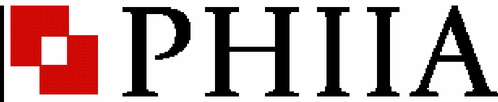

Private Health Insurance Intermediaries Association Inc

Registered Office 24 Clyde St Newport VIC 3015
Phone (03) 9327 3969
Mobile 0412 005 928
Fax (03) 9327 2381

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Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Re: Inquiry into the Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008

Introduction

This submission is made by the Private Health Insurance Intermediaries Association Inc. (PHIIA) in response to the Senate Inquiry into the Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008.

PHIIA, whose broker members were recognized under the National Health Act in 2006, was established in 2002 to self regulate, and implement a Code of Conduct for Intermediaries to protect the interests of consumers, and agents and brokers who engage in the business of marketing and servicing health insurance in Australia. We believe Intermediaries' clientele represents in excess of some 400,000 Australians.

.PHIIA members are at the forefront in dealing with health insurers and consumers and, as such, we believe it is appropriate that we express our opinion to this committee.

Our overall concern with regard to the proposed changes to the MLS thresholds is whether sufficient analysis has been conducted into the potential consequential impacts of this decision, together with how it impinges upon the viability of the private health sector. We believe this is a significant decision impacting Australia's healthcare system and one which should only occur with the benefit of sound and comprehensive analysis.

Comments

The impact of changes to the thresholds on the number of Australians with private health insurance (PHI), including an examination of how many will abandon their policies as a result and how many will not take up PHI in the future

It is PHIIA's opinion that, once appropriate modelling is conducted and if it reveals a net benefit, then indexation of the Medicare Levy Surcharge (MLS) thresholds would be desirable. If this occurs, capping at the Consumer Price Index (CPI) or Average Weekly Earnings (AWE) would be appropriate at around $75,000 (singles) and $150,000 (Couples/Families).

PHIIA believes that the proposed changes to the MLS thresholds possess the potential to have a significant, detrimental effect on the level of enrolment of healthy young Australians over the next four years and beyond.

The modeling underpinning the decision and the veracity of that modeling

PHIIA believes that the savings anticipated in the modelling are largely illusory and will mainly be achieved in the current financial year (but not at the level budgeted and only until the next round of rate increases). These savings will be lost when increases are approved. As we are not privy to the actual modelling which underpins the decision, we are unable to provide further comment.

The anticipated impact on PHI premiums and PHI products offered

It is highly likely that those who discontinue their cover will be healthy, younger individuals whose discontinuance will not significantly diminish the total claims costs of the health insurance industry. We anticipate that funds will have to raise premiums to generate increased revenue in order to offset a negative trend directly attributable to the loss of good risks. Consequently the immediate savings on Government rebates achieved will be lost through future increased premiums. Thus a 5% loss of premium will require an average 5% increase; a 10% loss, a 10% increase, and so on.

We believe those leaving the industry will generally be self assessed healthier members. Those members remaining will be higher risk individuals who will suffer from increased premiums. Contrary to some opinion, those with health insurance are not just the wealthy. 27% of the overall hospital insured population (2.34 million people) reside in households where gross annual incomes are less than $48,049[1].

Experiences tell us that once prices increase members will discontinue and a spiral of diminishing membership, anti-selection, and further price increases will occur. The

[1] Australian Health Insurance Association

Industry Commission report on Private Health Insurance (1997) relied on the view of the Australian Institute of Actuaries in determining this pattern.

> ***'In our opinion these price increases are a natural result of an inherently unstable funding system ... This instability results from the cost increases beyond inflation which are an inherent part of health insurance under the current structure. As premiums increase, progressively more and more members with lower expected health insurance costs will give up their health insurance, with membership reducing until only the most costly members survive, supported by heavy government controls and subsidies.'***
> ***(Australian Institute of Actuaries, Sub. 141, p. 2)***

A young couple, living together, earning a combined income almost $200,000 ($99,000 each),may be MLS exempt, if they do not regard themselves as a *de facto* couple. On the birth of a child, they may now be required to pay a Medicare Levy Surcharge of almost $2,000. The lack of consistency between the single and family thresholds will doubtlessly lead to gaming.

