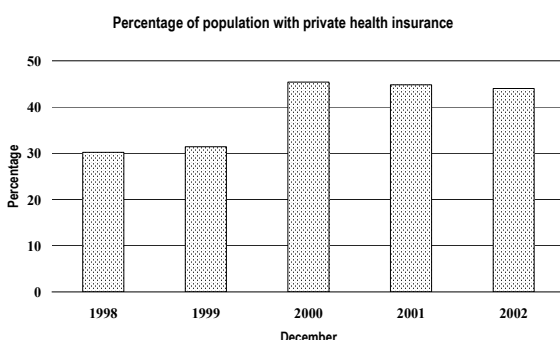


## Regulation of Private Health Insurance Premiums

In 2002 private health insurance premiums increased by 6.9 per cent, the first increase in premiums since the introduction of a number of incentives designed to increase private health insurance membership and constrain premium increases. In response to the continued growth in premiums the Commonwealth Government announced a series of changes in the way private health insurance premiums are regulated. These changes, discussed in detail below, seek to de-politicise the process of increasing premiums and minimise the administrative burden on private health insurance funds.

### Background

Throughout the 1980s and early 1990s premiums were regularly increased at over 10 per cent a year. One of the key justifications that the private health insurance industry gave for these increases was the falling level of membership numbers and the concentration of membership amongst those with high health needs (for instance older cohorts, pregnant women).<sup>1</sup> The answer, it was argued, was to develop policies that increased membership of private health insurance. Over the past six years the Commonwealth Government has developed a series of initiatives designed to do just that. These include the introduction of the 30 per cent private health insurance rebate, Lifetime health cover and a Medicare levy surcharge for high-income earners without private health insurance. Private health insurance coverage subsequently increased from a low of 30.2 per cent in the December quarter 1998 to 44.0 per cent for the December quarter 2002 (hospital insurance only).<sup>2</sup>



According to the Commonwealth Government these measures would not only increase membership of private health insurance (which would in turn help to take pressure off public hospitals) but also create a downward pressure on premiums.<sup>3</sup> The private health insurance industry seconded these claims, arguing that the Government's private health insurance incentives 'would lead to long-term premium stability'.<sup>4</sup>

In the 2 years following the introduction of these incentives the funds did not request a premium increase. This situation changed in 2002 when premiums were increased, on average by 6.9 per cent.

### How are Premiums Changed?

Changes to premiums are defined as changes to the rules of a health insurance fund under s. 78 of the *National Health Act 1953*. A fund is currently required to notify the Department of Health and Ageing (the Department) no later than 7 days prior to its proposed change to premiums. There is no formal approval by the Minister of changes to premiums, however, the Minister does have the power to disallow changes to rules (including premiums) where they:

- could breach a condition of registration or other section of the *National Health Act 1953*
- impose an unreasonable or inequitable condition affecting the rights of any contributor
- adversely affect a fund's stability
- would be contrary to the public interest.<sup>5</sup>

### Fee Setting: 1997-2002

In the latter part of 1997, the Government and the private health insurance funds reached an arrangement whereby all premium increases would be announced on 1 March each year. Funds were expected to submit notification of a premium change to the Department in early January, and if allowed

these changes would come into effect in April. Health funds seeking to increase the cost of their premiums had to provide reasons for the premium change when they submitted notice of the change.

Key concerns with these arrangements included that ambit claims by the funds were designed to ensure that the final increase would be more acceptable to the public. There was a corresponding political dimension to this process, characterised by the Minister refusing the higher increases, while agreeing to smaller, more publicly palatable increases. Because of the close regulation of premiums and claims about premium stability, the Commonwealth Government was represented as responsible for increasing costs.

In addition, the significant size of the increase in premiums in 2002 caused much consternation amongst the membership of private health insurance funds. Complaints to the Private Health Insurance Ombudsman (PHIO) doubled.<sup>6</sup> The PHIO noted from those complaints that small annual increases are more palatable to consumers than larger increases every 2 or 3 years. The PHIO has been critical of the handling of the process by which premium increases have been announced. While in 2002 there was an average increase of 6.9 per cent, individual consumers may have faced premium increases that were double this. This, according to the PHIO, contributed to significant discontent amongst consumers.

### Inter Departmental Committee

On 2 April 2002 the Minister for Health and Ageing announced a review of the rules and regulations governing private health insurance and invited submissions from a number of stakeholders.<sup>7</sup> While the review will continue throughout 2003, on 11 September 2002 the Minister announced a new set of procedures for increasing private health insurance premiums.

