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From the President

25 July 2017

Committee Secretary
Senate Standing Committees on Community Affairs
P O Box 6100
Parliament House
CANBERRA ACT 2600

Via Email: community.affairs.sen@aph.gov.au

Dear Committee Secretary

Submission on the value and affordability of private health insurance and out-of-pocket medical costs

The Royal Australasian College of Physicians (RACP) welcomes this opportunity to make a submission to the Senate Standing Committee on Community Affairs' inquiry into the value and affordability of private health insurance and out-of-pocket (OOP) medical costs.

The RACP is the largest specialist medical college in Australasia and we are guided in this submission by our motto of 'hominum servire saluti' ('to serve the health of our people'). In this submission we focus on the following terms of reference:

b) the effect of co-payments and medical gaps on financial and health outcomes

c) private health insurance product design including product exclusions and benefit levels, including rebate consistency and public disclosure requirements

f) the relevance and consistency of standards, including those relating to informed financial consent for medical practitioners, private health insurance providers and private hospitals

b) Copayments and medical gaps

According to the most recent data (from 2015), individuals were responsible for funding 17.7% of total health expenditure – these private contributions are in addition to their contributions via paying private health insurance (PHI) premiums.[1] This is a slight increase from 17.4% a decade ago, however the current value of these individual contributions (which is essentially a measure of OOP medical costs) of $28.6 billion is approximately double the amount it was at that time.[2]

[1] Australian Institute of Health and Welfare, Health expenditure Australia 2014–15.

[2] Ibid

Direct patient co-payment for many aspects of healthcare has long been a factor of the Australian health system in the provision of medical and dental services and procedures and pharmaceuticals.

The incidence and distribution of OOP expenses among the patient population is of concern to the RACP. OOP expenses may not necessarily be an issue if borne by patients who are able to afford them, however they are a concern if they impact people's ability to access necessary healthcare services and treatments.

There is evidence that patient OOP costs are a barrier to some people accessing care [3], they can lead to people delaying seeking treatment or purchasing medications, which in turn can ultimately lead to poorer health outcomes. For instance, in 2014 Darling Downs and West Moreton Primary Health Network, which is a low socioeconomic area, reportedly had the highest percentage of adults who delayed or avoided filling a prescription due to cost (13%). This rate was the highest for any PHN for the three years of 2014, 2015 and 2016.[4] It also has among the highest rates of adults reporting a long term health condition (60.1% in 2016).[5]

Those most likely to be impacted would include people and families on low incomes and those suffering from chronic or complex illnesses and conditions as they require access to medical care on a regular and/or ongoing basis meaning that what might individually be small expenses can easily mount up to a substantial sum.

Effective safety-nets for both medical services and pharmaceutical costs are vitally important mechanisms that support universal access to care, which is the underpinning principle of Medicare. These mechanisms should be regularly reviewed and adjusted to ensure they are effectively targeting and supporting those who need them and set at levels which do not dissuade people from accessing care.

Private sector involvement in the provision of healthcare services is also a feature of our healthcare system. The private provision of health care services can complement and supplement the provision of health care services by the public system. Ideally both systems should work together efficiently to minimise service gaps and improve the health of the population. The coexistence of a private healthcare system does not negate the need for appropriate funding of the public healthcare system. Nor should the existence of a private healthcare system be allowed to lead to an overreliance on access to healthcare via the private sector.

It is possible to pick up signs that such an overreliance might be happening; for example if there are long waiting times in the public sector for certain treatments or procedures which then induce patients to seek treatment in the private sector. It is vital that there be effective and timely monitoring in place so that these signals can be detected and acted upon. This is a fundamental aspect to ensuring the health system is accessible and responsive to the needs of all patients. However many gaps remain in the data collection and monitoring systems currently in place, and a priority for government action should be to lead work in improving cross-jurisdictional collaboration on health service data collection.

