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Mr Gerry McInally
A/g Secretary
Standing Committee on Community Affairs
Legislation Committee
PO Box 6100
Parliament House Canberra 2600

Dear Mr McInally

Submission on Private Health Insurance Amendment Bill

Thank you for the opportunity to provide input to the Senate Inquiry into the Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012.

HBF is a not-for-profit company that insures the health of nearly 900,000 members in Western Australia. Nearly 48,000 of these members are subject to Lifetime Health Cover loading and in the interests of these members and the wider WA community we would like to raise several areas of concern regarding this proposed legislative change.

Lifetime Health Cover (LHC)

Removing the Australian Government Rebate on private health insurance (Rebate) from the LHC portion of premiums will have significant negative effects on private health insurance members subject to loading.

If the Rebate does not apply to the LHC loading proportion, the premium payable will increase, in some cases substantially. Tens of thousands of WA members will see their premiums rise by hundreds of dollars per year. Many of these are older Australians on fixed incomes who will be subjected to considerable financial stress by the proposed changes. In the current economic climate, this will mean that for many members private health insurance will become unaffordable and they may choose to cancel their health insurance and rely on an already overstretched public hospital system, to the detriment of the community as a whole.

Further, the financial considerations are likely to affect the products selected by members with a limited budget. For example, an older person with a high LHC loading may, for financial reasons, select a product designed for a younger demographic that excludes certain procedures. The impact of this is twofold; firstly, upward premium pressure on the lower price point products and secondly, the individual will have to rely on the public health system where their treatment is excluded on their product.

Health fund members who have taken out health cover despite knowing that they will be subject to LHC loading of up to 70% have done so on the understanding that the government has committed to paying the Rebate on their loading for the ten year penalty period. Removing the Rebate when these members are partway through their ten year period can only be regarded as a breach of good faith on the part of the government. HBF believes that if this measure is to be introduced it should apply only to those who take out health cover in the future and that current health fund members should be exempted.

Administrative areas requiring clarification

It is estimated that approximately one million Australians are subject to LHC loading, however the government has not detailed any major communication strategy to notify affected members of the removal of the Rebate from their loading. This means that private health insurers will be left to communicate the negative effect of these changes to their members.

The difficulties of such a communication are compounded by the fact that insurers have already been required to make substantial changes to tax information provided to members and the ATO files we submit for this financial year. Given we are still awaiting the ATO requirements for the tax changes and clarification around the application of any loading removal, there is an extremely limited timeframe and it is difficult to prepare an appropriate message for our members.

From an administrative perspective, clarification is required as to how any removal of Rebate from loading would be applied. Earlier discussions indicated that the removal of Rebate from the LHC loading portion of the premium may be different to how we apply rebate tiers to payments (ie: based on period of cover rather than just the date the payment is made). Prompt clarification of the manner in which the Rebate removal is to be applied would be appreciated, as it will assist funds in making necessary amendments to their systems.

Incentives Payment Scheme (IPS)

Whilst HBF recognise that the majority of members receive their Rebate as a direct reduction of their premium, the move to cease the Incentives Payment Scheme (IPS) will impact a proportion of members. Members who do not lodge an income tax return and are not registered to receive their Rebate as a reduced premium will have no mechanism to receive their Rebate. The same situation applies if a member has nominated a tier lower than what they are entitled to and needs to claim the difference.

The introduction of rebate tiers has meant that some members are making the decision not to register for the Rebate as a reduced premium, particularly those who are unsure of their projected income. Those members who do not lodge a tax return will have no method to receive the Rebate if the IPS is ceased.

HBF would suggest that, if the IPS is ceased, there should be other provisions to ensure these members are not disadvantaged and can still receive their Rebate entitlement.

It is understood that the approximately 6,000 people claiming the Rebate via the Incentives Payment Scheme will receive a letter from the government notifying them that this option is ceasing from 1 July 2013. Since they are unable to retrospectively receive the Rebate as a premium reduction and not all may submit a tax return, we would like clarification of any transitional arrangements. For example, will a member be able to claim under the IPS after 1 July 2013 for payments made (and covering a period) prior to that date? If not, what solutions are proposed?

Thank you once again for the opportunity to provide a submission on behalf of our members.

Yours sincerely

Rob Bransby
Managing Director