Australian
Private Hospitals
Association

Dr Ian Holland
The Secretary
Community Affairs Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Dr Holland

Submission to the Inquiry Regarding the Private Health Insurance Legislation Amendment (Base Premium) Bill 2013

The Australian Private Hospitals Association is grateful for the opportunity to present a submission to the Committee as there has been no formal consultation with the private hospital industry in relation to this measure.

As outlined in our submission this legislation is of significant concern because of its impact on the affordability of private health insurance and consequences for patient access to hospital care.

Yours sincerely

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6 June 2013

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Australian Private Hospitals Association

APHA Submission

The Private Health Insurance Legislation Amendment (Base Premium) Bill 2013

The Senate Standing Committee on Community Affairs

Australian Private Hospitals Association ABN 82 008 623 809

June 2013

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1 SUMMARY

- The Australian Private Hospitals Association is grateful for the opportunity to present a submission to the Committee as there has been no formal consultation with the private hospital industry in relation to this measure.
- This is the fourth major change to private health insurance PHI policy settings since 2008, undertaken with no industry consultation
- The Government has not published any population based modelling of the impact of this measure
- The measure will add an additional layer of complexity to a policy already made extremely complex by the means-testing tiers.
- The measure will erode the value of the 30% rebate to 23% in just 5 years, reducing the affordability of PHI.
- This measure is regressive in that it will have 5 times the impact on a low income household compared with a high income household.
- The erosion of affordability of PHI will restrict access to private hospital services, adding to the burden on the public hospital system.

2 CONTEXT FOR THIS BILL

- The change proposed under the Private Health Insurance Legislation Amendment (Base Premium) Bill 2013 is the fourth major change to the Private Health Insurance Rebate since 2008:

1. In 2008 the Medicare Levy Surcharge (MLS) increased, effective from 1 July 2008 for singles to $70,000 (up from $50,000) and $140,000 for couples and families (up from $100,000) – the family threshold increased by $1,500 for each child after the first.

2. From 1 July 2012, Australians who earned more than $84,000 (single) or $168,000 (couple/ family) in the subsequent financial year will pay much more for hospital and extras insurance, as their rebate was reduced from 1 July 2012. From 1 July 2012 , the Medicare Levy Surcharge (MLS) increased for higher income earners who did not have hospital insurance – an additional tax of up to 1.5%.

The thresh-holds for these measures in 2013-14 were as follows:

Singles	88,001-102,000	$102,001-136,000	>$136,001
Families	$176,001-204,000	$204,001-$272,000	>$272,001
MLS	1.0%	1.25%	1.5%
Rebate for age <65	20%	10%	0%
Rebate for age 65-69	25%	15%	0%
Rebate for age 70+	30%	20%	0%

Source: http://www.privatehealth.gov.au/healthinsurance/incentivessurcharges/mls.htm

3. Removing the Private Health Insurance (PHI) Rebate on the Lifetime Health Cover loading component of PHI premiums will also decrease rebate payments from 1 July 2014 and reduce total payments by around $390 million over three years.

4. As announced in the Mid-Year Economic and Financial Outlook in October 2012, the proposed Bill will mean that from 1 April 2014 rebates will no longer be fixed at the relevant means and aged tested percentages of actual premiums, but will rather be that percentage of relevant premium (as at 1 April 2013) indexed by the lesser of CPI or the percentage premium increase. This is estimated by the Government to save around $700 million over 3 years.

3 IMPACT OF THE MEASURE

- APHA is most concerned that, as far as we are aware, there has been no published population based modelling undertaken of the impact of this Bill. This is despite the fact that the impact of the Bill will fall on all Australians holding or aspiring to hold private health insurance

- It will be exceedingly difficult to directly measure the impact of this measure on the numbers of people holding PHI and on the level of cover purchased by these people. This is for a number of reasons:

    - the introduction of successive changes to the PHI Rebate, make it difficult to ascribe causation to any one measure.

    - the impact of changes already introduced has been mitigated to date by a loophole that allowed high income earners to maintain the full 30% rebate for 12 to 18 months through pre-payment. This means the impact of the proposed Bill will be concurrent & cumulative with the means-testing impact.

    - Data collected by PHIAC, while reporting the number of policies held and the number of people covered, reveal little about the level of cover other than the number of policies with one or more exclusion. This data is insufficient to measure the extent of policy downgrading in response to government policy changes.

- Notwithstanding these issues, APHA offers the following observations as to the impact of the proposed Bill.

