



Unit 17G
Level 1
2 King Street
Deakin ACT 2600
T 6202 1000
F 6202 1001
E admin@ahia.org.au
www.ahia.org.au

PRESIDENT
Mr Terry Smith MBE RFD ED
CHIEF EXECUTIVE
Hon Dr Michael Armitage

Mr John Hawkins
Committee Secretary
Senate Economics Committee
Parliament House
CANBERRA ACT 2600

Dear Mr Hawkins

**SUBMISSION – TAX LAWS AMENDMENT (MEDICARE LEVY SURCHARGE THRESHOLDS)
BILL 2008**

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 *Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008*.

Please find our submission attached.

I would be more than happy to elaborate on the AHIA's submission in person at the request of the Committee at your Canberra hearing on 30 July 2008.

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 fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

HON DR MICHAEL ARMITAGE
CHIEF EXECUTIVE OFFICER

7 July 2008



**SUBMISSION TO THE SENATE ECONOMICS COMMITTEE INQUIRY
INTO THE TAX LAWS AMENDMENT
(MEDICARE LEVY SURCHARGE THRESHOLDS) BILL 2008**

by the Australian Health Insurance Association

Summary

The Australian Health Insurance Association (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.

Australia's balanced health system delivers some of the best health outcomes in the world, with Australians enjoying the second longest life expectancy of any country, behind that of Japan.¹ Our universal health system, Medicare, is complemented by a strong private health sector. Today, 10.9 million Australians (51.9 per cent of the population)² enjoy the benefits that private health cover brings, including choice of treating doctor and hospital.

Australians with private health insurance represent a diverse range of incomes, with 2.34 million Australians with private cover living in households earning less than \$48,000 per annum, including one million private health insurance members living in households with an annual income of less than \$26,000.³

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

The AHIA contends that the proposed changes to the Medicare Levy Surcharge thresholds announced by the Australian Government on 13 May 2008 will increase pressure both on the public hospital system and on private health premiums, resulting in a decline in the quality of health care available to Australians.

The AHIA concludes, on Budget 2008-09 estimates, that the proposed changes to the Medicare Levy Surcharge thresholds could result in any of the following outcomes:

- 913,000 Australians exiting their private health cover (almost ten per cent of the current private health membership);
- eight out of ten of those Australians exiting their private cover being aged over 30 years (and not the "young and healthy");
- an extraordinary increase (in addition to annual premium changes) in premiums of up to ten per cent to ensure private funds meet capital adequacy requirements as determined by the Government's industry regulator; and
- a \$1.8 billion cost impost on the public hospital system (with the Medicare Levy Surcharge policy change resulting in an overall net cost to the Australian Government of \$600 million once compensation to the states and territories for increased public hospital demand is considered).

¹ Australian Institute of Health and Welfare, Australia's Health 2008, www.aihw.gov.au

² Private Health Insurance Administration Council, www.phiac.gov.au

³ AHIA estimate based on information supplied by PHIA and Australian Bureau of Statistics



AHIA Response to Terms of Reference

- a. **The impact of changes to the thresholds on the number of Australians with private health insurance, including an examination of how many will abandon their policies as a result and how many will not take up private health insurance in the future;**
- b. **The modelling underpinning the decision and the veracity of that modelling;**

The AHIA calculates that the proposed Medicare Levy Surcharge threshold changes will result in a significant decline of up to 913,000 Australians with private health insurance. The AHIA also believes that the proposed policy change will ultimately lead to additional pressures on the public hospital system and increased premiums for private health cover.

The AHIA has identified a number of inconsistencies in the approach taken by the Department of the Treasury to gauge the impact of the proposed changes to the Medicare Levy Surcharge thresholds and the policy's resulting effect on private health insurance membership and public hospitals.