[3] Callander EJ, Corscadden L, Levesque J-F. Out-of-pocket healthcare expenditure and chronic disease – do Australians forgo care because of the cost? Australian Journal of Primary Health 23(1) 15-22.
[4] Australian Bureau of Statistics, Patient Experience Survey, 2013–14, 2014–15 and 2015–16.
[5] Ibid

Once again it is important to note that the equity concern in this case is not necessarily associated with those patients who shift to the private system who are able to afford OOP expenses but rather those patients who do not have this option open to them and who face long waiting times to access treatment in the public system. Better and more strategic investments in data collection are so important, as better data can guide policymakers on how best to target and prioritise healthcare investments to the communities in greatest need of public healthcare. It is an essential ingredient of any policy response to address inequities in access to care.

Another important benefit of having good data on health service use is to enable Medicare Benefit Schedule (MBS) fees to be periodically reviewed to ensure that they appropriately reflect the costs of providing high quality medical services. This will help ensure any gap between the MBS fee and the fee charged by practitioners is kept to a minimum. Consequently, the Commonwealth government's recent announcement of the staged lifting on the freeze on Medicare rebates is a welcome development. Similarly the regular reviews undertaken by the Pharmaceutical Benefits Advisory Committee (PBAC) of the prices of each drug listed in the Pharmaceutical Benefits Scheme supports government and patients in securing good value for money from any increased market competition and the off-patent pricing of drugs. Again, the rigour of these periodic reviews (including in ensuring that only the most clinically and cost effective drugs are listed) is dependent on good data being available.

c) Private health insurance product design

According to the most recent report on the private health insurance industry by the Australian Competition and Consumer Commission, the industry 'continues to be characterized by imperfect information and complexity.'[6] In fact the ACCC found that 'the market for insurance is becoming more complex'[7], noting as one example the fact that there are over 46,500 PHI products on offer as of June 2015. [8]

There are three reasons why this excessive complexity may be of concern.

Firstly, we believe that this level of complexity inherently results in poor quality information on the product being available to consumers. There is very often complicated fine print as well as substantial ambiguity. This can significantly hamper decision-making between doctors and patients as options around private health and what exactly is or isn't covered.

Secondly, there has been a growth in non-comprehensive PHI policies reflected in [9]

- the proportion of hospital policies with full cover falling from 68% in 2006 to 47% in 2015

[6] ACCC 2016, Communicating changes to private health insurance benefits A report to the Australian Senate on anti-competitive and other practices by health insurers and providers in relation to private health insurance: For the period 1 July 2014 to 30 June 2015 at p. 1.
[7] ACCC 2016, Communicating changes to private health insurance benefits A report to the Australian Senate on anti-competitive and other practices by health insurers and providers in relation to private health insurance: For the period 1 July 2014 to 30 June 2015 at p. 35.
[8] Ibid.
[9] ACCC 2016, Communicating changes to private health insurance benefits A report to the Australian Senate on anti-competitive and other practices by health insurers and providers in relation to private health insurance: For the period 1 July 2014 to 30 June 2015 at pp. 35-36.

- hospital-cover policies with one or more exclusions rising from 6% in 2006 to 38% in 2015
- hospital cover policies with one or more restrictions rising from just over 30% in 2006 to 45% in 2015.

The ACCC has suggested that this growth is partly driven by PHIs' attempts to attract price sensitive consumers into the market. They state their concern that the trends towards increased complexity in the market may further reduce consumers' ability to match their health risk profile with the right policy, leading to unexpected out-of-pocket expenses and the rise of inadequate coverage for those enticed into the market by the cheaper policies.

A third channel through which lack of transparency in the PHI market can lead to worse health outcomes is through poor processes employed by some insurers in notifying consumers of changes to their PHI benefits. In its inquiry into these notification processes, the ACCC received and agreed with submissions noting that poor notification can lead to the following impacts (which would also be expected to have indirect impacts on health):[10]

- unexpected out-of-pocket expenses post-treatment
- losing the opportunity to 'port' to another insurer to maintain coverage, which means that when consumers do change policies when they become aware of their loss of coverage they will need to re-serve the waiting period required with the new insurer to obtain that cover
- consumers cancelling or delaying treatments when they do learn of a benefit reduction prior to treatment
- having to join a waiting list in the public system as an alternative to paying for a no longer covered service out of pocket.

The ACCC report noted that the following groups are more likely to suffer from the negative impacts of poor benefit change notification:[11]

- younger people
- non-English speaking people
- the elderly
- those with chronic illnesses and
- those undergoing ongoing treatment.

