House of Representatives

Submission to the Inquiry into the Private Health Insurance Legislation Amendment Bill 2018 and related Bills

18 July 2018


ahha
australian healthcare &
hospitals association
the voice of public healthcare®

australian healthcare & hospitals association

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OUR VISION

A healthy Australia, supported by the best possible healthcare system.

OUR MISSION

To conduct research, educate and influence the healthcare system to achieve better health outcomes, improved patient and provider experience, greater equity and sustainability.

OUR GUIDING PRINCIPLES

Healthcare in Australia should be:

Effective

Accessible

Equitable

Sustainable

Outcomes-focused.

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INTRODUCTION

The Australian Healthcare and Hospitals Association (AHHA) is pleased to provide this submission to the Inquiry into the Private Health Insurance Legislation Amendment Bill 2018 and related Bills.

AHHA is Australia's national peak body for public hospitals and health care providers. Our membership includes state health departments, Local Hospital Networks and public hospitals, community health services, Primary Health Networks and primary healthcare providers, aged care providers, universities, individual health professionals and academics. As such, we are uniquely placed to be an independent, national voice for universal high-quality healthcare to benefit the whole community.

AHHA acknowledges the intention to increase the sustainability of private health insurance participation in Australia and supports healthcare that is accessible, equitable, sustainable, effective and outcomes focussed.

BACKGROUND

Three proposed bills support the reforms to private health insurance announced by the Government in October 2017.

1. The Private health Insurance Legislation Amendment Bill 2018 contains primary amendments that will amend the *Private Health Insurance Act 2007*, the *Ombudsman Act 1976* and the *Age Discrimination Act 2004.*
2. The New Tax System (Medicare Levy Surcharge–Fringe Benefits) Amendment (Excess Levels for Private Health Insurance Policies) Bill 2018 changes voluntary excess amounts to allow increased excesses of $750 for single policies and $1,500 for families with the intended result to lower premium prices for those policies.
3. The Medicare Levy Amendment (Excess Levels for Private Health Insurance Policies) Bill 2018. This bill deals with taxation related aspects of the reforms and amends the *Medicare Levy Act 1986*. Both this and the New Tax System (Medicare Levy Surcharge-Fringe Benefits) Amendment Bill remove the grandfathering provisions that provided the Medicare levy surcharge exemptions for certain policies that predate the commencement of the *Private Health Insurance Act 2007*. This means that individuals will need to migrate to a policy that has an excess no more than the new maximums, to access the Medicare levy surcharge exemption.

The measures contained in the bills are intended to:

- Allow for aged-based premium discounts for hospital cover to improve affordability for young Australians
- Allow private health insurers to cover travel and accommodation costs for regional Australians as part of a hospital treatment
- Strengthen the powers of the Private Health Insurance Ombudsman
- Improve information provision for consumers
- Reform the administration of second tier default benefits arrangements for hospitals
- Allow insurers to terminate products and transfer affected policy-holders to new products
- Increase maximum voluntary excess levels for products providing individuals an exemption for the Medicare levy surcharge, and
- Improve consumer transparency by removing the use of benefit limitation periods in private health insurance policies.[1]

[1] Parliament of Australia. House of Representatives. Private Health Insurance Legislation Amendment Bill 2018 Explanatory Memorandum page 1.

COMMENTS

AHHA acknowledges that the reforms to private health insurance are intended to bolster participation in private health insurance membership. If the decline of health insurance rates continues or reaches a minimum threshold, it could impact on tax payers and increase the pressures on public hospitals.

AHHA supports the use of the community rating principle that prohibits insurers from discriminating based on past or likely future health or risk factors such as age, pre-existing condition, gender, race or lifestyle in the premiums that they charge. Community rating ensures that everyone pays the same premium for the same product and that insurers must provide cover to anybody who seeks it. People who are older or sicker do not have to pay higher premiums, based on their risk or health status. People who have fewer risks or better health pay higher premiums than they would if insurance was not community rated. Community rating is supported by a system of risk equalisation that will protect insurers with higher than average claim costs. This requires a broad membership base with both younger and healthier members and spreads the burden of high cost claims across all insurers, helping to keep them all financially viable.

AHHA supports in principle those sections of the bills that intend to improve affordability of health insurance for young Australians and strengthen the powers of the Private Health Insurance Ombudsman in investigating consumer complaints and improving information for consumers. AHHA also supports the removal of the use of benefit limitation periods provided this does not create an intolerable financial burden to consumers, changing the administration arrangements for second tier default benefits for hospitals who qualify and increasing the maximum voluntary excess levels for products providing an exemption for the Medicare levy surcharge. However, insurers should be monitored to ensure that any benefit reductions or additions are accompanied by lowered or increases in premiums that are commensurate with their value.

