

Private Health Insurance: Impact of indexing the rebate to CPI

Private Healthcare Australia

Final Report

27 May 2013

IMPACT OF INDEXATION OF THE REBATE

Rebate indexation leads to a severe impact on the Private Health Insurance industry. The number of hospital insured persons plateaus almost immediately, and starts to decline only a few years after the rebate is indexed. Indexation could see the number of private hospital insured people fall by ~2.6 million people by 2022 (versus base case), translating to a cumulative revenue loss of ~\$40b over the same period.

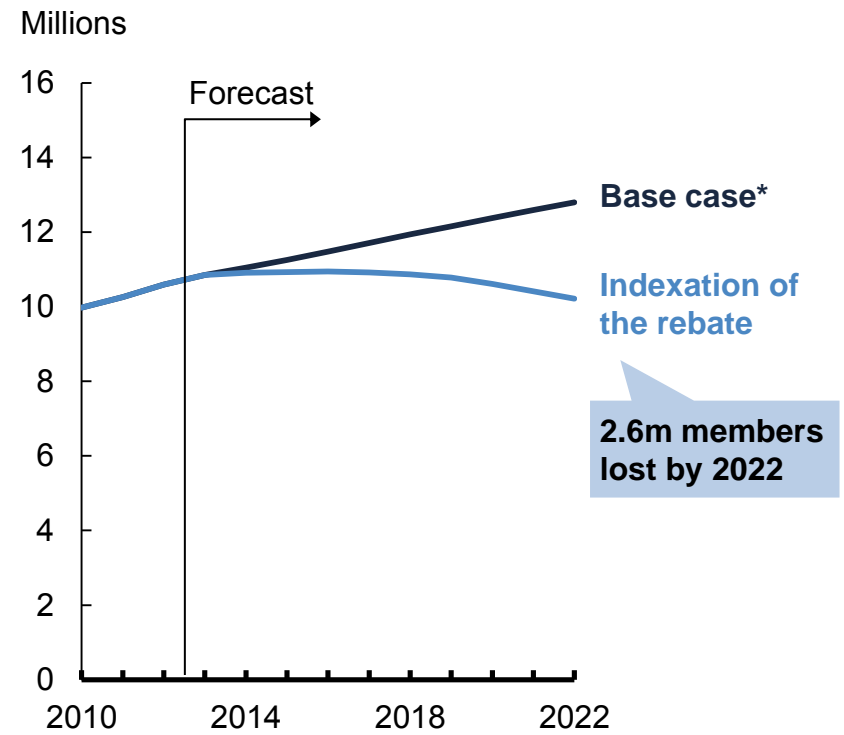
This would result in a significant decline in the percentage of people insured. Under indexation of the rebate the per cent of population covered would be 10% less by 2022 (compared to base case).

Indexing the rebate would also mean that in the future PHI consumers would pay much more out of their own pockets. This would drive consumers to trade down to lower coverage products (which also includes moving to products with higher excess amounts or co-payments). Members who downgrade or dropout will typically be lower than average claimers and the industry will therefore need to raise prices in order to maintain current economics. Due to both of these effects, consumers will pay nearly 30% more for PHI by 2022 (compared to base case).

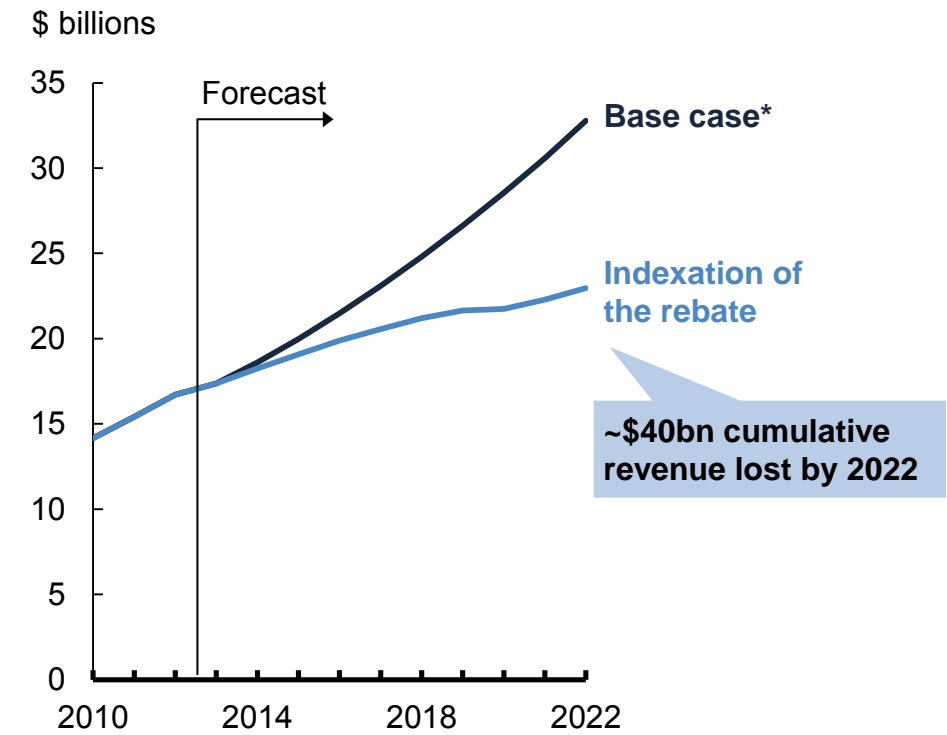
Finally, indexation also leads to an immediate net increase in public sector costs as public hospital costs exceed rebate savings. Furthermore, the net cost to public sector increases over time as public hospital costs grow faster than rebate savings.

