9 June 2009

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

Dear Secretary

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

This submission is made by iSelect in respect of the aforementioned Bills.

iSelect trusts that this submission will be of assistance to the Committee and we would be pleased to provide additional information as required.

BACKGROUND TO ISELECT

iSelect is Australia's largest health insurance advisory and comparison service, helping Australians choose the health insurance cover which suits their needs and budget. Based in Melbourne, iSelect is an Australian owned company, which has been operating for nine years and is independent of any single health insurance fund. The company is also a founding member of the Private Health Insurance Intermediaries Association.

iSelect represents close to 10% of all new private health insurance policy sales in Australia.

Aside from enabling consumers to compare various policy options in one location, iSelect's expertise is in helping people to reduce the complexities associated with private health and to ultimately assist in finding cover which most appropriately suits their needs and life stage.

AUSTRALIA'S HEALTHCARE SYSTEM AND PRIVATE HEALTH INSURANCE

Australia's health system delivers some of the best health outcomes in the world, with Australians enjoying an excellent life expectancy. Our universal health system, Medicare, is complemented by a strong private health sector. Today, in excess of 11 million Australians enjoy the benefits that private health cover brings, including choice of treating doctor and hospital.

Private health insurance has benefited from a period of relative stability in policy settings after the turbulence of previous eras where there was constant debate as to the public and private sector composition of health financing.

Upon its introduction some 25 years ago, Medicare reduced the role for private health insurance but, less than two years later, the then government starting shifting costs back

into households and private health insurers recognising the need for a balance between the systems.

It is clear that taxpayers cannot carry the load of future financing health care in Australia. The pressures on budgets are expected to increase substantially over the next twenty years given the high expectations and significant numbers of the 'post-war baby boomers'.

- Population projections point to a doubling in the proportion of the population aged 65 and over by 2050 and a quadrupling in the proportion of the population aged 85 and over in the same period.
- Health technologies can be expected to continue to be a major source of demand pressure as they lift expectations even further as to the quantity and quality of health care that can be provided. The inexorable rise in the prevalence and cost of chronic illness is accompanied by the very significant challenges posed by preventable lifestyle diseases.
- Relative success in dealing with heart disease and cancer is unmasking other costly health conditions. For example, Australia is facing epidemic-style increases in the numbers of people with diabetes and dementia.

The Second InterGenerational Report in 2007 forecast expenditures on health to grow from **3.8%** of GDP in 2006-07 to **7.3%** of GDP by 2046-47. This is likely to cause the national **fiscal balance** to fall further from its current levels, unless there is greater reliance on private sector health financing.

A reversion to the experience of the early 1990s (an extended period of decline in private health insurance coverage) would place a growing burden on the public health system – a system that is already groaning under the weight of ever increasing levels of demand.

Australian Government policies such as the Private Health Insurance Rebate, Lifetime Health Cover (LHC) and the Medicare Levy Surcharge (MLS) are critical in ensuring that private health insurance remains affordable for all Australians by keeping premiums as low as possible, particularly for those with modest incomes.

We believe the current level of private insurance participation enables an appropriate load and cost sharing between the public and private hospital system, assists to maintain affordable health insurance premiums for Australians, enables continuation of appropriate community rating and critically continued investment in medical technology, infrastructure and services.

iSelect contends that the proposed changes to the Health Insurance Rebate and Medicare Levy Surcharge thresholds announced by the Australian Government on 12 May 2009 have the potential to erode health insurance participation, increase pressure both on the public hospital system and on private health premiums, ultimately resulting in a decline in the quality of health care available to Australians.

ISELECT'S SPECIFIC CONCERNS RELATING TO THE PROPOSED AMENDMENTS

Further Change is Premature

The proposed changes announced on 12 May 2009 are planned amidst an unprecedented period of change, uncertainty and examination of private healthcare and its related factors in Australia. These include:

- The **Productivity Commission** study on the relative performance of the public and private hospital systems, including the provision of advice to Government on the most appropriate indexation factor for the Medicare Levy Surcharge thresholds. The study is due for report to Government in November 2009

- The work of the **National Health and Hospitals Reform Commission** relating to the performance benchmarks and practical reforms to the Australian health system. The Commission's final report is due this month

- Changes to the **Medicare Levy Surcharge Thresholds** as recently as October 2008, with the flow-on impacts of the changes unable to yet be measured conclusively given the minimal period of time elapsing and ongoing lack of consumer awareness about the threshold movements iSelect can advise the Committee however that the early impact of the MLS reforms in October are significant, contrary to the "bonanza" reported by some commentators.