At the recent Budget Estimates in June 2008, Treasury stated that its modelling of the proposed changes in surcharge thresholds found that 186,000 singles and 149,000 families would exit their private health cover. Treasury's modelling represents a total loss to the private health system of 485,000 individuals (or Single Equivalent Units [SEUs] where a 'single' equates to one SEU contributor, and a 'family' represents two SEU contributors).⁴

The Estimates process revealed that Treasury understated the impact of the proposed policy changes on private health insurance membership by not including dependents in its modelling on the number of those expected to exit their private cover.⁵ Analysis of Private Health Insurance Administration Council (PHIAC) data shows that the ratio of persons for all SEUs (under the age of 65 years) is 1.48.⁶

Therefore, using Treasury's modelling, the 485,000 SEUs whom Treasury expects to exit their private health cover as a result of this change in policy equates to a total of 719,000 Australians (or 7.6 per cent of the current private health membership).

Treasury's conclusion that 485,000 individuals will exit their private cover as a result of this policy change is further queried by the AHIA when considering that the 2008-09 Budget papers identify savings of \$231.6 million related to the Private Health Insurance Rebate.⁷ To realise Treasury's rebate savings against its expected decline in private health membership of 485,000 individuals would require an average private hospital cover premium per member of \$1,591.

However, PHIAC identified in its 2006-07 Annual Report that the average hospital premium is \$1,251 per member.⁸ Even adjusting the PHIAC average cost of hospital cover to take into consideration the April 2008 premium change does not account for Treasury's use in its modelling of an average hospital premium per member of \$1,591.

⁴ Australian Senate, Economics Committee Hansard, 3 June 2008, www.aph.gov.au

⁵ Ibid

⁶ Private Health Insurance Administration Council, www.phiac.gov.au

⁷ Australian Government, 2008-09 Budget Paper Number 1, www.budget.gov.au

⁸ Private Health Insurance Administration Council, 2006-07 Annual Report, www.phiac.gov.au



The AHIA believes that Treasury has incorrectly based its assumptions on total private health insurance contribution income (ie. both hospital and general treatment cover) and not on hospital cover alone. It is important to note that the Medicare Levy Surcharge applies only to hospital cover, whereas general treatment cover includes premiums for non-hospital services such as dental, optical and physiotherapy.

If PHIA's average hospital premium of \$1,251 is calculated against the Private Health Insurance Rebate savings of \$231.6 million identified in the Budget papers, then 617,000 individuals are expected to exit their private health membership. When consideration is given to the dependents ratio of 1.48, the Budget's rebate savings of \$231.6 million leads **the AHIA to conclude that 913,000 Australians will be expected to exit their private cover as a result of the proposed changes in the Medicare Levy Surcharge policy.** This represents a decline in total private health membership of close to ten per cent.

A summary of the impact of the policy change, as calculated by the AHIA, modelled against Treasury's estimates (both exclusive and inclusive of dependents) and the identified savings to the Private Health Insurance Rebate follows in Table 1.

Table 1: Projected impact of the proposed changes to the Medicare Levy Surcharge thresholds on private health insurance membership

AHIA projection based on:	Individuals (SEUs) to exit their private cover	Total individuals to exit their private cover	Total decline in private health membership
Treasury forecast (exclusive of dependents)	485,000	485,000	5.2 %
Treasury forecast (inclusive of dependents)	485,000	719,000	7.6 %
Private Health Insurance Rebate savings	617,000	913,000	9.7 %

Source: Australian Government, 2008-09 Budget

Further, the AHIA believes Australian Government statements that the proposed changes to the Medicare Levy Surcharge thresholds will relieve a significant number of Australians from a 'tax trap' are misleading.

