opposes this legislation.

I look forward to elaborating on the AHIA's submission in person at the request of the Committee at your public hearing on 9 June 2009.

Please feel free to contact me on 02 6202 1000 for any further information.

Yours sincerely

A handwritten signature in blue ink that reads "Michael Armitage". The signature is written in a cursive, flowing style.

HON DR MICHAEL ARMITAGE
CHIEF EXECUTIVE OFFICER

9 June 2009

The Hon Dr Michael Armitage
Chief Executive
Australian Health Insurance Association
4 Campion Street
Deakin ACT 2600

20 November 2007

Dear Dr Armitage,

Thankyou for your letter of 29 October 2007 seeking clarification on Federal Labor's policy regarding private health insurance.

Both my Shadow Minister for Health, Nicola Roxon, and I have made clear on many occasions this year that Federal Labor is committed to retaining the existing private health insurance rebates, including the 30 per cent general rebate and the 35 and 40 per cent rebates for older Australians.

Federal Labor will also maintain Lifetime Health Cover and the Medicare Levy Surcharge.

Labor will maintain the existing framework for regulating private health insurance, including the process for approval of premium increases. Zero per cent premium adjustment is not Labor policy;

I understand Nicola Roxon's office has also confirmed with you that Federal Labor has no plans to require private health insurance funds to make equivalent payments to public hospitals for patients who elect to be treated as private patients.

I trust this allays your concerns. Federal Labor values it relationship with the private health insurance sector and we look forward to this continuing regardless of the election outcome on November 24.

Yours sincerely



Kevin Rudd
Federal Labor Leader
Member for Griffith