## September 2002 Changes

Under the new measures health funds are able to make annual adjustments to their premiums at or below the Consumer Price Index (CPI) with little fear that the Minister will disallow the increase. The CPI benchmark for 2003 premium increases was 3.2 per cent.<sup>8</sup>

This change did not involve any alterations to legislation. Rather it required a rearrangement of the agreement between the Commonwealth and the private health insurance funds. Consequently, the Health Minister retains the right to disallow any CPI increase.

Any fund seeking a premium rise larger than the benchmark is required to provide the independent regulator, the Private Health Insurance Administration Council (PHIAC) with detailed information justifying a larger increase. If the fund is unable to provide justification, the claim could be disallowed.<sup>9</sup> Funds will continue to have to notify the Department of any intention to increase their premiums.<sup>10</sup> However, according to the Department, when seeking an increase of less than the CPI benchmark funds 'can expect a greater degree of certainty that the increase will not be disallowed by the Minister'.<sup>11</sup>

Annual rate increases for the registered private health insurance organisations were released on 14 March 2003. The weighted average rate increase was 7.4 per cent across the industry, well above the 3.2 per cent CPI benchmark.

As with previous years there was a reliance on releasing a weighted average figure despite the considerable variation between funds in the actual increases.

Under s. 78(8) of the *National Health Act 1953*, the Minister must present to the Parliament a report of changes in premiums of health funds within 15 sitting days after the end of a quarter. The 2003 report is not yet available, however press reports indicate that the increases amongst the top funds are as variable as in previous years.<sup>12</sup>

Fund	Average Increase
Medibank Private	4.92
MBF	7.4
HBA	6.3
HBF	8.73
HCF	10.9

The above figures indicate that the top five private health insurance funds, which control over 70 per cent

of the market all had premium increases well above the CPI benchmark.

## Other Changes

Announced at the same time were a series of proposals to change other aspects of the regulation of private health insurance. These include:

- strengthening of the Private Health Insurance Ombudsman
- expansion of the minister's investigatory powers and extension of the sanctions that can be applied to funds in breach of the act
- changes to Lifetime Health Cover.

These changes were introduced into the House of Representatives on 6 March 2003 in the Health Legislation Amendment (Private Health Insurance Reform) Bill 2003. Subject to consultation and legislative processes, it is anticipated that these changes will come into effect from 1 July 2003. Further discussion of the proposed legislation will be available in a forthcoming Bills Digest.

## Implications

- A (small) component of the CPI is based on health insurance premiums, thus any increase may lead to inflationary pressures
- It is feasible that with diminished scrutiny a majority of the funds will, as a matter of course, apply for a CPI related increase in the future. This may promote premium increases where one may not have been sought under previous arrangements
- The private health insurance rebate is not capped; consequently each premium increase leads directly to a higher cost to the taxpayer.<sup>13</sup>

A key justification of the private health insurance rebate has been that it has helped to increase private health insurance membership and consequently reduce the pressure on the public hospital system. The question of whether public hospitals have benefited from the expenditure on the rebate has yet to be adequately answered and intense debate amongst analysts and researchers continues.<sup>14</sup>

1. Other cost drivers include the increasing cost of new medical technologies. Recent changes in the kinds of products offered by private health insurance funds, such as the introduction of medical gap cover, have also contributed to cost pressures.

2. There has been a slight decrease in private health insurance membership since a high of 44.5 per cent in December 2000.
3. Peter Costello, Face to Face, Sunday, 29 November 1998.
4. Australian Health Insurance Association, Media Releases, [Figures Back Government PHI Program](#), 14 August 2000; [Good News on Health Insurance](#) 1 March 2000.
5. *National Health Act 1953*, s. 78.
6. PHIO Quarterly Bulletin, no 22.
7. The review has caused some controversy amongst stakeholders, primarily because there have been no clear terms of reference issued and no mechanisms for consultation with stakeholders over the recommendations.
8. Department of Health and Ageing [Circular HBF 805](#).
9. Circular HBF 796 PH 525
10. Circular HBF 805 PH 805 contains the significant dates for the premium change process. These are:
  - Submission of notification: 10 January 2003
  - Results of 2003 round of premium changes: week ending 14 March 2003
  - Premium changes to take effect within 6 weeks.
11. Department of Health and Ageing [Circular HBF 796 PH 525](#).
12. Misha Schubert, Another Jump for Health Fund Fees, *Weekend Australian*, 15 March 2003.
13. Information provided in Additional Estimates 2001–2002, Health and Ageing, vol. 6, May 2002 indicates that the revised total cost of the 30 per cent rebate for 2001–02 was \$2.221 million.
14. Two recent editions of the *Australian Health Review* cover these debates in some detail, see vol. 25, no. 6 and vol. 26, no. 1.

### Amanda Elliot Social Policy Group Information and Research Services

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ISSN 1328-8016