Taxation statistical information provided to the AHIA by the Australian Taxation Office (ATO) in June 2008 provides clear evidence that the proposed changes to the thresholds will reduce the number of high income earners affected by the Medicare Levy Surcharge policy and contrasts with comments by the Treasurer that the current surcharge thresholds have resulted in "up to 2 million Australians (being) caught in a tax trap".⁹

The ATO's statistical information details the number of taxpayers by income group and family type for the financial year that the Medicare Levy Surcharge was introduced (1997-98) and for the latest financial year that the taxation statistics are available (2005-06) as follows:

⁹ Treasurer Wayne Swan, Transcript of interview on the Sunday programme, 11 May 2008



Table 2: Taxation Statistics 1997-98

Taxable Income	Single	Married	Total
0 or less	29,000	127,140	156,140
More than 0 to 50,000	3,442,890	5,322,690	8,765,580
More than 50,000 to 75,000	183,510	632,565	816,075
More than 75,000 to 100,000	37,225	150,120	187,345
More than 100,000 to 150,000	18,130	80,545	98,675
More than 150,000	10,010	51,510	61,520
Total	3,720,765	6,364,570	10,085,335

Bolded figures represent those taxpayers within the Medicare Levy Surcharge income levels in 1997-98

Source: Australian Taxation Office

Table 3: Taxation Statistics 2005-06

Taxable Income	Single	Married	Total
0 or less	180,735	148,510	329,245
More than 0 to 50,000	4,475,485	3,763,980	8,239,465
More than 50,000 to 75,000	779,890	1,081,450	1,861,340
More than 75,000 to 100,000	230,725	351,340	582,065
More than 100,000 to 150,000	117,525	189,260	306,785
More than 150,000	68,335	123,730	192,065
Total	5,852,695	5,658,270	11,510,965

Bolded figures represent those taxpayers within the proposed Medicare Levy Surcharge thresholds, applicable to 2005-06 income

Source: Australian Taxation Office

In 1996-97, the year that the Medicare Levy Surcharge was introduced, a total number of 380,930 taxpayers (3.8 per cent) were affected by the policy. If the proposed new Medicare Levy Surcharge thresholds of \$100,000 for individuals and \$150,000 for families were applied to the most recently available taxation statistics (2005-06), a total of 309,590 taxpayers (2.7 per cent) would be affected.

The ATO statistical information demonstrates an even greater decline in the number of individual taxpayers who would be affected by the proposed new Medicare Levy Surcharge threshold of \$100,000. In 1997-98, 248,875 individual taxpayers (6.7 per cent of all individual taxpayers) fell within the Medicare Levy Surcharge income levels. If the proposed new threshold of \$100,000 was applied to 2005-06 data, the number of individual taxpayers affected would be 185,860 (3.2 per cent).

Based on the latest available taxation statistics, the proposed new thresholds will reduce the total number of taxpayers affected by the Medicare Levy Surcharge by almost 70,000, compared to when the policy was introduced in 1997-98. In contrast, the total number of taxpayers over that period has increased by almost 1.5 million.

The AHIA contends that it is important to acknowledge that those Australians likely to exit their private health cover because of the proposed changes to the Medicare Levy



Surcharge thresholds are **not** simply representative of a younger membership demographic, as suggested by some commentators.

In late 2007, the AHIA undertook market research into consumer attitudes to private health insurance. That research found that nearly one in seven (14.5 per cent) of those individuals with private hospital cover hold their membership to “avoid” paying the Medicare Levy Surcharge.

The research found that the age profile of those who would exit the private health sector if changes to the Medicare Levy Surcharge occurred is as follows:

Table 4: Age profile of those private health insurance members expected to exit private cover with changes to the Medicare Levy Surcharge thresholds

Age cohort	As a proportion of those expected to exit private cover
18-29 years	23 %
30-39 years	38 %
40-54 years	29 %
55+ years	10 %

Source: AHIA

This age profiling demonstrates that almost eight out of ten of those with private health insurance, who would exit their cover if the Medicare Levy Surcharge thresholds were increased, would be aged over 30 years. It is fanciful to suggest that these people exiting private health insurance would not place additional burden on the public hospital system, as demonstrably those leaving the system would not be just the “young and healthy”.

In addition to a high number of those with private cover aged over 30 years expected to exit the private system, the proposed changes to the Medicare Levy Surcharge thresholds are also expected to reduce the number of new entrants into private health insurance.

