CHOICE

Friday 20 July 2018

Standing Committee for Community Affairs
Via email: community.affairs.sen@aph.gov.au

RE: **Private Health Insurance Legislation Amendment Bill 2018 and related Bills**

CHOICE welcomes the opportunity to contribute to the Inquiry into the *Private Health Insurance Legislation Amendment Bill 2018* and related Bills.

The Federal Government's proposed amendments to private health insurance (PHI) address some concerns with the system. Offering travel and accommodation benefits for regional Australians will help address inequalities faced by these consumers where access to private health services and benefits is either restricted or non-existent. CHOICE also supports strengthening the powers of the Private Health Insurance Ombudsman. A strong and well-funded Ombudsman is an essential component of the private health insurance market and we support proposals to strengthen this independent body.

Most importantly, people need equitable, affordable access to quality healthcare. However, this right is currently being eroded by Australia's PHI system with Australians facing high costs, low value and high levels of complexity and confusion. We commend the Federal Government's initiative to address some of these issues, however the proposed reforms fall short of delivering real and meaningful change to the millions of Australians with health insurance.

Health and medical costs, including out-of-pocket expenses and private health insurance, remain a major cost of living concern for a large group of people. In March 2018, 77% of people were concerned about the cost of private health insurance, making it the second largest concern after electricity costs.[1] While costs are increasing, people do not believe the value of private health insurance is similarly increasing. Only 31% of private insurance holders surveyed by CHOICE in January 2018 believe they receive good value for money, while 28% believe that the policies they hold are poor value for money.[2]

[1] CHOICE, 2018, Consumer Pulse January. Survey is based on a survey of 1,067 Australian households. Quotas were applied for representations in each age group as well as genders and location to ensure coverage in each state and territory across metropolitan and regional areas. Fieldwork was conducted from 16th to 26th of March 2018.
[2] CHOICE, 2018 Consumer Pulse January, based on 563 respondents.

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Age-based premium discounts for hospital cover

This reform allows insurers to offer discounted hospital cover products to people aged 18 to 29. It is intended to improve the affordability of PHI for young Australians by increasing their access to private hospital services. Cost is one of the top concerns in relation to PHI and needs to be addressed. However, cost cannot be addressed in isolation. A cheap policy that adds no or little tangible value to the consumer is a poor outcome for an individual and a poor outcome for the Federal Government who is subsidising a private system with public funds. CHOICE is concerned that this mechanism will not address the issue of cost for young Australians and that the attached terms to the discount do not outweigh the benefits.

Young people are the least likely to need health insurance but they are currently thought of by industry and the Federal Government as an essential component of the system's risk-equalisation pool. Young people are being encouraged to take out private health insurance to ensure price premiums for older and other members who use more services are affordable. This premise deserves close examination. The end goal of both the private and public health systems should be to ensure that all Australians have equitable access to high quality health care. We need to step back and question whether encouraging young people - who are concurrently facing high housing, education and other costs - to take out a private product they are unlikely to rely on in the near-term is a fair outcome.

The Federal Government already encourages young people to take up of PHI through the rebate, Medicare Levy Surcharge and Lifetime Health Cover. Despite these incentives, young Australians continue to have the lowest rates of PHI compared to other age groups and are dropping their cover at the fastest rate.[3] There are 49,000 fewer people in these age groups who have hospital insurance than there were a year ago.[4] Considering the modest wages and cost concerns of young Australians, it is no wonder that they are rejecting the Government's incentives and choosing not to pay $1,563 a year for insurance they are unlikely to use.[5]

For an 18 to 25 year old, the proposed discount represents a saving of $198.90 in the first year off the cost of a top hospital policy and $39.78 for a 29 year old. Health funds recognise that top cover is expensive for many young people, and market cheaper, exclusionary policies to this demographic. People on these lower levels of cover will receive a less impressive discount: a 25

[3] Hanrahan, C. 2018, *How millennials' choices are reshaping private health insurance for everyone,* ABC http://abc.net.au/news/2018-07-10/private-health-insurance-analysis/9676562
[4] Ibid
[5] $1,563 is the average cost in 2018 of a standalone single person hospital policy in our database of 1,612 policies, after the base tier health insurance rebate of 25.415% is applied.

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year old on a basic or low-value policy might expect to receive a $135.10 reduction in the first year, while a 29 year old would receive $27.02.[6]

If existing incentives for young people to take up PHI are not proving to be successful, an age based premium discount for hospital is likely to be no different. Under the proposal a premium for a young person would reduce by as little as $2.25 per month. Rather than helping people who can't afford health insurance, the main effect of this measure will be to further entrench a two-tiered system as only people with the means to purchase PHI will benefit and are then protected later in life by avoiding the Lifetime Health Cover loading.

Furthermore we are concerned that a discount only applies if a person stays on the **same** policy. The detail on this reform states '*Once a policy holder has an aged-based discount, if they remain on the same policy they will retain that discount rate until they turn 41*.'[7] This creates a disincentive for a person to switch policies if the policy they are on is no longer suitable. This is particularly concerning for young people who tend to take out low value or budget policies and could be forced to stay on them despite going through different life stages or develop health conditions that require greater coverage.