Consumer Confusion

- The proposed change adds a further layer of complexity to a policy area already made extremely complex by the means-testing tiers. Consumers are even less likely to understand both what they may be entitled to and the impact upon them of the proposed changes. Indeed consumers will face uncertainty from year to year pending the announcement of rebate increases.

- In future years, consumers will also face additional complexity when comparing policies as the dollar value of the rebate available will not be constant in relation to the price of policies being compared. Indeed the Bill's Explanatory Memorandum suggests that even policies within the same product sub-group will attract different levels of support because while premiums may vary within a sub-group, the base premium for policies introduced after 1 April 2013 will be determined by using a "weighted average ratio".

Affordability of Private Health Insurance

- APHA estimate that based on a 10 year average of premium versus CPI increases, PHI policy holders will be faced with an additional premium increase in real terms (over and above the annual fund increase) of 3.25% per annum.

- If premium increases and CPI were to remain at 2012 levels then, on average, this change would add 1% to the out of pocket costs of private health insurance premiums. This impact will be cumulative meaning that after 5 years, the 30% rebate will effectively have been eroded to 25% although the actual impact is likely to vary between policies as historically premium increases have not been uniform across the industry.

- Historically both premium increases and CPI have varied from year to year. As the following example using actual premiums shows, it is the difference between CPI and premium increases that determines the impact. Had the proposed Bill been enacted in 2004, the impact on a family policy (hospital plus extras cover), during a period when CPI was consistently above 2012 levels, would have been as follows:

Year	Premium Increase	Annual CPI (Year to Dec prior)	Annual Premium (actual figures)	30% Rebate (annual)		Rebate based on 2004 plus CPI		Out of Pocket	
								Annual	Monthly
2004		2.40%	$3,308.40	$992.52	30%	$992.52	30%	$0.00	$0.00
2005	8.49%	2.60%	$3,589.20	$1,076.76	30%	$1,018.33	28%	$58.43	$4.87
2006	5.25%	2.80%	$3,777.60	$1,133.28	30%	$1,046.84	28%	$86.44	$7.20
2007	4.57%	3.30%	$3,950.40	$1,185.12	30%	$1,081.38	27%	$103.74	$8.64
2008	4.86%	3.00%	$4,142.40	$1,242.72	30%	$1,113.83	27%	$128.89	$10.74
2009	7.44%	3.70%	$4,450.80	$1,335.24	30%	$1,155.04	26%	$180.20	$15.02
2010	6.58%	2.10%	$4,743.60	$1,423.08	30%	$1,179.29	25%	$243.79	$20.32
2011	6.80%	2.70%	$5,066.40	$1,519.92	30%	$1,211.13	24%	$308.79	$25.73
2012	6.07%	3.10%	$5,373.90	$1,612.17	30%	$1,248.68	23%	$363.49	$30.29

Note: 2012 was estimated as 356/525 days of the last premium paid.

In this particular case the impact would have been an erosion of the rebate to just 25% in six years.

- It is much harder to anticipate how premiums and the CPI will move in the future. The following table is an optimistic projection in which both premium increases and CPI remain relatively moderate in comparison with recent years. This projection shows that after five years (2018) the effective rebate would be eroded not to 25% but to only 23%. If the CPI was to remain at 2012 levels (2.2%), the impact of this change would be even more severe.

- The premium used in this example is indicative of premium levels for a policy providing a 'medium level' of hospital cover for a family with two dependent children. It was derived by examining the range of policies described on the web-site privatehealth.gov.au.

Year	Premium Increase (weighted Industry average)	CPI (ABS Year to Dec prior)	Premium (annual)	30% Rebate (annual)	Rebate based on 2013 plus CPI	Rebate as % of Premium	Out of Pocket	
							Annual	Monthly
2010	5.78%	2.10%						
2011	5.56%	2.70%						
2012	5.06%	3.10%	$3,145.00	$943.50				
2013	5.60%	2.20%	$3,321.12	$996.34	$996.34	30%	$0.00	$0.00
2014	5.50%	2.80%	$3,503.78	$1,051.13	$997.36	28%	$53.77	$4.48
2015	5.50%	2.80%	$3,696.49	$1,108.95	$998.39	27%	$110.55	$9.21
2016	5.50%	2.80%	$3,899.80	$1,169.94	$999.42	26%	$170.52	$14.21
2017	5.50%	2.80%	$4,114.29	$1,234.29	$1,000.45	24%	$233.84	$19.49
2018	5.50%	2.80%	$4,340.57	$1,302.17	$1,001.48	23%	$300.70	$25.06
2019	5.50%	2.80%	$4,579.30	$1,373.79	$1,002.50	22%	$371.29	$30.94
2020	5.50%	2.80%	$4,831.16	$1,449.35	$1,003.53	21%	$445.82	$37.15
2021	5.50%	2.80%	$5,096.88	$1,529.06	$1,004.56	20%	$524.50	$43.71
2022	5.50%	2.80%	$5,377.21	$1,613.16	$1,005.59	19%	$607.57	$50.63
2023	5.50%	2.80%	$5,672.95	$1,701.89	$1,006.62	18%	$695.27	$57.94
2024	5.50%	2.80%	$5,984.97	$1,795.49	$1,007.64	17%	$787.85	$65.65
2025	5.50%	2.80%	$6,314.14	$1,894.24	$1,008.67	16%	$885.57	$73.80
2026	5.50%	2.80%	$6,661.42	$1,998.42	$1,009.70	15%	$988.72	$82.39
2027	5.50%	2.80%	$7,027.79	$2,108.34	$1,010.73	14%	$1,097.61	$91.47

