

Tabled - Save Medibank - 3/11

THE RIGHT HONOURABLE MALCOLM FRASER, A.C., C.H.

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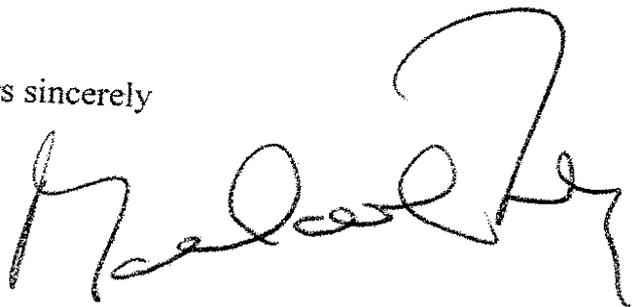
21 September 2006

Dear Stephen

Thank you for your letter regarding *Save Medibank*. You asked me for my views on the proposed sale of Medibank Private.

When Medibank Private was introduced, we believed that, if the government were actively involved in the business, we would have a better handle on costs and outcomes than if it were all done by private enterprise. I believe it would be a great pity if Medibank Private were sold and that it would lead to escalating fees.

Yours sincerely



(Malcolm Fraser)

Mr Stephen Jones
CPSU National Secretary
191-199 Thomas Street
HAYMARKET NSW 2000

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Have your say on Medibank's future

1) Do you support the Federal government's plan to sell Medibank?

8	1%	yes
946	94%	no
48	5%	depends how it is sold
1003	100%	total

2) Do you think there has been enough consultation with Medibank members and the community about what the sale means for premiums, competition, assets and services?

yes	11	1%
no	987	94%
	5	0%

3) The Government has yet to decide how it wants to sell Medibank. Please indicate your preferred option - from most favored (a) to least (d).

7	1%	Break it up and sell in bits to current competitors eg other health funds
15	1%	Sell as 'whole' business to new owners eg not competitor health funds
29	3%	Float on share-market (similar to Telstra)
954	95%	Retain in Government ownership

4) If Medibank is privatised, what should happen to the \$1 billion in assets that Medibank members have built up?

19	2%	New owners should be free to reinvest anywhere they like to make extra profits
970	97%	Existing assets should continue to be returned to members
14	1%	

5) How important is it to you as a member that Medibank is a not-for-profit company (ie all profits remain for the benefit of members)

971	97%	Important
18	2%	Not Important
14	1%	

6) How important is it to you as a member that Medibank is a publicly owned, Government business?

942	94%	Important
36	4%	Not Important
25	2%	

7) How important is it to you as a member that Medibank operates in all States and is the only national fund.

980	98%	Important
12	1%	Not Important
11	1%	

8) Privatising Medibank will require new laws to be passed in Parliament. Would the way your local MPs votes on this issue affect your vote in a Federal election?

852	85%	yes
140	14%	no
11	1%	

9) Do you think the Government has made a strong case for the selling of Medibank?

32	3%	yes
965	96%	no
6	1%	

10) As a Medibank member, would you expect a preferential share offer if Medibank was sold via a stock market float?

860	86%	yes
88	9%	no
55	5%	

About you

first name

Last name

phone

email

address

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Sale to shape future of Medibank

AUGUST 2006

Although the Federal Government is yet to announce the type of sale, Medibank members need to be aware of the consequences of the various sale options being considered for privatisation, this information may assist.

Scenarios for the future of Medibank	Share Float	Sell to competitor funds	Sell to a new business
Profits retained for the benefit of members	No	No	No
Shareholders / new owners take profits	Yes	Yes	Yes
Premiums to increase	Yes	Yes	Yes
Medibank job losses and office closures	unknown	Yes	unknown
Medibank is broken up and ceases as an organisation	No	Yes	No
Increased competition between funds	No	No	No

1. Sharemarket Float

- Government passes legislation to privatise Medibank
- Medibank changes its operation from 'not-for-profit' to 'for-profit', all major funds now operate for profit basis
- Operating surplus is no longer retained by Medibank for the sole benefit of members
- Medibank shares are publicly listed on the Australian Stock Exchange
- Pressure on premiums to go up to pay shareholder dividends