PHI INDUSTRY IMPACT – HOSPITAL INSURED PERSONS AND REVENUE

Hospital insured persons

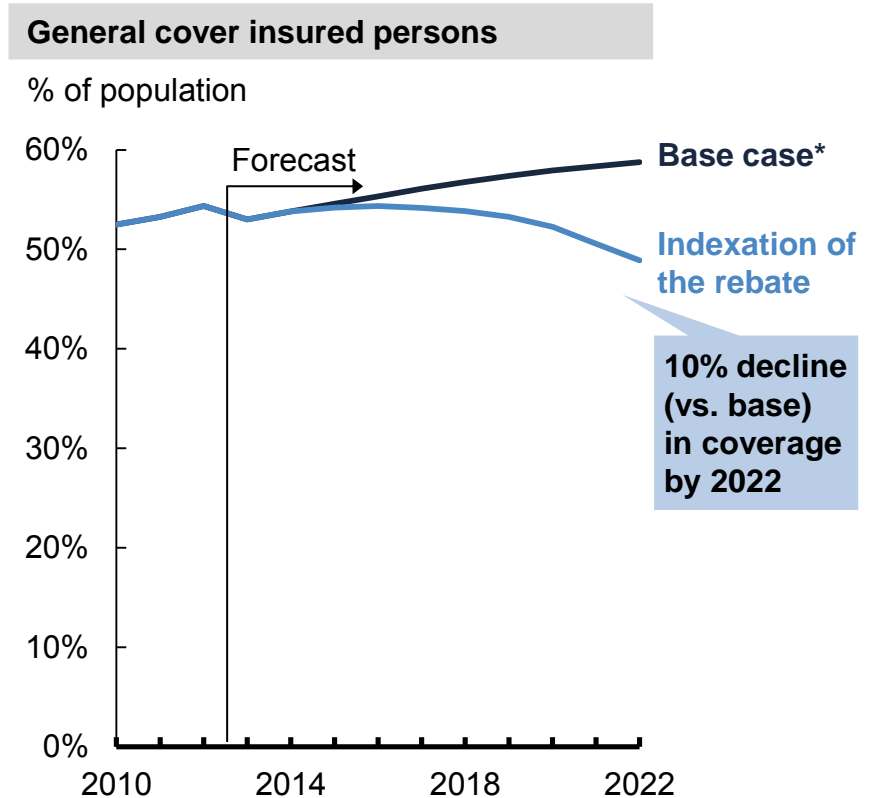
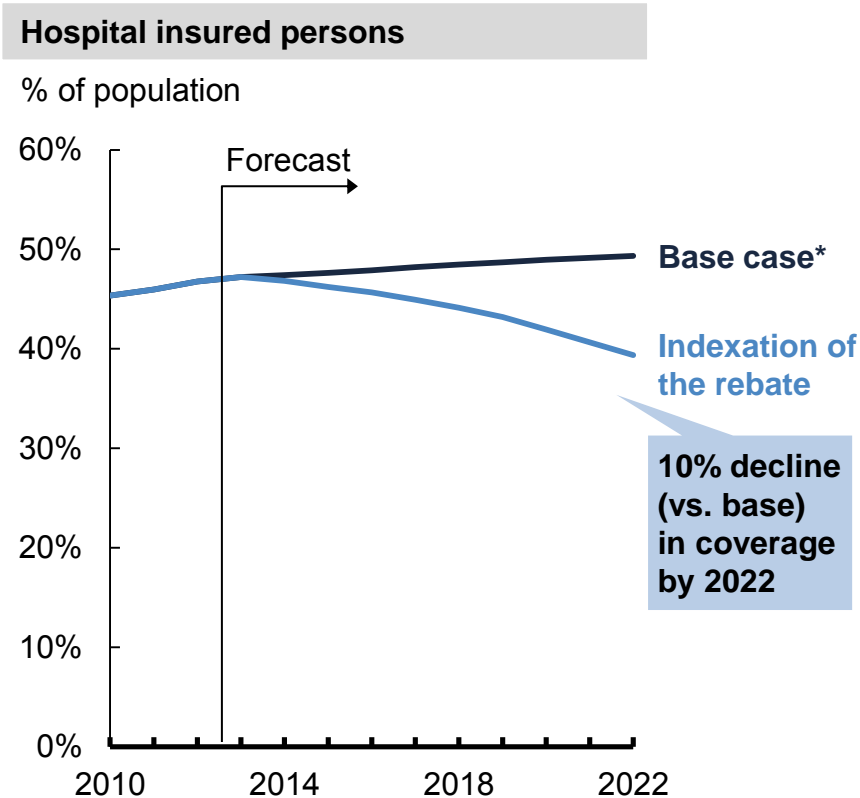