    1. In the period January - May 2009, iSelect's sales **to 'new to private health customers' were down some 40% compared with the corresponding period** when thresholds were unchanged. We note that it is primarily people in the 21-40 years age group who have slowed their take up of private health, which is the age group that is most critical to the reinsurance pool, serving waiting periods and ultimately in putting downward pressure on premium growth.

    2. Such a concerning slowdown is supported by the release of the most recent Private Health Insurance Administration Council (PHIAC) quarterly statistics. It revealed that the rate of growth in private health insurance membership has actually fallen significantly **to half that in the March 2009 quarter vs. the same period last year.**

    3. We note that based on this PHIAC data, the Australian Health Insurance Association estimates that there are already 200,000 more Australians who are now relying on the public hospital system than there would have been had private membership continued to increase at the rate it was increasing prior to the MLS policy change.

    4. The impact of the MLS threshold changes is likely to take years to fully comprehend in terms of the impact on premiums, public system pressures/costs and fiscal balances.

We believe any decision making, in relation to Australia's system and support for health insurance (as proposed within the three Bills) is premature without the explicit knowledge and findings of each of the three events or triggers above. In its simplest form structural change as contained in the amendments can be described as *cart before the horse*.

The consequences of getting such decision making wrong is material to millions of Australians and the delicate balance that exists between public and private healthcare.

Inadequate Modeling and Consultation

The proposed changes also appear to have been made without the benefit of significant modeling of their impact on the behaviour of private health insurance policy holders, both existing and potential, and the flow on effects to the Australian health system. In-depth analysis and modeling, including a thorough analysis of the potential 2nd and 3rd round long-term impacts of any amendments, must be completed prior to a final decision being made. It is critical that any analysis is significant and independent – ideally by more than one organization.

Unfortunately many of the important stakeholders (the states or larger health funds) most affected by the previous and proposed changes are simply not in a position to provide much needed analysis and commentary due to political affiliations or concerns around prompting further change.

We understand Treasury has conducted some modeling; however such information appears to not be available to wider scrutiny and understanding.

The timeline of less than a week to provide commentary and analysis to the Senate Inquiry simply cannot do justice to the complexity and importance of the issues involved and is a source of further concern.

The Impact of Increased Premiums

The following table illustrates the annual premium increases and MLS changes resulting from the proposed amendment for a single person (average premium of $1500 excluding any rebate):

Income Bracket	**$120,000+**	**$90,000+_**	**$75,000+**
Expected Premium Increase %	42.9% ($643)	28.6% ($429)	14.3% ($214)
Proposed % Increased in the MLS	50% ($600)	25% ($225)	0% ($nil)

The proposed increases in the MLS rate will in all likelihood provide incentive for the majority of policy holders impacted by the increase in premiums to continue to hold some form of private cover. However,

- For those earning less than $120,000 but more than $75,000, many will drop out of private health insurance as they will see a net saving in dropping cover as shown in the table above.

- Those that drop cover are likely to be younger demographic and/or lower users of private health insurance. This has a compounding impact e.g. 1 low user of health insurance dropping cover is equivalent to 5 normal users of health insurance in terms of their contribution to keeping premiums low. This is the sting in the tail with the proposed changes.

- Higher premiums over time will put pressure on more people to drop cover, downgrade benefits or remove ancillaries (which provides cross subsidy for hospital cover) compounding this issue creating longer term and further 2nd and 3rd round impacts. Less people with ancillary cover could also contribute to a drop in preventive health outcomes and further reduce workplace productivity.

- Many consumers would simply prefer to not pay for health insurance now and pay tax later purely for the timing advantage, As such, ideally the additional cost of MLS should be higher than the additional cost of cover to counteract timing differences.

The 99.7% retention rate quoted from Treasury analysis (if accurate) needs to be put into wider perspective and not seen as the only measure of whether the changes are successful or not. For example, modelling needs be completed to provide information such as:

1. Underinsurance
    a. Hospital Cover downgrade such as benefits or high excess levels)
    b. Removal of extras cover
    c. Expected people expected to not take out cover

2. Impact upon premiums

3. Public system impacts
    a. Waiting lists
    b. Funding implications

4. Preventive health impacts

5. Workplace productivity

We contend that at a minimum, either the changes to the rebate be reconsidered OR the MLS rate for those people earning over $74,000 be a flat 1.5% to provide additional incentive for them to remain privately covered in the face of material premium increases. We believe that a failure to increase the rate of MLS for these income earners would result in a fundamental flaw to the amendments as proposed.

