10th July, 2008

Committee Secretary
Senate Economics Committee
Dep't of The Senate
P.O. Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary,

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

Introduction

This submission is made by Peter Scullin Managing Director of Health Link Consultants Pty Ltd, in response to the above enquiry. Health Link Insurance was incorporated in 1996 and changed its name to Health Link Consultants in 1998. The Company began with the introduction of a new product *Health Care*, which combined Private Health Insurance and Medical Trauma Insurance into a single premium cover. Other products included Life Risk Insurance policies and Private Health Insurance.

Over the next few years Health Link Consultants (HLC) expanded its marketing of Private Health Insurance products beyond individual retail sales into corporate plans for larger employer groups. Across both these areas, HLC has introduced upwards of 10,000 health fund memberships with the key emphasis being on personal *hands on* advice and service. HLC has recently launched a first class website in order to enhance its advisory services to health insurance consumers and corporate enquirers.

Comments on the proposed changes to the MLS Thresholds within the Bill

We have noted points (a) and (f) of the inquiry guidelines and can respond as follows:

(a) The impact of change 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.

HLC recognises that indexation of the Medicare Levy Surcharge (MLS) thresholds makes sense providing levels are capped at the Consumer Price Index (CPI) or Average Weekly Earnings (AWE) and then continue to be indexed at one of these levels. It is very likely there will be a significant drop out of PHI memberships as a result.

We have serious concerns with the raising of the thresholds for single health fund members from $50,000 p.a. to $100,000. HLC is also of the view that the mass abandonment of memberships can be lessened by lifting the restrictions now applying to hospital excess levels, that MLS threshold levels are currently tied to. We will return to this suggestion further on.

As to the question of "How Many?" having read both the 2008 Federal Budget papers and the report by Access Economics for the A.M.A. and in particular, the worsening economic conditions prevailing since then, at HLC we anticipate upwards of 10% of Australians now covered by PHI will abandon their cover. That is, unless the Bill now under consideration is deferred or modified.

(b) The modelling underpinning the decision and the veracity of that modelling.

HLC expects that Committee Members will be well aware of the claims and counter claims made in the media by the Minister, the A.M.A. the Australian Health Industry Association (AHIA) and others regarding the modelling. Although the Minister Nicola Roxon has stoutly defended the Government's (*read Treasury?*) initial modelling, the consensus view within the media is these figures now lack credibility. After all, children are health fund members too! (Refer Nigel Rays submission to Senate Estimates Committee 03/06/2008).

Further, the worsening economic conditions i.e. rising petrol prices, food prices and interest rates are also making Treasury's initial modelling appear outdated. The fact is that "working families" are now looking to cut costs to survive. If the A.M.A.'s Dr Rosanna Capolinga has got it right and up to one million Australian's abandon their PHI, then Committee Members can forget about outdated modelling. The fact is, Australia will inevitably experience a National Public Hospital log jam.

(c) The anticipated impact on PHI premiums and PHI products offered

One of the positive outcomes of not raising the MLS thresholds since 1997 has been the influx of younger healthier individuals into PHI memberships. Apart from teaching young people to become responsible for managing their own health care, it has also proven to be a key driver in supporting the principle of Community Rating. This represents a major point of difference between Australia's private health industry with say, the USA. In a nutshell, it's all about younger, fitter healthier members subsidising older, poorer unhealthier members.

Past experience has shown that discouraging younger healthier individuals from becoming part of our balanced system of private and public care inevitably leads to disadvantaging older, poorer, unhealthier Australians. That is why HLC sees this bill as unnecessary *déjà vu*. The very reason the MLS thresholds were introduced in the first place was to correct a previous imbalance that occurred in the early 1990's.

At the time, PHI memberships dropped to just over 30% of the population due to soaring premium rates resulting in public hospital waiting lists going through the roof. At HLC we anticipate that unless this Bill is deferred or amended then the impact on future PHI premiums will prove to be detrimental to the viability of private and public health care. At the very least, MLS thresholds should be brought into line with CPI increase since 1998 ($64,263 for singles and $123, 526 for families, couples and sole parents.) In this regard we urge Committee Members to take account of the worsening economic conditions that are now imminent.

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

This issue is outside HLC's area of knowledge and experience.

(e) Including the threshold, PHI rebate and lifetime health cover on increasing PHI membership

As a Health Broker acting on behalf of PHI members HLC would prefer Government's to do what is necessary to maintain the balance between the private and public health care systems. We not only support the maintenance of the "*carrot and stick"* measures that MLS thresholds, PHI rebate and LHC penalties have delivered, we also agree with the new Government's decision to inject a further $1.6 billion into the public hospital system.
If the Government is determined to proceed with the Bill in its present form then the opportunity exists to introduce additional measures to lessen the impact of the mass abandonment of PHI memberships. Under point (a) we noted how MLS threshold levels are currently tied to hospital excess levels which have remained unchanged from inception.

It would now seem to be appropriate to lift these restrictions to a maximum hospital excess up to $1000 p.a. for singles and $2000 p.a. for family, couple and sole parent members. This would enable health funds to offer lower premiums from the time MLS thresholds are indexed and especially, by the time the 2009 rate reviews are due to impact on members.

Further, the resetting of hospital excess levels would at last provide Australian employers with a small window of opportunity to assist their employees meet the ever increasing costs of health insurance cover, whereas today there is absolutely none. The introduction of higher hospital excesses would allow parties within I.R. agreements to negotiate the refund of higher hospital excess payments to employees under E.B.A. agreements. As a value added workplace benefit, this could only do good for both employees and employers.

(f) The anticipated impact of changes to the threshold on:

In response to point (f) HLC wishes to urge the Rudd Government to reconsider the need for these changes in the first place. Although they represent a significant reform they were not a key part of the Governments election platform and have been introduced at short notice. Further, it is now clear the initial treasury modelling is not only flawed it is out of pace with emerging signs of a deteriorating economy.

In consideration of the following:

i. the public hospital system including waiting lists and the financial requirements of state governments;

As most health fund members pay contributions monthly by direct debit credit card or payroll deductions the cancellation of PHI memberships will take time.

However, if abandonment goes as high as 10% (about one million members) HLC expects the impact on public hospital waiting lists from around May 2009 will worsen day by day.

With regard to State Government finances, most Premiers have already expressed their concerns in the media in relation to the impact on public hospital costs and have called for significantly increased funding in order to meet the anticipated burden on public hospital services.

ii. the ongoing viability of PHI, and

We have expressed our concerns within points (a) to (e).

iii. Private hospitals.

HLC notes the Health and Ageing Minister's press release on 30/06/08 which stated that public hospital admissions had grown by 3% over the previous year. At the same time admissions of private patients to public hospitals increased by 10.7% and further, private hospital admissions also increased by 6.1%. If the Ministers figures are correct, what will happen to public hospital waiting lists if only 500,000 health fund members abandon their cover? As the old saying goes "If it ain't broke, then don't fix it!"

We urge Committee Members to refer this Bill back to the Government with the inclusion of amendments recommended here in. HLC also respectively suggests a deferment of at least 12 months, to enable meaningful consideration to be given to these significant changes.

Peter Scullin
Managing Director
Health Link Consultants Pty. Ltd.