Notes

1 The premium for 2012 is an indicative premium for family medium-level hospital policy. There after this premium has been increased by the industry weighted average.
2 It is assumed that premium increases from 2014 onwards are constant at the average industry weighted increase for 2010-13.
3 It is assumed that December quarter CPI increases for 2013 onwards are constant at the 10 year average for 2003-2012

The Regressive Impact of the Proposed Bill

This policy change is regressive in nature impacting most severely on those with lower incomes when the projected additional out of pocket expenses are seen as a percentage of annual household incomes.

- Low income earners are entitled to the full 30% rebate, however, even these people will be faced with premium increases directly resulting from this Bill.
- Using data from the Australian Taxation Office and the Australian Bureau of Statistics, Private Healthcare Australia has concluded that
    - 3.4 million people with private health insurance who live in households with an annual income of less than $35,000; and
    - 5.6 million Australians with private cover who live in households with an annual income of less than $50,000.
- After five years, an effective rebate of only 23% on the family "medium level" hospital policy used in the model above would result in an additional out of pocket expense of $300.70 or 0.86% of the annual income of a household on $35,000 per year. This is almost 2 ½ times the impact on a household with an income of $88,000 per year and 5 times the impact on a household with an income of $176,000 per year.

Year	Effective Rebate	Out of Pocket impact of policy change per year	Annual Household Income			
			$176,000	$88,000	$50,000	$35,000
2018	23%	$300.70	0.17%	0.34%	0.6%	0.86%

- If a family were to downgrade from a medium level of hospital cover to a "basic level" of hospital cover they would still be out of pocket by around $270 after five years.

Access to Hospital Services

The importance of private health insurance as a conduit to accessing affordable healthcare is illustrated by the following data.

- In 2011-12, private health insurance funded 3,614,099 million hospital separations (40% out of all hospital separations).
- Of these 584,429 were treated in public hospitals and 3,029,670 were treated in private hospitals and day surgeries
- These 3,614,099 million hospital separations funded by private health insurance in 2011-12 included:

- 68,856 separations for emergency surgery (ie required within 24 hours)
- 1,110,548 separations for elective surgery
- 2,213,350 separations for acute care not involving surgery
- 198,473 separations for rehabilitation and
- 8,171 separations for palliative care.
- 14,701 separations for other sub and non-acute care

Sources: *Australian Private Hospitals Statistics*, 2011-12, AIHW, 2013.
Table 7.25: Separations, by principal source of funds, public and private hospitals, 2011–12, p142
Table 10.19: Separations involving surgery, by principal source of funds and urgency of admission, public and private hospitals, 2011–12, p233
Table 11.22: Sub-and non-acute separations, by principal source of funds and type, public and private hospitals, 2011-12, p265

- Without access to affordable private health insurance patients in need of elective surgery would have to join public patient waiting lists adding to the burden of public hospitals and increasing the length of waiting times endured by patients. Longer waiting times for elective surgery decrease the likelihood of successful outcomes further adding to the demand for public health services.

- Without the access to private hospital services made possible through private health insurance, patients would have little option but to rely on the already overburdened public hospital system.

4 CONCLUSION

- The APHA is concerned that the impact of this Bill will be regressive in nature affecting most, those for whom private health insurance is least affordable. The impact of the Bill will fall on all Australians holding policies or aspiring to contribute to meeting their own health needs by investing in private health insurance.

- Private health insurance supports access to private patient care for 40% of hospital separations every year. Without access to this support, these patients will be force to wait longer for elective procedures or seek the care they need in already over-crowded public hospitals system which faced unsustainable levels of demand into the future.