New members joining a private health fund assist the funds in keeping premiums lower than would otherwise be the case. The application of limits to claiming that new members can make within the first twelve months of joining a private health fund allows funds to reduce premium increases, as evidenced by the fact that funds increased their benefit outlays to members by nine per cent in 2007, compared with an increase of 4.99 per cent in premiums this year.¹⁰

The AHIA foresees the potential for a continued downward trend in private health insurance membership as a result of this proposed policy change. Without the contributions from the new members encouraged to join private health insurance by Australian Government policies, there will undoubtedly be additional pressure on premiums to cover the outlays made by funds on behalf of existing members.

¹⁰ Private Health Insurance Administration Council, Quarterly Statistics 2006 – 07, www.phiac.gov.au



c. The anticipated impact on private health insurance premiums and private health insurance products offered

The proposed changes to the Medicare Levy Surcharge thresholds are likely to have a significant adverse effect on private health insurance premiums. The AHIA estimates that the impact of this policy change on premiums could be as high as ten per cent.

The AHIA has modelled the effect the proposed Medicare Levy Surcharge thresholds will have on private health premiums, **additional** to the annual increases in premiums which occur ordinarily due to increased hospitalisation, ageing of the population and general health inflation. In 2008, the average private health premium increase was 4.99 per cent.¹¹

Treasury estimates that the number of Australians no longer covered by private health insurance, owing to the changes in the Medicare Levy Surcharge thresholds, will be between 719,000 and 913,000. The AHIA has modelled the effect of their departure using PHIAC's current average hospital contribution of \$1,251 against a claiming history of an average fund policy holder aged under 65 and also under the scenario of these departing members having made no hospital cover claims in the previous twelve months.

Table 5 demonstrates the likely effect on premiums, additional to ordinary annual increases, depending on the claiming history of those exiting their private health membership as a result of the change in surcharge thresholds.

Table 5: Projected additional effect on premiums from proposed changes to Medicare Levy Surcharge thresholds

Individuals to exit private hospital cover	Additional change in premium (based on average claiming)	Additional change in premium (based on those exiting having made no claims in last year)
719,000	3.3 %	7.7 %
913,000	4.3 %	10.1 %

Source: AHIA modelling based on PHIAC data

The impact of private fund members exiting their cover due to the increase in premiums will have a spiralling effect of subsequent membership exits in the years following the surcharge policy changes. As a result, private cover is likely to become less affordable and the industry will experience a further membership decline.

Faced with the prospect of continued exiting membership and high premium increases over coming years as a result of the policy change, private funds will need to make decisions about the type of products and benefits available to their memberships which could potentially see the introduction of more product exclusions and restrictions.

While funds would be reluctant to reduce the number and level of benefits they make available to their membership, this is likely to be the only measure funds can undertake in the short-term in response to a decline in capital associated with a loss of membership. Such an outcome is likely to make private cover less attractive and will place greater demand on the public hospital system as more people exit the private system.

¹¹ Department of Health and Ageing, www.health.gov.au



It is important to note that the predicted increase in premiums resulting from the proposed changes to the Medicare Levy Surcharge thresholds will also impact upon the Australian Government's budgetary position through appropriations for the Private Health Insurance Rebates. A minimum of 30 per cent of the additional private health insurance premium increases predicted by the AHIA will be borne by the Australian Government through expenditure on the rebate.

Please also note that the AHIA's modelling does not take into consideration the further decline that increased premiums levels could have on 'out year' private health insurance membership following the change in the Medicare Levy Surcharge policy.

d. The impact on the cost of living and the consumer price index;

The cost of health, hospital and medical services comprises a significant proportion of the Consumer Price Index (CPI). In the twelve months till March 2008, the health services component of the CPI rose by 4.6 per cent, compared with an annual inflation rate of 4.2 per cent.¹²

The AHIA has estimated that the proposed changes in the Medicare Levy Surcharge thresholds could result in a specific need for premiums to increase by ten per cent in 2009, in addition to any ordinary change in premium owing to demographic and health cost pressures. This additional increase of up to ten per cent would be required to meet capital adequacy and other regulatory requirements set by the Australian Government through the industry regulator, PHIAC.