> **A New Tax System (Medicare Levy Surcharge—Fringe Benefits) Act 1999**
> 7. When are people *married*?
> De facto couples treated as if married
>
> (1) This Act applies to a man and a woman who have lived together as husband and wife on a bona fide domestic basis for a period, although not legally married to each other, as if:
> (a) they were married to each other for the period; and
> (b) neither of them were married to anyone else for the period

Curiously, it is the traditional family which is still targeted here while those living in a *bona fide* domestic same sex relationship are unaffected.

Similar curiosities surround families which may have several children: The working child will have an option of not paying for PHI, while the parents eventually pay more, if they can afford it, to cover their other children.

It must be remembered that health insurance is not optional for many people who are in 'the system' and clearly believe they are receiving the appropriate level of care. Dropping their health insurance not only compromises the continuity of that level of care but also imposes a burden on Medicare.

In order for a product to be MLS exempt it cannot have an excess greater than $500 (single) and $1,000 (family/couple). It would seem reasonable that any potential 'indexation' (as deemed necessary) of the MLS thresholds would be accompanied by indexation of the maximum excess applicable to MLS Exempt products increasing the same to $750 and $1500. The former figures were set when the thresholds were

originally established and logically should be reset for the sake of consistency and to allow consumers to benefit from reduced prices.

Further, PHIIA suspects that funds may become loathe to offer new and innovative products and options as the lack of consultation evidenced with the proposed increases in the thresholds makes investment in such activity a more risky proposition.

The impact of the change on the cost of living and the consumer price index

In the absence of appropriate modelling we are unable to provide comment.

Including the threshold, PHI rebate and Lifetime Health Cover on increasing PHI membership

The changes will not impact the level of hospital services (in the near future) and in fact initially will not shift services into the public sector. People are fairly accurate in self assessing their health for the immediate future; it can be assumed there will not be a dramatic immediate effect. The MLS, PHI rebate and Lifetime Health Cover will continue to provide the 'sticks and carrots' intended to focus people on their need for health insurance albeit in a somewhat diminished form.

We understand that many funds currently offer a product which includes cover for non dependent adult children aged up to 25; this has been amended to require funds to make that option available to any number of adults, related or not. As such, funds will cease promoting this product. Currently there are over 55,000 young people aged between 18 and 25 covered under these policies, but this source of recruitment will exist no longer. This will result in added pressure on prices as more young people fail to take up health insurance.

The anticipated impact of changes to the threshold on:

- **The public hospital system including waiting lists and the financial requirements of state governments;**
- **The ongoing viability of PHI, and**
- **Private hospitals**

PHIIA believes that there will be little if any immediate impact on public hospitals, but that this will not be sustainable. As the level of health insurance drops through continually increasing premiums, the poorer risks will exit PHI and drop back into the public system, waiting lists, and care programs will result in **significant** problems for the Public Sector.

In Nicola Roxon's media release of 30 June 2008 the Federal Minister for Health and Ageing indicated that public hospital admissions had grown 3% in the last financial year. Interestingly, admissions of private patients to public hospitals grew 10.7%, while private hospital admissions grew 6.1%. It is clear that private health insurance is a significant contributor to the functioning of the public hospital system.

Private health insurance dropped over a number of years to 30.2% coverage by December 1998 which resulted in substantial premium increases. Consequently PHI remained attractive primarily to the ailing aged who had no alternative, higher income members who could afford it, and those willing to serve the 12 month waiting periods in order to avoid public system waiting lists. This anti-selection process continues today with much elective surgery being on members who have only just satisfied the 12 month requirement. However such anti-selection is sustainable in view of the existing continued membership growth. While this is a cost to health funds, it is a significant factor in keeping Medicare viable.

Conclusion

PHIIA believes that the following areas need to be reviewed:

- The basis for determining recent and future changes to the MLS thresholds
- The basis for doubling the single's threshold to $100,000. This destroyed the relativity with the family threshold and introduced a discriminatory system.
- The imposition of a system which rewards people for being dishonest about their relationships needs to be reviewed.
- The capping of hospital excesses to reflect movements in the thresholds.

We believe that the Private Health Insurance sector is a complementary and extremely important part of the Australian Health System. Any significant change must be underpinned by comprehensive, meaningful research, in consultation with the industry, and with the best long term interest of all Australians as its centre point.

This submission has been authorized by the board of PHIIA. If you wish to speak with the author he may be contacted on 0412005928 or by email: gerrycarton@hotmail.com

Yours sincerely,

Gerry Carton
Chief Executive Office
PHIIA