2. Trade Sale to existing health funds

- Government passes legislation to privatise Medibank, but does not include necessary regulations to protect existing members' interests
- Medibank is taken out of public ownership and divided amongst a consortium of the largest state-based health funds
- A mega 'for-profit' health fund emerges reducing the overall number of funds and reducing competition between funds
- New owners expect a reasonable return on their investment putting pressure on premiums
- Job losses and closure of outlets as the new owners consolidate

What you can do...

Visit www.savemedibank.net.au for online survey and more info

3. Trade Sale to a new owner

- Government passes legislation to privatise Medibank, but does not include regulations to protect existing members' interests
- Medibank changes its operation from 'not-for-profit' to 'for-profit', so all major funds now operate for profit
- Operating surplus is no longer retained for the sole benefit of members
- The number of health funds to choose from remains the same - no increase in competition between funds
- New owners take a reasonable return on their investment increasing pressure on premiums
- Job losses and closure of outlets as the new owners consolidate

4. Medibank remains in public ownership

- Federal Government chooses not to sell Medibank and retains public ownership
- Medibank remains 'not-for-profit', operating surplus remains in the fund for the sole benefit of members
- Regulatory changes provide incentives for health funds to be more innovative, efficient and affordable
- Medibank encourages active member participation through strategies such as preventative health programs
- Government takes a leadership role in using Medibank's public ownership to keep health costs down and ensure better health outcomes for Australians

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Health funds facts and figures

AUGUST 2006

In Australia we have an overly complex and highly regulated system of private health insurance. This list of facts and figures attempts to establish where Medibank Private sits in this landscape ahead of the Government's announcement about the sale in October.

Medibank

- 3 million members, 1.4 million contributors
- 30% of private health insurance market
- biggest and only national fund
- established by Fraser Govt 30 years ago
- 2002 Medibank made net loss of \$175 million, government injected \$85 million
- 2005/06 profit up again to \$200 million up from \$130 million previous year
- management expense ratio is 9.2% less than PHI fund average of 9.8%
- \$ 1 billion in assets (shares and cash)

Industry profile

- 2005 membership rates remained steady at 43%
- 9 million Australians have private health cover
- 1 million of those people earn less than 20k
- Private health insurance costs roughly 3-4% of the average family income
- People with chronic illness pay up to 20% of their income on health related expenses

Premiums

- Premiums have increased 40% over past 5 years
- Premium increases are usually higher than CPI, increases in 2005 averaged 7.6%
- Why are premiums increasing? Rising hospital / medical benefits and utilisation
- If anything there needs to be tighter controls on premium increases, as the current system is already beyond the reach of some groups.

For example according to the Australian Consumers' Association in 2005 - 477,000 people aged between 0 – 54 years left funds and 445,000 over 55 joined

- If funds were able to increase premiums more than once a year this would raise further concerns about affordability.

For example, an average couple without children already pays on average \$2500 per annum or maximum cover \$4170

Federal Government interventions

- 30% government rebate increased in April 2005 to 35% for those aged between 65 – 69 years and 40% for those aged 70+
- 30% rebate costs the Government \$3 billion per annum
- "Lifetime Health Cover" lower premiums to join younger and higher premiums to join later

Questions of Equity

- people living in rural areas miss out on benefits because there are fewer private hospitals compared to the cities
- lower income earners are less likely to have PHI so gain nothing from this massive government expenditure
- PHI is heavily subsidized by taxpayers who get little in return
- Rebate was introduced to shorten waiting lists and improve health care delivery – no evidence that this has been achieved
- 1 million +65 year olds have cover (1.5 million rely on the public health system)

What you can do...

- Visit www.savemedibank.net.au for online survey and more info
- Talk to family and friends about the issue.