Such a significant increase in private health insurance premiums next year, compared with this year's increase of 4.99 per cent, is likely to contribute to significant inflationary pressures within the Australia economy.

The AHIA is concerned that the expected increases in premiums and subsequent rises in the cost of living that the proposed changes to the Medicare Levy Surcharge thresholds will produce will severely impact upon the 2.34 million Australians with private hospital cover who reside in households where gross income is less than \$48,000, including one million who live in households with incomes less than \$26,000 per annum.

These Australians have **chosen** to be privately insured as their incomes are below the current Medicare Levy Surcharge thresholds, and it will be these people who will be most disadvantaged by the proposed policy change and the resulting increases in premiums and the cost of living.

¹² Australian Bureau of Statistics, Consumer Price Index, March 2008, www.abs.gov.au



e. Including the threshold, private health insurance rebate and lifetime health cover on increasing private health insurance membership;

The Medicare Levy Surcharge was introduced in July 1997 as part of a package of measures to encourage Australians to take out private health insurance. Along with the Private Health Insurance Rebate and Lifetime Health Cover, the Medicare Levy Surcharge is an Australian Government policy approach aimed at ensuring Australians benefit from a balanced health care system.

Since these private health measures were introduced, hospital cover membership has increased from 6.1 million (33.6 per cent) in June 1997 to 9.5 million (44.6 per cent) in March 2008. As a result, private hospital admissions have doubled since 1998 to 2.4 million admissions in the year ending March 2008, relieving significant pressure on our public hospital system.¹³

Table 6 below highlights the number of procedures performed by medical condition in private hospitals in Australia in 2006-07 according to the Australian Institute of Health and Welfare (AIHW). None of these procedures are discretionary. If Australians exit their private health cover as a result of the proposed changes to the Medicare Levy Surcharge thresholds, these are the types of procedures which will be transferred from the private hospitals to the public hospital system.

Table 6: Private Hospital separations in Australia, 2006-07

Procedure	Percentage performed in private hospitals
Malignant breast conditions	55 %
Cancer therapy (Chemotherapy)	55 %
Hip replacements	55 %
Other major join replacement and limb reattachment	63 %
Mental health treatment (same day)	70 %
Lens procedures	73 %
Complex middle ear infection	70 %
Other knee	77 %

Source: AIHW Hospital Statistics

The AHIA is concerned that any decline in private health insurance membership as a result of the proposed changes to the Medicare Levy Surcharge thresholds will affect the balance between the current surcharge thresholds, the Private Health Insurance Rebate and Lifetime Health Cover policies. The AHIA believes that changes to the current application of private health policies will have a detrimental impact on our public hospitals as Australians exit their private membership to rely solely on the public system for their health care needs.

¹³ Private Health Insurance Administration Council, Quarterly Statistics, www.phiac.gov.au



- f. **The anticipated impact of changes to the threshold on:**
- i. **The public hospital system including waiting lists and the financial requirements of state governments;**

The proposed Medicare Levy Surcharge threshold changes will have a detrimental impact on the public hospital system, resulting in longer public hospital waiting lists and significantly increased cost pressures on State and Territory Governments. The AHIA estimates that the additional demand for hospital treatment through the public system will disadvantage the states and territories by up to \$1.8 billion.

Treasury disclosed at the recent Estimates hearings that it did not model the impact on the public hospital system of the expected decline in private health membership and did not consider the level of financial support which would be required to compensate the states and territories for the resulting increase in costs to their hospital systems by the proposed policy changes.¹⁴

Treasury estimates that 485,000 taxpayers will no longer be covered by private health insurance following the changes to the Medicare Levy Surcharge thresholds. The AHIA calculates that Treasury's modelling of the savings to Government from reduced rebate outlays of \$231.6 million represents approximately 913,000 Australians who will no longer be covered by private health insurance (or close to ten per cent of the total private health insurance membership in Australia).

