

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

SENATE INQUIRY INTO RESIDENTIAL AND COMMUNITY AGED CARE

21 April 2009

Question: 06

OUTCOME 4: Aged Care and Population Ageing

Topic: Indexation

Written question:

Could you please respond to arguments put forward by witnesses concerning COPO, that it is no longer used by the Department of Veterans' Affairs and that health insurance increases above indexation are granted by the Minister.

Answer:

**Indexation of aged care subsidies**

Some submissions to the Inquiry have sought to compare the level of indexation of aged care subsidies to the level of indexation applied to Department of Veterans' Affairs Home Care Program, private health insurance premiums and the National Healthcare Agreement.

These comparisons are not valid because indexation for aged care subsidies is specifically designed to compensate aged care providers for the increased cost of their inputs. The indexation applied to hospital funding, private health insurance premiums and by the Department of Veterans' Affairs uses other models of indexation which reflect factors more appropriate to them.

**Indexation under the National Healthcare Agreement**

The indexation rate under the National Healthcare Agreement comprises three components:

- The Australian Institute of Health and Welfare (AIHW) health inflation rate (Total Health Price Index)
- Demographic change
- Technology cost growth

The AIHW Total Health Price Index includes: governmental funded hospital and nursing home care, other government health expenditure, doctors and other health practitioners, dental services, medicines, aids and appliances, PBS pharmaceuticals and Medicare medical service fees.

## **Private Health Insurance premiums**

Private Health Insurance premiums are not indexed, but are determined individually. Applications from insurers are assessed on their own merit and are closely scrutinised by a number of regulatory bodies from Government and industry. Applications from insurers must include extensive details such as:

- proposed price increases and number of people covered by each individual product;
- forecast benefits, margins, expenses, assets, liabilities, and dividends; and
- an actuarial opinion on the assumptions and forecasts.

For the 2009 premium round, all applications were scrutinised to ensure the premium increases were the minimum needed to maintain insurer solvency requirements and that insurers could meet their claims obligations to members.

## **Veterans' Home Care**

The Veterans' Home Care (VHC) program operates under a 'fee for service' model rather than a 'funding grants' model and the contracted hourly fees provided by the Department of Veterans' Affairs for the VHC program are currently indexed annually in line with the Australia Bureau of Statistics (ABS) Health and Community Care Services Labour Price Index. The program expenditure has not ever been related to COPO. However, this in itself is misleading, as the Government funding for the program through Budget appropriations is and has been, at all times, indexed in line with the appropriate Department of Finance and Deregulation index (WCI 3). This indexation process is in line with all Government program funding processes.

The Department of Veterans' Affairs has not abandoned the use of COPO at any time, rather COPO has never been an appropriate formula for the VHC program model and the VHC program funding has continued to be based upon Department of Finance and Deregulation WCI 3 indexation since inception.

Any comparisons with indexation of aged care subsidies need to take care to treat on a common basis the inclusion of price inflation, change in the nature of client need, change in client numbers, technology change and any other factors.