Industry revenue



* The Base case includes the impact of rebate means testing
 Source: PHIAC; PJP analysis

PHI INDUSTRY IMPACT – PERSONS INSURED AS A PERCENT OF POPULATION

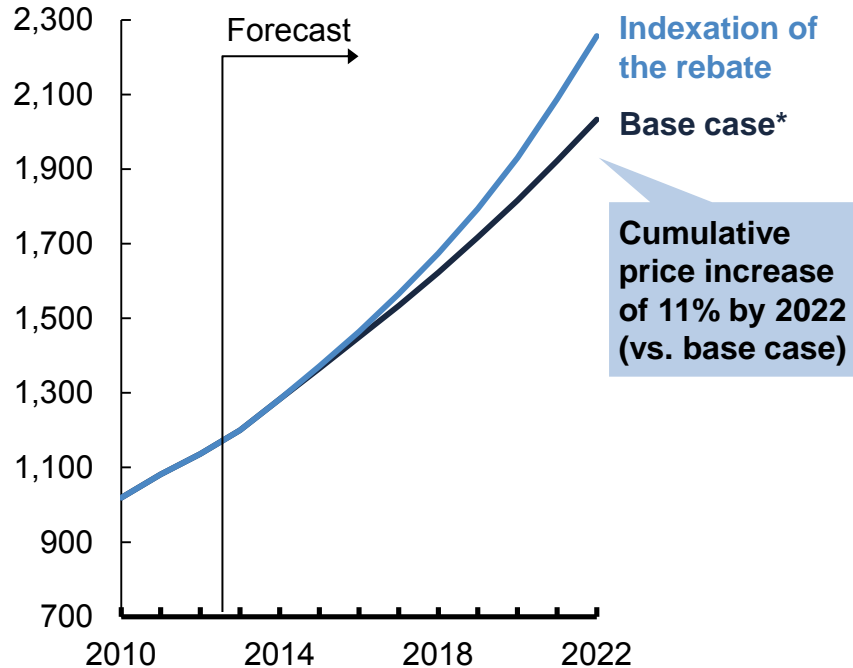


* The Base case includes the impact of rebate means testing
 Source: PHIAC; PJP analysis

AVERAGE PRICE OF HOSPITAL COVER

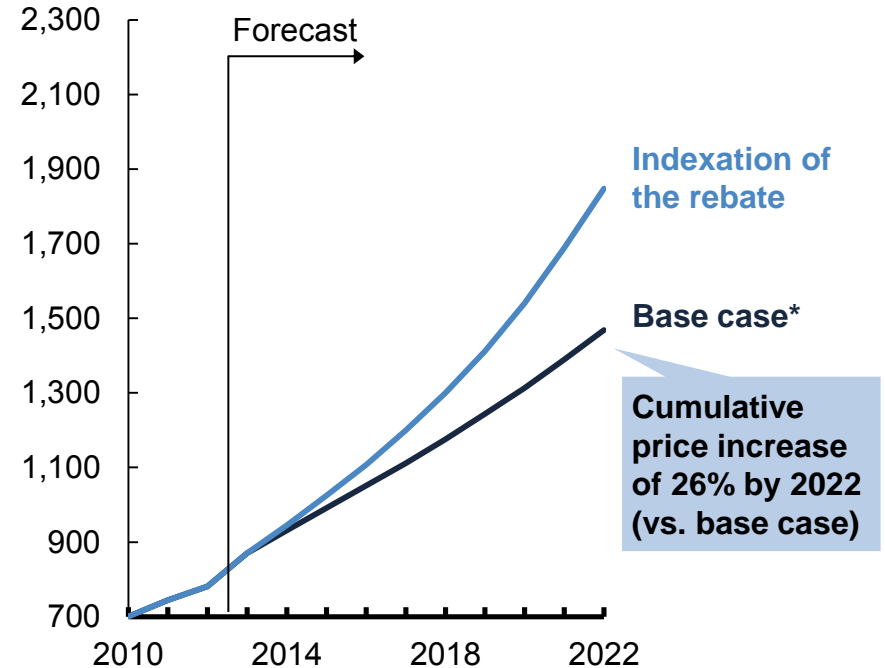
Full price of policy (incl. rebate**)