SPECIFIC MEASURES

- Voluntary excess levels and choice

In relation to the measure that allows increasing the maximum voluntary excess levels of $750 for single policies (from $500) and $1,500 for couples/families (from $1000) we note some inconsistencies between the stated intention and the potential effects of the proposed changes. The updated legislation will allow, but not mandate insurers to offer higher excess products with lower premiums. In Minister Hunts' statement while reading the bill for a second time, he explains that this bill is meant to improve affordability for consumers, "Importantly, consumers can choose-and I emphasise 'çhoose'- a higher excess in return for lower premium costs. It is a matter of choice for them which will be available".[2]

Insofar as this provides choice for consumers and is voluntary, this is supported. However, in the explanatory memorandum on page 21 it states*: Therefore, it is expected that insurers will need to increase premiums for consumers who choose to purchase zero or low excess products. Insurers may*

[2] Mr Hunt, Minister for Health. Medicare levy amendment (Excess levels for Private Health Insurance policies) Bill 2018 Hansard Second reading 28 March 2018 Page 3033

*also choose to **close zero or low excess products** in order to manage adverse selection risks.*[3] These statements raise questions about how much choice will actually be available to consumers.

By noting that consumers selecting higher excess products are likely to be healthier, it is wrong to then assume that only less healthy people will be selecting nil or low excess products. Increasing premiums for one segment of customers based on the assumed health profile of another segment would appear to compromise the principle of community rating that underpins the pricing of private health insurance products in the Australian market. Furthermore, to the extent that higher excess consumers are self-selecting private health insurance based on their expected future demand for health services, they would also presumably be making lower than average claims and would therefore be subsidising less healthy policy holders in exactly the way community rating is intended to work. AHHA is also concerned that with this wide set of reforms in the way private health insurance can be offered to the market, that unsubstantiated assumptions should not be used to obfuscate the need to slow the growth rate in private health insurance premiums.

- Community rating principle

Insurers will also be freed from the obligation to use community rating principles and allowed to offer, then withdraw or change, products that are available to certain populations. These concerns arise from the explanatory memorandum on page 53:

- *These amendments clarify that an insurer can not only close a product (by making it no longer available to new policy-holders), but can also terminate a product nationally or in a particular state by ceasing to make it available to any policy holder;*
- *Item 33 amends the community rating requirement in respect to closed and terminated products. Subsection 55-10 is amended to provide **that the community rating principle does not prevent an insurer from:** closing a product so that the product is no longer made available to new policy-holders; or terminating a product so that the product will no longer be available to anyone, even people who currently hold the product.*[4]

While it is possible for a consumer to choose to discontinue a policy that has changed and move to another insurer with a preferred product, there is no assurance that the benefits for which they have paid will be available when they need them.

In effect it appears that insurance companies could impose increases in premiums for those who choose policies with zero excess, or they could terminate zero excess policies for certain conditions. They will be allowed to terminate any product by writing to their clients informing them of a product termination, or transfer to another product. While this practice has happened prior to these proposed bills, insurers have come under criticism for failing to make it clear to consumers that the benefits for which they signed up and paid had been changed or were no longer available.

- Travel and accommodation benefits and discrimination provisions

[3] Parliament of Australia. House of Representatives. Private Health Insurance Legislation Amendment Bill 2018 Explanatory Memorandum page 21
[4] Parliament of Australia. House of Representatives. Private Health Insurance Legislation Amendment Bill 2018 Explanatory Memorandum Schedule 5 page 53

AHHA supports the measure in the bill that allows insurers to cover travel and accommodation costs for rural, regional and remote Australians as part of hospital treatment. However, there are concerns about the erosion of improper discrimination provisions. On page 50 of the explanatory memorandum it states that the bill will amend the Private Health Insurance Act 2007 under *Item 1…* ***to extend the exceptions to improper discrimination provisions that prevent insurers discriminating against people on the basis of where a person lives.***

Item 2 inserts a new subsection 66-25 providing *that an insurer may choose to pay different amounts of benefits under a hospital treatment or general treatment policy based on the distance between the person's principal place of residence and the facility where the treatment is provided*.[5]

