Private Healthcare Australia
Better Cover. Better Access. Better Care.

Unit 17G, Level 1, 2 King St, Deakin ACT 2600
T (+61) 2 6202 1000
F (+61) 2 6202 1001
www.privatehealthcareaustralia.org.au
ABN: 35 008 621 994

Hon Dr Michael Armitage
CHIEF EXECUTIVE OFFICER

28 July 2014

Committee Secretary
Senate Standing Committees on Community Affairs
community.affairs.sen@aph.gov.au

SUBMISSION – PRIVATE HEALTH INSURANCE AMENDMENT (GP SERVICES) BILL 2014

I thank the Committee for inviting comment on this inquiry and am pleased to provide the following input on behalf of the private health insurance industry.

Introduction

Private Healthcare Australia (PHA) is the industry association representing Australia's private health insurance funds. Its member funds collectively insure around 97% of the 12.8 million Australians who hold private health insurance and in 2012-13 provided more than $16 billion in benefits to pay for the healthcare of fund members.[1]

This Bill attempts to prohibit health funds from conducting even pilot projects to develop improved care and treatment models which the sponsoring Senator says are outside the intent of the legislation. In fact, the Act specifically provides for health funds to conduct pilot projects of this nature and enables a series of requirements for these projects under the Complying Product Rules.

This Bill would stifle the ability for health funds to invest in trials of new and alternative treatments, models of care and delivery systems which aim to improve health and reduce the need for hospitalisations. The experimental nature of these projects provides the opportunity for governments and healthcare providers (public and private) to evaluate their effectiveness in a real world setting and consider whether and how these could be applied more broadly.

Of course, in the interests of constantly improving health outcomes, if a new treatment is proven to work in one of these trials, it should be enthusiastically adopted in both the public and private sectors, as not to do so merely disadvantages Australian patients.

Private Healthcare Australia recommends that the Bill not be passed.

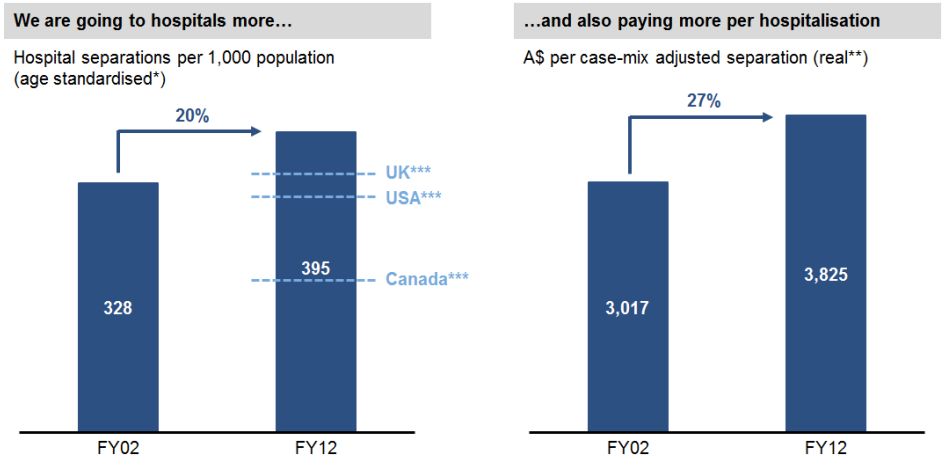
[1] Private Health Insurance Administration Council – *Quarterly Statistics*, December 2013

The rising cost of hospital care

Australia's per capita healthcare spending is increasing every year at a rate exceeding the growth experienced in other developed nations. The significant proportion of these cost increases can be linked to acute care, specifically:

1. The rate of hospital admissions per capita increased by 20 per cent in the decade to 2012, even after allowing for age standardisation.
2. Costs per hospitalisation have increased by 27% in real terms over the same ten-year period.[2]

INTENSITY OF CARE – PUBLIC AND PRIVATE HOSPITALS, FY02 TO FY12



Reducing hospital costs through integrated care models

It is widely accepted that the key to minimising the increases to hospital costs is through early, targeted interventions at the primary care level. The challenge is to identify care and treatment methods that reduce the risk of hospitalisation or that can provide necessary care outside a hospital setting.