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Questions over sale of Medibank

There are many unknowns about the future of Medibank. One thing is for sure though – when the Government announces the type of sale in October, there will be very little time for the public to respond before Parliament votes on the sale.

What's happening with the sale of Medibank?

In the May budget the Federal Government set aside \$20 million for the legal and technical costs associated with the sale of Medibank.

Merchant bank Carnegie Wylie was given the job to find the highest bidder for Medibank and report to the Government in September.

Why haven't I heard about this?

The Government hasn't consulted with Medibank members or staff who will be affected by the sale.

Announcements to date have focussed on delivering the biggest windfall for the Government, not the impact on health consumers.

Why is the Government selling Medibank?

The Government claims it can't play the role of regulator and own the biggest health fund, although that's been the case for more than 30 years.

Many members took out policies with Medibank because it was publicly-owned and not-for-profit.

When is the sale going to happen?

The Federal Government is obliged to draft legislation for any sale to proceed.

Draft legislation is likely to be released in October, with a vote by Federal MPs in November. If passed, the sale process could take 6 – 12 months.

The Government still hasn't announced what form the sale will take, whether it will sell Medibank Private to competitors, a new owner or go ahead with another contentious share market float.

What will happen to Medibank's assets?

Members have made contributions over the years, helping the Fund to accumulate \$1 billion worth of assets for the benefit of members.

The Government says that it owns the \$1 billion in assets and wants to sell it off.

What will happen to premiums?

Former Medibank board member, Professor John Deeble, said price rises were inevitable as a result of the sale. Professor Deeble said.

"What the Government's doing is effectively taking out the reserves of Medibank Private which somebody else is going to have to pay for,"

"That means they'll have to get a return on their money and that must mean higher premiums." April 06

Will privatisation benefit consumers?

A change of ownership from public to private in itself will not increase competition because the number of funds to choose from remains the same.

However, Health Minister Tony Abbott, said:

"Privatisation was good for the Commonwealth Bank, good for Qantas, it will be good for Medibank Private"

June 06

Will long term membership be recognised?

The Government says you do not have any claim to the fund. Finance Minister Nick Minchin said:

"...customers of Medibank Private have bought private health insurance policies; they have not bought a stake in the business, they do not own the business."

April 06

I work for Medibank Private, is my job secure?

No. Medibank say they can't provide any assurances for staff if new owners take over.

Indeed, Michael Ross of the Australian Private Hospitals Association said:

"...as well as consolidation, there would be rationalization, where all the back-office operations are rationalized, and there would be no need for duplication of Medibank staff."

I'm concerned about the sale what can I do?

Have your say by completing the survey online visit www.savemedibank.net.au

Document Information

Title: The Impact of privatisation of Medibank Private on premiums - Let's clarify the facts
Category: Staff Notice
Date: 02/11/2006
Summary:

Document

LET'S CLARIFY THE FACTS:

A report on the impact of privatisation of Medibank Private on premiums has been released today.

The report has attracted a lot of attention in the media, including some speculation around more 'sensational' issues such as staff cuts - so we thought it important to point out a few facts:

The report, published by CRA International, contains some very valid and positive predictions about our future and the potential positive impact of privatisation on the growth rate of premiums.

However, important to note, the report is theoretical, it was conducted without any consultation with Medibank Private, hence is not based on any current business plans.

It looked at where efficiencies at Medibank could be achieved - considering all aspects of the business including areas such as investment income, benefit outlays, and management expenses etc. It did not focus on staff cuts at all.

What the report did say included:

- Medibank Private, being the only truly national health fund, operates in a more complex environment than any other fund.
- Premiums will need to rise irrespective of who owns Medibank Private due to demographic factors such as an ageing population.
- Medibank Private is currently performing better than the average health fund, yet there appears to be scope to improve performance to match the best performing health funds.

Based on a best case scenario, a privatised Medibank could be 5-7% more efficient in our investments, benefit outlays, and management expenses.

The report is in fact consistent with what we know - we can continue to put pressure on premium growth through focusing on our customers, managing expenses well and driving down the growth rate of benefit outlays.

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