13 July 2009

Dr Richard Grant
Principal Research Officer
Senate Community Affairs Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Dr Grant

Inquiry into Fairer Private Health Insurance Incentives Bills 2009 – AHHA Submission

The Australian Healthcare & Hospitals Association (AHHA) welcomes the opportunity to provide evidence to the Senate Community Affairs Legislation Committee on the Australian Government's proposed changes to private health insurance rebates and incentives. This is an updated submission based on an earlier letter sent to the Economics Committee on 11 June.

The AHHA is Australia's only national body representing the entire public healthcare system – including public hospitals, community health services, state and territory dental services, and public aged care providers.

The public healthcare sector must be well-resourced and maintained at the highest possible standard, as the principles and practice of universal health care remain the central tenets of our health system. The last thing the Australian population wants is a two-tier health system where only the wealthy can afford the best care, clinicians and technology.

The AHHA supports changes to the Medicare levy surcharge and private health insurance (PHI) rebates based on income. The Association has, for many years, known that the PHI rebate is not an effective mechanism to attract and retain members in the health funds. Not only is the mechanism itself ineffective, it is also an extremely inefficient use of taxpayer dollars within the broader health system, in that it does not directly fund health service delivery and basically supports a commercial insurance industry.

The Government would be irresponsible if it ignored the advice received from a broad range of health and economic experts over the past five years, including the Federal Treasury[1]. The advice has clearly shown the inefficiency of this form of subsidy at both attracting members to private funds[2], and what was touted as a major benefit, taking the pressure off the public hospital system[3].

Evidence shows that the rebate in particular has had minimal impact on PHI membership, and equally as marginal effects on reducing public hospital demand. Data confirms that the private and public sectors deal with very different caseloads – so this rebate could never be expected to alleviate the main demands on public hospitals.

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[1] http://www.theage.com.au/national/scrap-health-rebate-treasury-20090223-8fve.html
[2] Richardson JRJ & Segal L, 2004, "Private health insurance and the Pharmaceutical Benefits Scheme: how effective has recent government policy been?" in *Australian Health Review*, Vol 28 No 1, pp 34-47
[3] Sundararajan V, Brown K, Henderson T & Hindle D, 2004, "Effects of increased private health insurance on hospital utilisation in Victoria" in *Australian Health Review*, Vol 28 No 3, pp 320-329

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The private sector is well designed to provide certain services, such as routine elective surgery in hospitals, ancillary and remedial services, and some rehabilitation. The public sector necessarily picks up the complex cases for surgery, in addition to emergencies and inpatient treatment, outpatients and rehabilitation. The main area of overlap is in surgical services and this is not significant enough to reduce the overall 'migration' of public patients to private hospitals using their health cover.

The AHHA wishes to emphasise that the incentive most closely linked to the significant increase in PHI membership and retention is the Lifetime Health Cover initiative introduced in 2000 – and equally the main measure that would have any impact on public hospital usage[4]. It is important to note that the Government is not proposing any changes to this measure.

The AHHA also wishes to point out that the changes to the Medicare levy surcharge in 2008 did not result in the massively overstated numbers of people dropping their insurance, as predicted by a range of lobby groups.

Thus, the AHHA believes it is deceptive for the private health insurance industry to engage in scare campaigns around the impacts on public hospitals and premiums when there is no evidence to show either reduced demand in the public sector or a drop in the number of PHI members.

The AHHA is most concerned that any funds saved as a result of these changes are kept within the health portfolio for direct funding to hospitals and health services. Losing these funds from health altogether will be a backwards step.

Alternative fund-raising proposals

The AHHA understands that the Opposition has proposed an increase in taxes applied to tobacco products, a move now being considered by the Australian Government. The AHHA supports public health initiatives that will result in reduced rates of tobacco use in Australia. However, we also see that both proposals should be implemented.

The price of tobacco products is likely to be one of the most effective signals and influences for a reduction in smoking rates. It is known, however, that people in lower socio-economic groups use tobacco at higher rates. Therefore the AHHA urges that well-promoted assistive public health measures are made widely availability and accessible, particularly for those on lower incomes.

Copies of the references cited in this submission can be provided to the Committee on request. If you require any other materials or further clarification, please do not hesitate to contact me.

Yours sincerely

Prue Power
Executive Director

[4] Walker AE, Percival R, Thurecht L & Pearse J, 2007, "Public policy and private health insurance: distributional impact on public and private hospital usage" in *Australian Health Review*, Vol 31 No 2, pp 305-314