For the purpose of this modelling, the AHIA has estimated an average hospital benefit of \$484 is paid each year by private health funds for persons **under 65 years of age**. If this liability for annual hospital care of \$484 per person were to be transferred to the public hospital system as private fund members exit their cover, the AHIA estimates that the overall cost to State and Territory Governments would be close to \$1.8 billion (over four years).

The following table (Table 7) is derived using current expenditure patterns by health funds and demonstrates the impact on state public hospital systems based on the current contribution from the Commonwealth to the states and territories through the Australian Health Care Agreements (AHCAs).

Table 7: Projected increased cost burden on the public hospital system from the proposed changes to the Medicare Levy Surcharge thresholds

Individuals to exit private health	Annual additional cost impact on public hospitals	Total additional cost impact on public hospitals over four years
485,000	\$234 million	\$938 million
719,000	\$347 million	\$1.4 billion
913,000	\$442 million	\$1.8 billion

Source: AHIA modelling based on data from the Australian Government, Budget 2008-09 and PHIAC

The AHIA has calculated that the compensation required by the State and Territory Governments for the resulting increase in public hospital demand from a change in the surcharge policy will be \$442 million in 2008-09 and up to \$1.8 billion over the four year period of the forward estimates (not accounting for health inflation).

¹⁴ Australian Senate, Economics Committee Hansard, 3 June 2008, www.aph.gov.au



Further, the AHIA has calculated, using the indexing of the final year of the current AHCAs, that the proposed changes to the Medicare Levy Surcharge thresholds will have a likely total additional cost impact on the public hospital system of \$2.6 billion over the five year life of the next AHCAs (Table 8).

Table 8: Projected increased cost burden on State and Territory Governments resulting from the changes to the Medicare Levy Surcharge thresholds over the life of the next Australian Health Care Agreements (AHCAs)

State/Territory	Additional cost impact on public hospital system over next AHCAs
New South Wales	\$857 million
Victoria	\$626 million
Queensland	\$509 million
Western Australia	\$262 million
South Australia	\$206 million
Tasmania	\$56 million
Australian Capital Territory	\$31 million
Northern Territory	\$33 million
Total	\$2.6 billion

Sources: AHIA modelling based on data from the Australian Government Budget 2008-09, PHIAC and Department of Health and Ageing

The recent State of Our Public Hospitals report released by the Australian Government showed that, for example, only one-in-three elective surgery patients in Tasmania is seen within the minimum timeframes as recommended by the Australasian College of Emergency Medicine.¹⁵ The AHIA is concerned that any further pressures on our public hospital system will result in a marked decline in the quality of care that Australians receive through our health system.

Since the proposed Medicare Levy Surcharge thresholds were announced, several State and Territory Governments have indicated that their public hospital systems will come under increased pressure because of the policy change.

The Tasmanian Government has documented in its 2008-09 Budget papers that its public hospital waiting list will increase from 8,323 in 2007-08 to 8,950 in 2008-09, a rise of seven per cent. Compared with the actual number of Tasmanians treated in that state's public hospital system in 2005-06, the waiting list estimate for 2008-09 represents a 20 per cent deterioration in the number of those waiting for hospital treatment.

The Tasmanian Government attributes the increase in its waiting list for public hospital treatment to the proposed Medicare Levy Surcharge threshold changes, stating that "it is anticipated demand will further increase as a result (of the recent changes in Medicare Levy Surcharge threshold), which is likely to result in a fall in participation in private health insurance and a consequence increase in the number of public patients".¹⁶

¹⁵ Department of Health and Ageing, State of Our Public Hospitals June 2008 Report, www.health.gov.au

¹⁶ Tasmanian Government, Budget 2008-09, Budget Paper No. 2, Volume 1, Table 6.4.