Although legislation prevents private health insurers from covering non-hospital MBS items, funds have been innovative in identifying treatment methods and healthy living programs that can be offered to members in a way that both improves the general health of members and complies with the *Private Health Insurance Act 2007* (PHI Act).

This Bill, if passed, would stifle opportunities for innovation in the healthcare space. With both Federal and state/territory budgets already struggling to meet community expectations for healthcare funding, private health insurers represent possibly the only feasible source of new funding for integrated care models.

Legislative intent

Senator Di Natale's speech referred to a current Medibank Private pilot project in setting out his reasons for introducing this Bill, saying "While this runs clearly against the spirit of the Private Health Insurance Act it appears to be within the letter of the law."

[2] AIHW Hospital Statistics Reports; Projection of health care expenditure by disease: a case study from Australia (Vos, Goss, Begg, Mann, 2007); OECD (2013)

In fact, the PHI Act specifically provides for funds to experiment with new and innovative healthcare models through "pilot projects" involving members[3]. Requirements for pilot projects are set out in the *Private Health Insurance (Complying Product) Rules 2010 No.2*, which state:

> *"The kinds of pilot projects specified for subsection 55-15(2) of the Act are projects that enable an insurer to trial and develop, with a limited group of policy holders, new models of service delivery or health care. The objectives of the pilot project must be for any or all of the following:*
>
> *(a) to increase the value to consumers of their health insurance products by better meeting their needs;*
>
> *(b) to prolong health, improve quality of life and reduce expenditure on hospital benefits by preventing and reducing disease and prevent the need for hospitalisation;*
>
> *(c) to produce products that better reflect advances in medical knowledge and service delivery models."*

The rules also list other requirements for compliant pilot projects relating to participation, duration and compliance reporting.

Trials are clearly within the spirit and intent of the legislation. Indeed, it could realistically be expected that trials could provide benefits beyond any obtained by the funds that conduct them as new treatment or care models are put on public display where their effectiveness can be evaluated.

In practice

Changes to private health insurance legislation in 2007 allowed health funds to fund a limited number of non-hospital health services, namely hospital-substitute services (such as wound treatment and the provision of intravenous therapies), chronic disease management programs (CDMPs), and pilot projects that trial and develop new models of service delivery or treatment methods for a limited time period. These changes were known as Broader Health Cover initiatives, and have resulted in most Australian health funds offering incentives for members to engage in healthy behaviours, such as exercise, quitting smoking, and healthy eating.

Since the introduction of the Broader Health Cover reforms, there have been strong, steady increases in coverage for hospital-substitute services and CDMPs which are now included in the majority of policies held in Australia.[4] However, despite increasing utilisation, legislation continues to restrict the ability for health funds to invest in the good health of their members.

Fairness and equity

It is worth noting that around 5.6 million Australians hold private health insurance despite living in households where the total income is less than $50,000 per year, according to the Australian Taxation Office and the Australian Bureau of Statistics. Private health insurance is not merely the domain of the rich. More than 54% of the Australian population now hold some level of private health insurance.

While health funds will provide healthcare benefits only to their members, all Australians would benefit from the outcomes of greater private sector investment facilitating new models of

[3] *Private Health Insurance Act 2007*, s55-15 – Pilot projects

[4] Private Health Insurance Administrative Council statistics, cited in *Chronic disease management: the role of private health insurance*, Parliamentary Library, 4 October 2013

integrated care. If new or improved treatment models trialled by health funds are able to help to reduce hospitalisation rates for certain conditions, the Government would spend less money on hospital care and find itself with the capacity to utilise these savings to offer improved or expanded services to all Australians, whether through Medicare or other programs.

Additionally, in today's medical practice, there is a vast amount of cross fertilisation between the public and private sectors, with many staff working in both systems on a regular basis. Programs which are proven to work in the private sector will soon be utilised in the public sector, too.

Recommendations

1. The Senate should not pass the Bill.
2. The Government should welcome innovative temporary programs trialled by health funds in accordance with the 2007 changes to the PHI Act and see these as opportunities to evaluate alternative approaches to healthcare.

Yours sincerely

HON DR MICHAEL ARMITAGE
CHIEF EXECUTIVE OFFICER