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JSHA

John Small Health Advisory

A Member of the Morris Cox Group of Companies

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

Dear Secretary

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

INTRODUCTION

This submission is made by John Small, Managing Director of Morris Cox Group Pty Ltd trading as John Small Health Advisory, in respect of the above Inquiry.

Morris Cox Group Pty Ltd was established in 1988, to act as a broker and advisor in Private Health Insurance in Australia with emphasis on Queensland, New South Wales and Victoria. There were over 60 health funds operating in Australia at that time and the availability of informed and unbiased information for the Australian public was sparse in the extreme.

In the subsequent 20 years, this company has been responsible for introducing many thousands of new members into Private Health Insurance and ensuring many more thousands were introduced to products better suited to their individual requirements and needs, than they had.

The Morris Cox Group Pty Ltd was a founding member and John Small a founding director of the Private Health Insurance Intermediaries Association Inc. (PHIIA), established in 2002 to **protect** and further the knowledge of agents and brokers engaged in the selling of health insurance products in Australia and to establish a Code of Conduct for intermediaries, to **protect the interests of consumers**.

COMMENTS ON THE PROPOSED AMENDMENTS TO THE MEDICARE LEVY SURCHARGE THRESHOLDS

Indexation: We agree that the thresholds should be indexed. As the existing thresholds were established in 1997 it is desirable that they should be indexed, calculated at CPI or AWE. This indexation would bring the existing thresholds from \$50,000 to approximately \$73,000 for singles and from \$100,000 to approximately \$146,000 for couples and families. The proposal under the Tax Laws Amendment Bill 2008 is to raise the single threshold to \$100,000 and the family/couples threshold to \$150,000.

Our submission is that while \$150,000 is fair for couples and families the single threshold should not exceed \$75,000.

Reasons for the Medicare Levy Surcharge: The original design of Medicare was to have a free public health system that would sit alongside a private health system particularly with regard to hospital treatment, where as close as possible to 50% of hospital admissions would be taken up by the private system, allowing the public system in handling not much in excess of 50% of hospital admissions to be manageable both practically and economically. Taxpayers were asked to contribute what is now 1.5% of taxable income to assist in funding Medicare.

Private Health Insurance is based on the Community Rating Principle, which dictates that adults of all ages and states of health are entitled to take up private cover of their choice and pay the same premium for that cover as anyone else. The bottom line of this is that the young and the healthy, are in effect, subsidising the aging and those in not-so-good health. This and the enforcing of registration on health funds, has helped develop the Australian Private Health Insurance products as among the best and best-priced in the developed world. When private health insurance membership dropped to dangerously low levels in the 90's, the Medicare Levy Surcharge was introduced to influence higher income earners to take up private hospital cover, to encourage them to use the private system and leave the public system to the more needy, and to further fund Medicare. This assisted in bringing private hospital insurance membership back towards a more equitable level.

Anticipated Impact of New Medicare Levy Surcharge Thresholds: There is no doubt there will be a drop-out from private cover from those no longer affected by the new thresholds. This is inevitable and will be emphasised by the sudden large increases in thresholds because of lack of indexing over the past 10 years. It is reasonable to assume the great majority of this drop-out will involve the young and the healthy. This will not have any great effect on the level of claims, but will have a spiraling effect on the two things that most need stabilisation and help - cost of private hospital cover and further increasing loading on the public system. We can go into these spiraling effects in much more detail, but common sense points to the spirals increasing in size and intensity particularly from Year 2 after the introduction of the new thresholds.

Our Submission:

While we who work in the Health Insurance Industry understand the above anticipated impacts and will have to work with them and do what we can to lessen them, the main object of our submission is to seek the introduction of common sense into the Tax Laws Amendment Bill 2008. There can be no common sense in doubling the singles threshold to \$100,000 when indexation as well as balance with the couples/singles threshold both point to \$75,000 being the maximum appropriate threshold.

One small example: two single people each earning \$100,000 (NOT paying the Medicare Levy Surcharge) and with no hospital cover if they become a couple, will then have to pay a Medicare Levy Surcharge of \$2,000. They will probably take up private hospital cover to avoid this. Why shouldn't they each pay a surcharge of \$1,000 whilst single, if they don't take up cover? **It won't take the young bright minds of the day to work out it's better to appear to being "single"**. To say a single person earning between \$75,000 and \$100,000 cannot afford to take up private hospital cover costing from around \$600 to \$850 per year, depending on their requirements from basic cover to full cover, is not common sense!

SUMMARY

The figures of the percentage of hospital services and the total cost performed within the private hospital system are readily available. A viable private hospital insurance system is needed to fund this, and viability will only be kept up if the Private Health Insurance industry can provide products at **reasonable prices to certainly well in excess of 40% of the Australian public, ideally more like 45%**. This will certainly **not happen if undue pressure is put on private health premiums**, leading to even **more pressure on our public hospital system**.

The irresponsibility and complete lack of planning or research that has resulted in doubling the single Medicare Levy Surcharge Threshold will produce completely **unwarranted and increasingly upward spiraling problems for our hospital care systems**.

We urge Senators to refer this bill back for common-sense amendment.



JOHN SMALL