It is also worth noting that a lack of consumer understanding of the ability to switch to similar levels without necessarily having to re-serve waiting periods, together with the heavy administrative burden of changing insurers, leads to many consumers paying more than they should or with inappropriate cover for their needs. This issue will be compounded with the removal of rebates leading to more people downgrading cover or opting out than necessary. The government should consider educating consumers about health insurance portability rules and working with the industry to streamline transferring members.

Administrative Complexities – Means Tested Rebate

The changes as proposed will lead to a system that is confusing, complex and costly for those millions of Australians who take responsibility for their own health care costs.

Continued tampering with Australia's private health insurance system is also facilitating a very confused message about the value and role of private health, serving to ultimately erode the confidence of millions of Australians in a critical element of our healthcare system.

The current system of rebates is simple, transparent and easy to understand. The new proposals **introduce many different levels** of entitlement or surcharge depending on income level and age. It will be difficult for people to work out their entitlement and will create a huge administrative burden both on Government and health funds.

Should the proposed changes relating to means testing the rebate materialise, it is imperative that Government keep the administration as simple as the current system, otherwise the administrative burden will be significant and consumers will simply not understand the complexities of the proposed system.

If consumers had to supply their income details to health insurers to get the rebate taken off their premium, many may object. Many may not be in a position to estimate their incomes for the year and as such may be unwilling to commit. If this were the case, the unintended consequences could impact many who were not meant to be affected by such changes.

To minimise the expected fallout from both private health cover generally and from higher cover products, the key is to keep the complexity of the change low - that means not triggering new things for customers to do, which in turn means not creating new complex administrative requirements.

The simplest process would appear to be if all policyholders continue to pay 70% (or equivalent depending on their age) of the full premium, and then those who should have paid more, repay the government via their annual income tax return. This ensures consumers will not be presented with a timing consideration preventing uptake private heath insurance.

Conclusions and Recommendations

The current rebate system supports those who take responsibility for their own health care costs. In the interests of a sustainable system for the future as the population ages, it is imperative that the Government encourages more people to meet their own health care costs and not introduce impediments to them doing so.

Australia's healthcare system relies on both strong public and private health sectors. The continued tampering of Australia's private healthcare system and its supports threatens to disrupt this balance.

Private health cover should not be subject to continued uncertainty and change, particularly without the benefit of appropriate analysis, modelling, consultation and understanding of longer term impacts for Australians and healthcare financing.

Accordingly, we recommend that:

1. Before any decision is made further analysis, discussion and consultation is essential, this includes:

    a. The Government should release full details of the Treasury modelling including all drafts, assumptions, outcomes on the proposed measures so they can be subjected to independent, expert scrutiny by the Senate and others.

    b. Notwithstanding recommendation 1a, that a decision on these Bills be deferred until expert independent modelling is conducted and the results of other related studies currently underway are known, together with greater understanding of the 2008 MLS reforms. We contend that the

Productivity Commission may be an appropriate body best positioned to conduct such further independent analysis provided the scope of any review fully examines ALL impacts of any change.

2. If the measure is to be passed, then

    a. the MLS rate for singles earning more than $ 75,000 and for families/couples earning more than $150,000 be a **flat rate of 1.5%. This change provides added revenue, administrative and complexity advantages**.

    b. The Government provides education and more streamline transferring processes to provide consumers impacted by premium increases with a means to safely transfer to lower cost cover.

    c. Allow policy holders to claim the full rebate in any given year with any adjustment provided in the tax return process to minimise confusion and any timing incentives to drop cover.

3. The Government make a firm policy commitment relating to its future support of private health insurance so that the industry, the healthcare sector and most importantly the 11 million Australians with private cover are able to look forward to a balanced and stable health care system.

If we can provide any assistance with this matter or additional information, please contact me on 03 9276 8210 or iSelect's General Manager of Corporate Affairs, Rohan Martin, on 03 9276 8208 or at rmartin@iselect.com.au.

Yours faithfully

Damien Waller
Chief Executive Officer