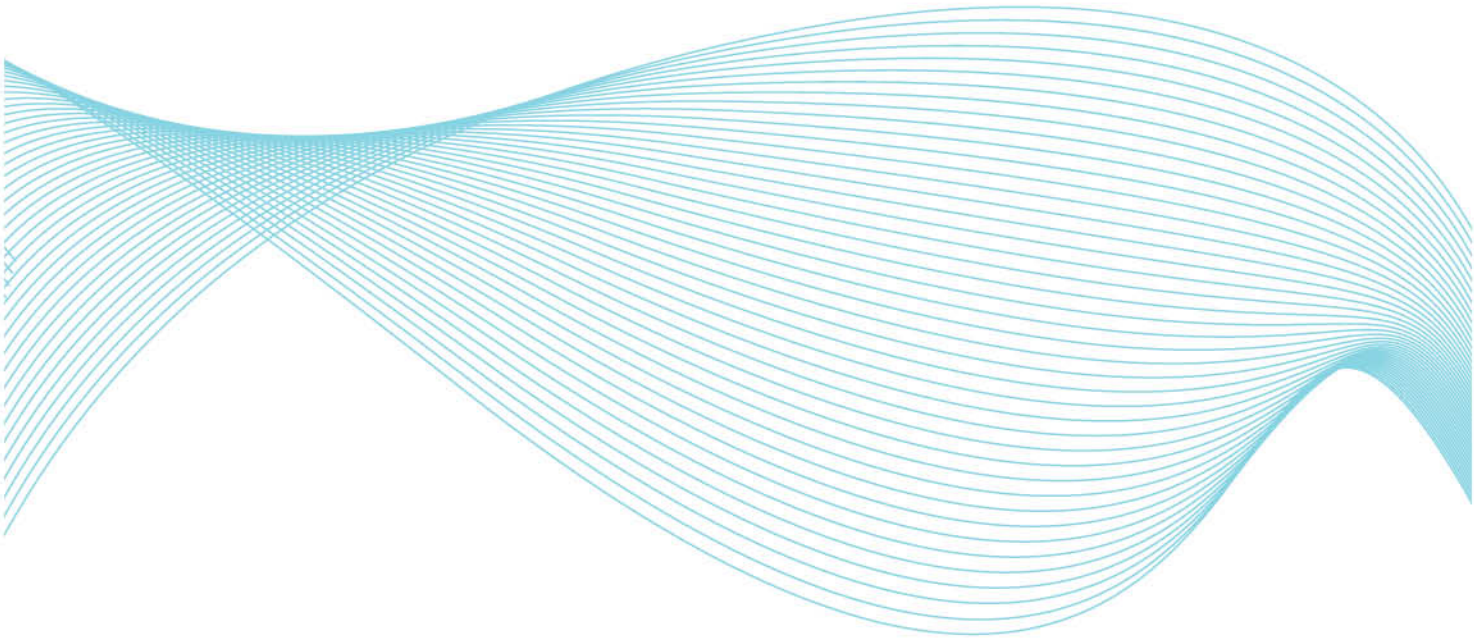
[5] Parliament of Australia. House of Representatives. Private Health Insurance Legislation Amendment Bill 2018 Explanatory Memorandum Schedule 5 page 50

CONCLUSION

AHHA acknowledges the intention to increase the sustainability of private health insurance participation in Australia. AHHA supports healthcare that is accessible, equitable, sustainable, effective and outcomes focussed.

Although the implications for how the proposed measures will be implemented are not fully visible (with details of some measures to be included in the Private Health Insurance Rules), in principle AHHA supports the following: premium discounts to make it more affordable for young Australians; increased access to travel and accommodation benefits within policies for hospital care; improved transparency and information for consumers; increasing the powers of the Private Health Insurance Ombudsman when investigating consumer complaints; increasing maximum voluntary excess levels for products that provide exemption for the Medicare levy surcharge and; changes to the administration of second tier default benefits arrangements for private hospitals.

AHHA has concerns about measures in the bills that exempt insurers from improper discrimination provisions and the proposed amendments to the community rating requirements. These exemptions and amendments allow insurers to sell policies with stated benefits, then unilaterally change the value of these benefits. AHHA does not support the erosion of anti- discrimination provisions or community rating requirements. AHHA is concerned that with this wide set of reforms in the way private health can be offered to the market, that unsubstantiated assumptions could be used to obfuscate the need to slow the growth rate in private health insurance premiums. Private health insurers should transparently demonstrate how each of the proposed changes lead to justified increases in premiums where benefits have been increased, and how premiums have been lowered where benefits have been decreased.



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