Given the potentially strong adverse impacts on health from poor transparency in the PHI market we endorse the following recommendations of the ACCC in its 2016 report on 'Communicating changes to private health insurance benefits'*:*[12]

- "An improved disclosure regime to consumers which could include
    - requiring advanced notification of changes to an insurance policy and requiring PHIs to give consumers an opportunity to specify (or 'opt in' to) a preferred communication channel for receiving these notifications

[10] ACCC 2016, Communicating changes to private health insurance benefits A report to the Australian Senate on anti-competitive and other practices by health insurers and providers in relation to private health insurance: For the period 1 July 2014 to 30 June 2015 at p. 38.
[11] ACCC 2016, Communicating changes to private health insurance benefits A report to the Australian Senate on anti-competitive and other practices by health insurers and providers in relation to private health insurance: For the period 1 July 2014 to 30 June 2015 at p. 38.
[12] ACCC 2016, Communicating changes to private health insurance benefits A report to the Australian Senate on anti-competitive and other practices by health insurers and providers in relation to private health insurance: For the period 1 July 2014 to 30 June 2015 at p. 39.

  - requiring insurers to give consumers the opportunity to maintain their level of cover by exercising their portability rights (at a minimum, in relation to hospital cover) and allowing them to switch or upgrade their policies without incurring further waiting periods

- Improved industry practices around when benefit change notifications are triggered such as greater clarity about the triggers for requiring insurers to notify consumers of changes to their benefits and improving industry understanding of and compliance with their general obligations arising under consumer law.
- Improved industry practices around how benefit change notifications are communicated to consumers such as limiting the frequency of benefit changes and standardising the time of year when consumers are notified of changes."

f) Standards relating to informed financial consent for medical practitioners

The issue of informed consent is one that the RACP takes seriously. The RACP's Professional Qualities Curriculum has, since 2007, required that our trainees demonstrate knowledge of the principles of informed consent. The principle of both informed consent and the documentation of such consent is embodied in our basic trainee and advanced trainee curricula and is a core element of their training.

In addition, as part of our ongoing work to continually improve and keep physician training in line with best practice in adult and medical education, the RACP is currently developing a series of 'Entrustable Professional Activities' (EPAs) that focus on real-life performance of relevant medical tasks and the requisite range of medical and professional knowledge, skills and attitudes that support these. It is anticipated that the new EPA will include training and education about the judicious use of investigations, including financial implications for both patients and the health service.

The RACP fully supports that it is incumbent on all service providers – whether individual medical practitioners, private health insurers or private hospitals – to ensure that provisions of their services is characterized by the highest standards of informed patient consent, including informed financial consent.

Conclusions

It is a fundamental principle of the Australian healthcare system that patients should be able to access the healthcare they need, when they need it. The consequences of this not happening are likely to be worse health outcomes for the population and higher healthcare costs.

Australia also recognises the benefits that the private health sector and patient contributions provide to supporting our healthcare system to be both effective and efficient. However, it is important for there to be appropriate policies and systems in place to ensure they don't create inequities in access to care and lead to vulnerable people being further disadvantaged and deprived of services that should be available to all based on their need and not on their ability to pay.

These must include effective data collection and reporting, which at the moment is less than we would like to see. We urge the Australian government to continue working with the states and territories to improve cross-jurisdictional efforts in this space.

Increased choice within PHI is a laudable intent and one we fully support. However, we share concerns expressed by the regulator and consumer groups that current product offerings in the PHI market are leading to poorly designed and communicated policies, where the scope of coverage offered by different products is unclear and confusing.

Informed patient consent is fundamental to quality healthcare; and informed financial consent is a core aspect of this. It impacts a patient's ability to access healthcare, and their ability to fully and effectively engage in the healthcare decisions that directly affect them, their health and their family. Where this doesn't happen, the impacts can be substantial and can also lead to an erosion of people's trust in the system, hospitals or individual clinicians that further exacerbates their timely access to care.

In light of the above, ensuring informed patient consent and removing barriers to accessing necessary healthcare must be priorities for government policies and all healthcare stakeholders.

Yours sincerely

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