\$ per person



Price paid by consumers (excl. rebate**)

\$ per person



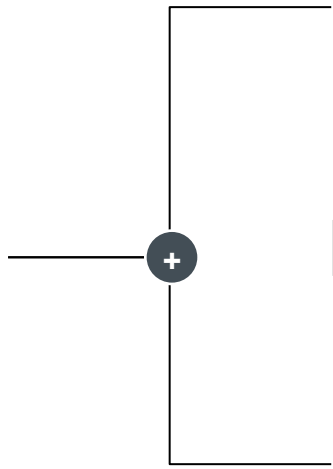
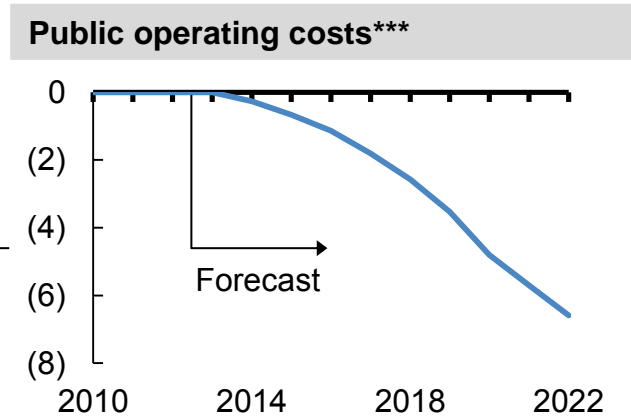
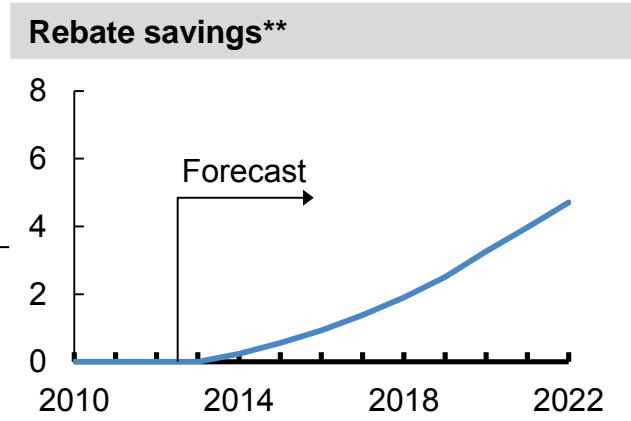
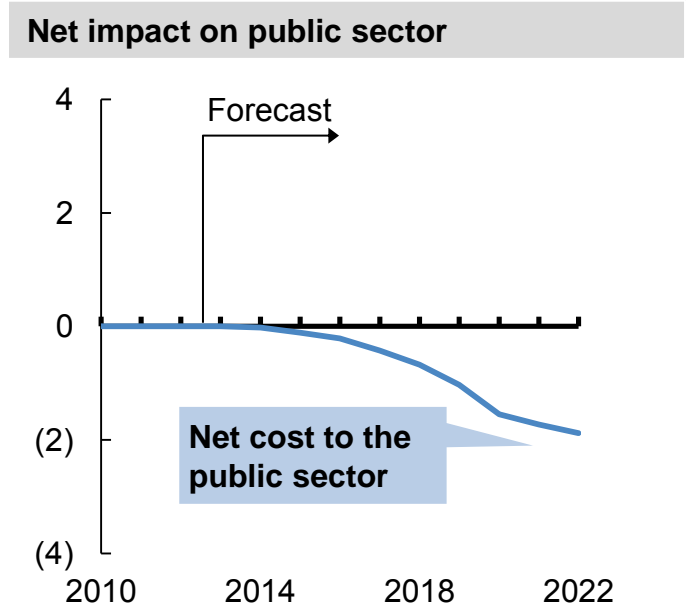
* The Base case includes the impact of rebate means testing

** Weighted average rebate of the membership base in the relevant scenario

Source: PHIAC; PJP analysis

NET IMPACT OF INDEXATION ON THE PUBLIC HEALTH SECTOR (RELATIVE TO BASE CASE*)

\$ billions



* The Base case includes the impact of rebate means testing but no further changes to rebate rules
 ** Rebate savings also includes a very small amount of additional MLS revenues
 *** Estimated as the entire amount of claims shifted out of the PHI sector by PHI dropouts and downgrades. Assumes no difference in cost efficiency between public and private sectors