Other State Governments have also suggested anecdotally that their public hospital systems will be placed under further pressure as a result of the proposed surcharge changes. The Western Australian Health Minister stated that his state’s public hospital system is “**now going to be required to treat tens of thousands more patients**” and that the “Commonwealth should be compensating us for that change in policy”.¹⁷

Further, the AHIA calculates that the initial \$300 million savings identified by the Australian Government associated with this proposed policy change will ultimately be negated by the need to compensate the state and territories for increased public hospital demand resulting from the decline in private health insurance membership.

The Budget papers identify savings of \$960 million owing to reduced government expenditure on the Private Health Insurance Rebate, with a corresponding loss of revenue from the proposed Medicare Levy Surcharge thresholds of \$660 million, a net gain to the Commonwealth of \$300 million over the next four years.

The AHIA concludes that, if the Australian Government is required to compensate the state and territories for even half of the estimated increase in public hospital costs of \$1.8 billion, the proposed changes to the Medicare Levy Surcharge thresholds will ultimately result in a net \$600 million impost on the Commonwealth over the forward estimates.

ii. The ongoing viability of private health insurance; and

The 2008-09 Budget papers provide the expected savings relating to the cost of the Private Health Insurance Rebate from the proposed changes to the Medicare Levy Surcharge thresholds. The AHIA has modelled its calculations using the assumption that those members exiting the private health sector are eligible for the 30 per cent rebate (ie. aged under 65 years). The following table (Table 9) provides the direct impact of the surcharge policy change on the private health insurance industry.

Table 9: Projected effect on private health insurance contribution income from the proposed changes to the Medicare Levy Surcharge thresholds

	2008-09	2009-10	2010-11	2011-12	Total
Projected Private Health Insurance Rebate savings	\$231.6m	\$236.4m	\$245.5m	\$245.5m	\$959m
Subsequent member contributions to private funds forgone	\$772.0m	\$788.0m	\$818.3m	\$818.3m	\$3,197m

Source: Australia Government, Budget 2008-09

As a consequence of the proposed changes to the Medicare Levy Surcharge thresholds, it is expected, based on Australian Government Budget estimates, that over \$3 billion in member contributions will be lost to the private health sector over the next four years.

¹⁷ Western Australian Health Minister, Jim McGinty, Transcript of interview, ABC News, 15 May 2008



iii. Private hospitals.

The AHIA is concerned that any decline in private health insurance membership resulting from the proposed changes to the Medicare Levy Surcharge thresholds will have an adverse effect on the efficiency of the private hospital system.

The private hospital system makes an important contribution to the health system by allowing Australians timely and affordable access to quality hospital care. In 2005-06, the AIHW reported that close to 40 per cent of the 7,311,983 separations which took place in Australian hospitals were conducted in private facilities.¹⁸

The AIHW also found that the private hospital system provides a disproportionately high level of care for chronic health conditions, such as mental health-related hospital separations. In 2005-06, there were close to 120,000 day only hospitalisations related to mental illness, four-fifths of which were provided in private hospitals.¹⁹

Further, the AIHW reported that over the decade to 2005-06, separations per 1,000 population increased by 46.6 per cent in private hospitals, compared to only 6.4 per cent for public hospitals. Over the same ten year period, the number of patient days in public acute hospitals increased by 7.2 per cent, and for private hospitals the increase was almost 26 per cent.²⁰

A viable private hospital system is fundamental to the delivery of quality health care in Australia. The proposed changes to the Medicare Levy Surcharge thresholds will result in a decline in private health insurance membership of up to 913,000 people, ultimately impacting on the efficiency of the private hospital sector which has done much in the last decade to reduce pressure on our public hospital system.

¹⁸ Australian Institute of Health and Welfare, Australia's Health 2008, www.aihw.gov.au

¹⁹ *ibid*

²⁰ *ibid*