Creating a disincentive for a person to switch policies is also an issue if an insurer excludes treatments from their policies over time. In 2018, Bupa excluded cover for services such as hip and knee replacements, pregnancy, eye surgery, obesity surgery, dialysis, lipectomy and abdominoplasty from its budget cover policies.[8] If a person is on a basic policy such as this, and needs a surgery that is no longer covered, the discount could create a disincentive for them to switch. They would need to pay the money themselves, delay treatment or use the public system. In the case of a person using the public system, the government has effectively spent money twice; through the rebate and through the cost of the public system while insurers get new customers without providing real benefit.

A functioning mixed private and public health care system should easily facilitate people, especially young people, to switch policies and coverage depending on their unique circumstances. Instead this policy adds another layer of complexity on top of an already confusing system while not addressing the larger, structural issues of private health insurance

[6] Based on the average costs in 2018 of a top hospital policy and low level policy in our database of 1,612 policies, after the base tier health insurance rebate of 25.415% is applied. Includes publicly available policies from open funds, and those which exempt the holder from the Medicare Levy Surcharge.

[7] Department of Health, 2018, *Private health insurance reforms: Discounts for 18 to 29 year olds* http://www.health.gov.au/internet/main/publishing.nsf/Content/62DE8B48A97598DBCA2581BB000D5CE6/$File/Discounts%20for%2018%20to%2029%20year%20olds.pdf

[8] Mimh, U. 2018, *Bupa health insurance cuts, what you need to know,* CHOICE, https://choice.com.au/money/insurance/health/articles/bupa-cuts-health-insurance-benefits-010318

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for young people. Serious reform is needed to address this issue and will not be solved through a modest discount to premiums.

CHOICE recommends that:

- **Age-based premium discounts for hospital cover are removed.**
- **That the Federal Government launch an independent inquiry into the health insurance market to examine whether the current structures are delivering equitable, high-quality health care to all Australians.**

Increase maximum voluntary excess levels for products providing individuals an exemption from the Medicare Levy Surcharge

This reform allows insurers to offer products with a larger excess, in return for lower premiums. Maximum permitted excesses for private hospital insurance will be increased from $500 to $750 for singles and from $1,000 to $1,500 for couples/families.[9]

Generally CHOICE recommends that people can save money by purchasing policies with excess if they expect they will only go into hospital once within two years or not at all. CHOICE supports easing premium price pressures however are concerned that large excesses could undermine the primary intent of PHI; to take pressure off the public system. As the Government notes, 80% of people with hospital cover already choose products with excesses.[10] This reform will likely increase the amount of people taking out products with excesses and/or increase the amount of excess people need to pay to access their insurance. We are concerned that if an individual is faced with a $750 excess payment to access a health service, they will be more likely to rely on the public system to avoid paying such a large upfront cost.

Around a quarter of people with PHI choose to use the public system and with key stakeholders claiming that public hospitals are still under stress, there is a broader question that needs to be answered as to whether PHI is actually taking pressure of the public system.[11] Increasing excess levels may place downward pressure on premium price increases but will not address the deeper structural issues with Australia's health system. A broader inquiry into Australia's health system is needed to properly explore and address these issues.

[9] Department of Health, 2018, *Private health insurance reforms: Increasing voluntary maximum excess levels,* http://health.gov.au/internet/main/publishing.nsf/Content/5CBF0BC5CFA6E680CA2581BB0079E831/$File/Increasing%20maximum%20excess%20levels.pdf

[10] Ibid

[11] ABS, 2010, *Health Services: Patient Experiences in Australia 2009,* http://abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4839.0.55.0012009

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Information provision

With 48,000 available policies, health insurance is extremely complex and confusing for consumers. 44% of policyholders find it difficult to compare health insurance policies. Comparing policies side by side, comparing out-of-pocket costs and inconsistency of information from insurers are the top three things policyholders have difficulties with.[12] CHOICE welcomes moves to improve information provision to consumers via a minimum data set so long as it is driven by the needs of consumers.

CHOICE strongly recommends that information is provided to consumers in a standardised, clear way that best suits their needs. Consumers value standardised information on their policy but many do not interact with this information in its current form. When CHOICE surveyed Australians on Standard Information Statements, over half of people recalled receiving one.[13] Of those people, 92% of them found the Statement useful. This has two implications; that any future provision of information should allow people to understand what they are covered for in a simple and standardised way, and that this information is proactively and regularly provided to all consumers to help them better understand their coverage. This would make people more informed during the purchase stage and would ensure that their cover meets their needs and will cover costs.

A minimum data set is a step in the right direction but consumer testing will be essential in determining what information should be provided and how.

In summary

Reforming the health insurance sector is necessary and some of the Federal Government's proposed amendments will be beneficial to some consumers. However CHOICE is concerned that the legislation is introducing measures to push people into health insurance when it may not be delivering the best possible outcomes. High costs, low value and complexity are causing people to turn away from purchasing PHI. Measures that allow discounts for young people or increased excess amounts do not solve the problem, and may create further harm. CHOICE believes that the system needs to be evaluated more broadly to assess whether these changes achieve genuine improved health outcomes for consumers.

[12] CHOICE, 2017, Submission to Senate Inquiry into the value and affordability of private health insurance and out of pocket costs
[13] Ibid

CHOICE would be happy to further explain our position. Please contact Campaigns and Policy Team Lead, Katinka Day

Yours sincerely,

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