



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Phasing Out Private Health Insurance* (letter of 23 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

24 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Phasing Out Private Health Insurance																												
Summary of proposal:	<p>The proposal would phase out the Private Health Insurance (PHI) rebate over the next three years while retaining the additional rebate for over 65s.</p> <p>The phase out would occur as follows:</p> <table border="1"> <thead> <tr> <th>Income Tier</th> <th>Single (\$)</th> <th>Family (\$)</th> <th>Current rebate (%)</th> <th>2016-17 (%)</th> <th>2017-18 (%)</th> <th>2018-19 (%)</th> </tr> </thead> <tbody> <tr> <td>Standard</td> <td>≤90,000</td> <td>≤180,000</td> <td>26.79</td> <td>20</td> <td>10</td> <td>-</td> </tr> <tr> <td>1</td> <td>90,001 to 105,000</td> <td>180,001 to 210,000</td> <td>17.86</td> <td>10</td> <td>-</td> <td>-</td> </tr> <tr> <td>2</td> <td>105,001 to 140,000</td> <td>210,001 to 280,000</td> <td>8.93</td> <td>-</td> <td>-</td> <td>-</td> </tr> </tbody> </table> <p>The proposal would have effect from 1 September 2016.</p>	Income Tier	Single (\$)	Family (\$)	Current rebate (%)	2016-17 (%)	2017-18 (%)	2018-19 (%)	Standard	≤90,000	≤180,000	26.79	20	10	-	1	90,001 to 105,000	180,001 to 210,000	17.86	10	-	-	2	105,001 to 140,000	210,001 to 280,000	8.93	-	-	-
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Person/party requesting costing:	Senator Richard Di Natale, Australian Greens																												
Date of public release of policy:	30 March 2016																												
Date costing request received:	23 June 2016																												
Date costing completed	24 June 2016																												
Expiry date for the costing:	Release of the next economic and fiscal outlook report																												

Costing overview

The proposal would decrease expenses on the PHI rebate, reflecting the combined effect of lower rebate rates for recipients affected by the proposal and an assumed decrease in PHI coverage arising from the resultant higher out-of-pocket cost of PHI. From 2017-18, there would also be an impact on revenue associated with the Medicare Levy Surcharge (MLS) due to some additional individuals becoming liable for the MLS as a result of ceasing their PHI coverage in response to the higher out-of-pocket premiums under the proposal.

The proposal would be expected to increase the fiscal balance by \$13,308 million and increase the underlying cash balance by \$12,858 million over the 2016-17 Budget forward estimates period. This impact is primarily due to a decrease in expenditure on PHI rebates. The proposal has an ongoing impact beyond the forward estimates with the annual impact

in the years beyond 2019-20 being in line with the impact in 2019-20 growing at around 4 per cent per annum.

The difference between the fiscal and underlying cash balances is due to the timing of the component of the PHI rebate paid through the Australian Taxation Office (ATO), which is paid in the next income year, as individuals file their tax returns.

The Parliamentary Budget Office has estimated departmental expenses based on recent measures with similar administrative complexity. Departmental expenses of \$2 million have been included for implementation of the new policy. The proposal would not be expected to reduce departmental expenses as the administration costs associated with the rebate are primarily driven by the number of insurers and policies provided and the scope of services covered by the policies, rather than the number of eligible persons for the PHI rebate.

This costing is considered to be of medium reliability. The estimates are sensitive to changes in health insurance premiums, the consumer price index, income distributions of individuals and couples with and without PHI cover, behavioural responses to changes in the effective costs and benefits of PHI, and the response of individuals to policy changes since 2012-13 (the year of the data for the costing).

A detailed breakdown of the components is included at [Attachment A](#).

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	1,308.0	2,960.0	4,540.0	4,500.0	13,308.0
Underlying cash balance	1,178.0	2,800.0	4,380.0	4,500.0	12,858.0

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

In costing the proposal, the following assumptions have been made:

- As the proposal would increase the out-of-pocket cost of PHI, fewer people would take out PHI, with higher income policy holders assumed to be less price responsive (and therefore more likely to maintain their PHI cover) than those on low incomes.
- There is no flow-on effect to public hospital expenses as a result of individuals ceasing their PHI policy.
- The majority of PHI rebate expenses administered by the Department of Health are delivered in the same financial year in which they accrue, with a small proportion delivered in the following financial year. Additionally, there is an amount paid through the ATO as individuals file their tax returns.
- MLS revenue is collected over the two years after the liability is incurred, at the time individuals lodge their tax returns.

- The PHI Risk Equalisation program has not been factored into this proposal because it has no net financial implication as this program collects and then redistributes contributions from the industry.

Methodology

Projected income distributions of individuals and families with and without PHI were generated based on de-identified 2012-13 personal income tax data. Average PHI premiums were estimated using data from the Private Health Insurance Administration Council and projected over the medium term.

The potential MLS liabilities and values of the PHI rebate were estimated under both current and proposed policy settings. PHI demand elasticities were then applied to the percentage changes in both the net PHI premium costs and MLS liabilities to estimate the behavioural response resulting from the policy change. The total PHI rebate expense and MLS revenue estimates under the proposal were then compared to the total under the base scenario to determine the cost of the proposal.

Timing effects have been included in this costing to account for the timing of tax collections and the payment of the PHI rebate.

Estimates for PHI rebate expenses and MLS revenue have been rounded to the nearest \$10 million. Estimates for departmental expenses have been rounded to the nearest \$1 million.

Data sources

- De-identified personal income tax and superannuation contribution unit record data for 2012-13.
- Australian Prudential Regulation Authority – Private Health Insurance Quarterly Statistics, March 2016.
- 2016-17 Budget.
- 2015 Tax Expenditure Statement.
- Cheng, T. 2011. *Measuring the effects of removing subsidies for private insurance on public expenditure for Health care*. Melbourne Institute Working Paper 16/11.
- Robson, A., Ergas, H. and Paolucci, F. 2011. The Analytics of the Australian Private Health Insurance Rebate and the Medicare Levy Surcharge. *Agenda*. Vol 18, no 2.
- Ellis, R. and Savage, E. 2008. Run for cover now or later? The impact of premiums, threats and deadlines on private health insurance in Australia. *International Journal of Health Care Finance and Economics*. Vol 8 pages 257-277.

Attachment A: Phasing Out Private Health Insurance— financial implications

Table A1: Fiscal balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Private Health Insurance rebate expenses	1,310.0	2,940.0	4,500.0	4,460.0	13,210.0
Departmental expenses	-2.0	-2.0
Medicare Levy Surcharge revenue	-	20.0	40.0	40.0	100.0
Total	1,308.0	2,960.0	4,540.0	4,500.0	13,308.0

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table A2: Underlying cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Private Health Insurance rebate outlays	1,180.0	2,780.0	4,340.0	4,460.0	12,760.0
Departmental outlays	-2.0	-2.0
Medicare Levy Surcharge receipts	-	20.0	40.0	40.0	100.0
Total	1,178.0	2,800.0	4,380.0	4,500.0	12,858.0

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.