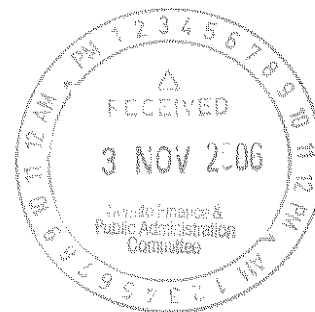


choice

31 October 2006

Mr Alistair Sands
Standing Committee on Finance and Public Administration
PO Box 6100
Parliament House
Canberra ACT 2600



Dear Mr Sands,

Re: Medibank Private Sale Bill 2006

Thank you for the opportunity to respond to the above inquiry.

Sale of Medibank Private

CHOICE does not have a strong preference for either government ownership or privatisation of Medibank Private (MP). We note that MP's operations are essentially commercial. We also note that health insurance premiums have increased by 40.9% since 2001 while MP has been in Government ownership.

If MP is to be sold, CHOICE believes this should occur in such a way that competition, efficiency and equitable health outcomes for consumers are enhanced. This will require a range of accompanying reforms to the health insurance industry and to health policy more generally – after all for many consumers private health insurance is not an option.

Increasing Competition and Efficiency

If MP is to be privatised, it should not be simply sold to an existing competitor or dismantled and split between existing funds. Rather, the sale of MP should occur in a manner that ensures it is retained as a strong competitor.

However, the sale of MP on its own will only have a limited impact on competition in the private health insurance sector. Other policy measures need to be introduced to stimulate an environment of competition, whilst also ensuring equity so that people without private health insurance are not left behind.

It is important to note that private health insurance is a complex product in a highly regulated market. It is difficult and confusing for consumers to compare and choose policies. CHOICE is well aware of the complexities involved in assessing and choosing health insurance policies, as we publish a report on private health insurance every year which is a step by step guide to assist consumers in choosing a policy. The latest report is attached to this submission.

The limitations of existing competition are clearly apparent in some of the non-price marketing currently apparent in the health insurance sector. Our analysis suggests that some funds offer policies of dubious value. Marketing is confusing and often emphasises

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the "bells and whistles" (eg some alternative medical services) rather than core health coverage and price. Given the very substantial taxpayer subsidy provided to health insurance funds it is disappointing to see competition reduced to the offer of "speciality products" such as hair straighteners or barbeques in some cases.

Policies with exclusions and limitations or high excess or co-payments are often targeted at younger consumers. Such policies offer little benefit to consumers and seem primarily designed to attract a more profitable target audience with little consideration of wider health outcomes or the burdens on the public purse. Genuine innovation, for example in the area of preventative health programs, is not apparent in any significant form in the health insurance industry.

In other words, a regulatory structure that provides clear incentives for health insurers to ensure quality health outcomes and more cost-effective management of health risks is required. More information also needs to be provided to consumers in a standardised form about private health insurance products so that they can make informed decisions.

Equity and efficiency should be the cornerstones of the reform process. Consumers' need for health care and not their ability to pay should be the underlying consideration in the reform process.

Ensuring equity

In order to ensure more equitable health outcomes for all Australians, not just those with private health insurance, several policy initiatives need to be introduced.

If MP is sold, the funds from the sale should also be earmarked for the public system, so that *all* taxpayers benefit from the proceeds. There would potentially be significant benefits from using these funds for preventative health care programs, including programs to seriously address the current obesity crisis. Funding for mental health services and indigenous health programs should also be considered.

If MP was to be privatised this provides an excellent opportunity to review the private health insurance rebate. The rebate is currently failing both on equity and efficiency grounds. The government spends (through the tax system) approximately \$3 billion dollars on the rebate each year, yet only the 43% of consumers who have private health insurance benefit. Furthermore, as noted earlier, this subsidy has not resulted in significant downwards pressure on insurance premiums. Taxpayer funds would be better spent if they were redistributed into the public health system, more specifically on preventative health programs which result in savings in health spending in the long term.

Taxpayers should also not be underwriting the private health insurance industry's marketing campaign. Treasurer Peter Costello announced in the budget this year that Government would spend \$55 million over the next four years to "increase consumer awareness of the incentives and benefits associated with private health insurance". The campaign should be funded by the industry directly, and this argument is even stronger if MP is privatised. Government funds would be better used in health care programs.

Summary

To increase efficiency in the private health insurance market:

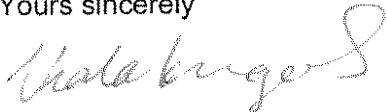
1. If MP is to be sold, it should not be broken up and handed to existing funds, but rather retained as a competitive player in the market.
2. Policies offering limited cover and benefit to consumers should not be offered.
3. More information needs to be provided to consumers about private health insurance products so that they can make informed decisions.

To ensure equity:

4. The private health insurance rebate should be reviewed as a matter of high priority, as it currently fails both on efficiency and equity grounds.
5. If Medibank is sold, funds from the sale should be used in the public system and on preventative health programs.
6. Taxpayer funds should not be used to market private health insurance.

Please contact me should you require further information or have any questions on 9577 3374 or 0411 788 076.

Yours sincerely



Viola Korczak
Health Policy Officer

Attached - Choice Health Insurance Report

<http://www.choice.com.au/viewArticle.aspx?id=100824&catId=100292&tid=100008&p=1&title=Test%3a+Health+insurance>

About CHOICE

CHOICE is an independent not-for-profit, non-party-political organisation established to provide consumers with information and advice on goods and services, health and personal finances, and to help maintain and enhance the quality of life for consumers. CHOICE provides consumer education, conducts surveys into consumer attitudes, lobbies for improved market outcomes for consumers and distributes unbiased consumer advice.