Supplementary Submission to the Senate Community Affairs Committee

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Impact of the proposed changes to the Private Health Insurance rebate

The Committee has a paper which I prepared for the scheduled hearing of the Economics Legislation Committee in June. It was compiled at very short notice and was intended to support a verbal presentation. It still will do so, but there are some aspects of that statement which need to be further explained in as simple a way as possible. In the earlier paper I said the changes would produce 'a much more equitable and defensible' result. The following table shows how that conclusion was reached and puts the basic issues into context. It shows;

(1) The average cost of a private health insurance policy for the hospital treatment of a family in 2007-08,

(2) It's projected cost in 2010-11, in present prices,

then, in two parts, the position in 2010-11 under;

(a) The present rules, with a Private Health Insurance Rebate at the 30% rate now applicable to people under 65 and a Medicare levy surcharge of 1% of taxable income for families earning over $150,000 a year.

(b) The proposed rules, with a tapered reduction in the Private Heath Insurance Rebate over two ranges of family income up to $240,000 annually and higher Medicare levy surcharges for families with taxable incomes over $180,000 a year.

Sources and methods are shown in the Appendix. The calculations are simple. All of the figures come from official publications and they all can be verified.

Basic data

PHI cost in 2007-08 In 2007-08, the average private health insurance premium for a family hospital cover policy was $1,905 in 2007-08. Insurance premiums for hospital cover totaled $8,741.66 million in 2007-08. There were then 4.588 million policies in force covering 9.534 million people, at an average of 2.09 persons per policy. The average policy was thus a family one.

PHI cost in 2010-11 Based on past trends, private health insurance premiums for hospital cover will increase by 5% over the three years to 2010-11, excluding inflation. The projected figure for 2010 -11 is therefore $2000 per family policy.

Net cost of private hospital insurance, family policy, 2010-11, under present and proposed rules (2007-08 prices).

Income range	**Mid-point**	**Premium**	**Rebate**	**Net cost after rebate**	**Medicare levy surcharge**
($000)	**($)**	**($)**	**($)**	**($)**	**($)**
Present rules					
Up to 150	-	2,000	600	**1,400**	-
150-180	165,000	2,000	600	**1,400**	1,650
180-240	210,000	2,000	600	**1,400**	2,100
240+	-	2,000	600	**1,400**	2,400
Proposed					
Up to 150	-	2,000	600	**1,400**	-
150-180	165,000	2,000	400	**1,600**	1,650
180-240	210,000	2,000	200	**1,800**	2,625
240+	-	2,000	-	**2,000**	3,600

As can be seen:

- under the present rules, the rebate for private hospital insurance is uniform for all income ranges and the net cost of private hospital insurance after rebate is unrelated to income.

- under the proposed rules, the net cost of private hospital insurance would rise with income in a way which is closer to marginal tax rates, although the actual differences in net cost are relatively small. For families with taxable incomes between $150,000 and $180,000 a year, the average increase would be $200 a year or only $4 per week. For those receiving between $180,000 and $240,000 a year, the increase would be $400 a year or $8 a week.

That has implications for both equity and any possible effects on the private health insurance industry. On the equity side, fairness might not matter if there were no public subsidies for private insurance or if the public and private sectors of Australian health care were seen as entirely independent and competitive. But they are obviously not. The whole thrust of the case for PHI rebates has been that private insurance is an integral and necessary part of the whole health system and that it is for that reason that the Parliament has legislated for them. That is not self-evident but if it is so, equity is just as important in the private sector as the public one, not only in relation to the levels of rebate but also in relation to what the overall distribution of hospital costs will be. For people who rely on Medicare, the distribution is determined by their rates of tax. That is how Medicare is paid for. All that the proposed changes do is to move the distribution of privately insured hospital costs closer to the public one. That is why I have argued that, in the short run at least, the outcome would be both 'more equitable and more defensible' than at present.

On the insurance industry side, the data give a more practical bent to the conclusions reached in both the Treasury submission and my earlier paper. For reasons that are well known and accepted throughout the world, the demand for health insurance is very susceptible to income levels but like other items which are regarded as 'essentials', it is

not sensitive to price. The technical expression of that is set out in the Treasury calculations with which I fully agree. However the percentage changes cited in the Treasury presentation obscure the actual size of the price differences and it is important to show how small they really would be. As can be seen, for a family earning $165,000 a year, private hospital insurance would rise by only $4 per week – about the price of one cup of coffee. For a family with a $300,000 income, it would still amount to only three cups. It is impossible to believe that such minor changes could ever lead to the kind of consequences for membership and premiums that the private health insurers have claimed. For higher-income people who already hold private insurance it is, in fact, very difficult to see them as having any effect at all.

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Appendix

Sources:

For PHI costs in 2007-08, Private Health Insurance Administration Council, Annual Report, 2007-08, Operations of the Private Health Insurers, Membership, Revenue and Expenses.

For proposed changes to PHI rebates and income thresholds for both the PHI rebate and the Medicare levy surcharge: Government announcements and the Treasury submission to this Committee. Calculations are based on the 30% rebate applying to people under 65 years of age.