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**Australian Health Insurance Association Ltd**

(ABN 95 008 621 984 - A COMPANY LIMITED BY GUARANTEE - INCORPORATED IN THE A.C.T.)

PRESIDENT:  
Mr Terry Smith MBE RFD EDCHIEF EXECUTIVE  
Hon Dr Michael Armitage  
The Hon Alex Somlyay  
Parliament House  
CANBERRA ACT 2600**STANDING COMMITTEE**  
**- 6 JUL 2006**  
**ON HEALTH AND AGEING**NATIONAL SECRETARIAT:  
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Dear Mr Somlyay

On 1 April 2006, there was considerable media comment regarding the increase in private health insurance premiums.

Some of this comment focussed on the fact that the 5.68 percent increase was the lowest for five years, (which is obviously pleasing), but there was also comment along the lines that private health insurers were seeking increases merely to make "super profits".

As you are no doubt aware, the Private Health Insurance Administration Council's guidelines specifically prevent private health insurers making "super profits", and indeed the PHIAC's most recent report indicated that overall the private health insurance sector made a profit of 2.7 percent.

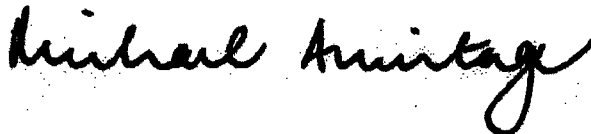
I am enclosing for your interest a graph indicating the percentage change in benefits paid to cover a number of key cost pressure areas in the 12 months between March 2005 and March 2006.

You will note that the cost pressures which private health insurers meet, such as hospital fees, prostheses, doctors' fees, etc., have risen by varying degrees, but in all instances they are greater than the 5.68 percent increase in private health insurance premiums.

As you would realise, private health insurance funds are keen to increase their membership, and hence increasing premiums, (which is seen as a negative influence on private health insurance and which therefore tend to decrease the numbers of those insured), is a strategy only adopted after a great deal of soul searching.

If you would like to discuss the influence of these cost pressures on the private health insurance premiums, I would be delighted to speak with you.

Yours sincerely

**HON DR MICHAEL ARMITAGE**  
**CHIEF EXECUTIVE OFFICER**

Enclosure

28.6.6

# Private Health Insurance: Annual Change in Benefits Paid Year Ending March 2005 cf March 2006

Data Source: *PHIAC Quarterly Statistics*

