

Chapter 2

Out-of-pocket expenditure in Australian healthcare

Introduction

2.1 Health expenditure occurs when money is spent on health goods and services. It occurs at different levels of government, as well as by non-government entities such as private health insurers and individuals.¹

2.2 This chapter discusses the following terms of reference:

(a) the current and future trends in out-of-pocket expenditure by Australian health consumers; and

(e) key areas of expenditure, including pharmaceuticals, primary care visits, medical devices or supplies, and dental care.

2.3 Evidence provided to the committee discussed total out-of-pocket expenditure in healthcare as well as expenditure in particular areas of health care. This chapter will first discuss the evidence received related to overall expenditure in healthcare and then the evidence related to expenditure in different areas of healthcare.

What is out-of-pocket expenditure?

2.4 Individuals incur out-of-pocket expenditure when they meet the full cost of a health good or service as well as when they share the cost of goods and services with third-party payers such as governments or private health insurance funds.²

2.5 The following list of examples of out-of-pocket healthcare costs was provided by the National Rural Health Alliance in their submission:

- the 'gap' between the fee for a doctor's consultation and the amount rebated by Medicare;
- the 'gap' between the fee for a dental or allied health consultation and the amount rebated by a private health insurance fund (for someone with private health insurance);
- the total cost of a dental or allied health consultation (for someone without private health insurance);
- the cost of prescription medicines to the consumer (after the subsidy for PBS-listed medicines has been applied);
- the total cost of 'over the counter' medicines, such as aspirin and cough syrup;

1 Australian Institute of Health and Welfare 2013. *Health expenditure Australia 2011–12*. Health and welfare expenditure series no. 50. Cat. no. HWE 59. Canberra: AIHW, p. 1.

2 Australian Institute of Health and Welfare 2013. *Health expenditure Australia 2011–12*. Health and welfare expenditure series no. 50. Cat. no. HWE 59. Canberra: AIHW, p. 117.

- the total cost of natural and complementary medicines, such as vitamins and nutritional supplements; and
- the net cost of medical devices (after any subsidies and rebates are applied), such as prostheses, dental devices, syringes and contraceptives.³

2.6 The Department of Health noted private health insurance premiums as another out-of-pocket cost incurred by individuals.⁴

Current out-of-pocket healthcare expenditure

2.7 The Australian Institute of Health and Welfare (AIHW) collects and analyses data about individual out-of-pocket expenditure in healthcare. When providing evidence to the committee, a large number of submitters and witnesses referenced AIHW data.

2.8 Total health expenditure in Australia in 2011–2012 was estimated to be \$140.2 billion. Governments funded 69.7 per cent of total health expenditure which included 42.4 per cent from the Commonwealth Government and 27.3 per cent from state and territory governments. Non-government sources funded 30.3 per cent of the estimated \$140.2 billion spent in 2011–12.

2.9 Funding by individuals accounted for 57.2 per cent of the estimated non-government funding of health goods and services in 2011–12. The contribution by individuals accounted for 17.3 per cent of the total health expenditure funding (government and non-government). This includes:

- where individuals meet the full cost of goods and services—for example, medications that are not subsidised by the PBS, health services not subject to a Medicare rebate;
- where individuals share the cost of health goods and services with third party payers—for example, Medicare, private health insurance funds.⁵

2.10 According to the Department of Health:

Of the \$140.2 billion spent on health care in Australia in 2011–12 (\$6 230 per capita), a total of \$24.3 billion was from out-of-pocket payments by individuals (adjusted for the Net Medical Expenses Tax Offset—NMETO). This is equivalent to \$1 078 per capita (\$1 102 before the NMETO). A further \$11.2 billion (\$496 per capita) was paid by private health insurers, and so indirectly by individuals.⁶

3 National Rural Health Alliance, *Submission 54*, p. 4 (citing: *Out-of-pocket: Rethinking health copayments*, Jennifer Doggett, Centre for Policy Development Occasional Paper Number 9, July 2009.).

4 Department of Health, *Submission 101*, p. 9.

5 Australian Institute of Health and Welfare 2013. *Health expenditure Australia 2011–12*. Health and welfare expenditure series no. 50. Cat. no. HWE 59. Canberra: AIHW, p. 41.

6 Department of Health, *Submission 101*, p. 6.

2.11 Data from the AIHW indicates that total individual out-of-pocket expenditure in 2011–12 (\$24.3 billion) was more than double the \$11 billion spent a decade earlier in 2001–02. With respect to the proportion of total health expenditure funded by individual out-of-pocket payments, in 2011–12 this was 17.3 per cent, relatively unchanged from 17.5 per cent in 2001–02 (see Table 2.1 below).

2.12 Further to this, the AIHW advised that the contribution of non-government funders of health to total expenditure reduced from 32.8 per cent in 2001–02 to 30.3 per cent in 2011–12. Government expenditure increased from 67.2 per cent in 2001–02 to 69.7 per cent in 2011–12.⁷

2.13 The committee notes that this data indicates that individual expenditure (\$11 billion) accounted for 53 per cent of health expenditure from all non-government sources (\$20.7 billion) in 2001–02. In 2011–12, individual expenditure (\$24.3 billion) accounted for 57 per cent of health expenditure from all non-government sources (\$42.4 billion).

Table 2.1: Total individual health expenditure and proportion of health expenditure from all sources of funds

Year	Amount (\$m)	Proportion (%)	Year	Amount (\$m)	Proportion (%)
2001–02	11 050	17.5	2007–08	17 416	16.8
2002–03	11 514	16.7	2008–09	19 451	17.1
2003–04	12 828	17.5	2009–10	21 246	17.5
2004–05	14 131	17.4	2010–11	23 834	18.3
2005–06	15 108	17.4	2011–12	24 254	17.3
2006–07	16 553	17.4			

Source: Australian Institute of Health and Welfare 2013. *Health expenditure Australia 2011–12*. Health and welfare expenditure series no. 50. Cat. no. HWE 59. Canberra: AIHW, p. 42.

2.14 The Department of Health also observed that the share of health expenses met by individual out-of-pocket payments remained relatively stable between 2001–02 and 2011–12.

... while the share of health expenses met by out-of-pocket payments clearly increased in the five years after 1986–87, from 13.6 per cent in 1986–87 to 16.5 per cent in 1991–92, and in the five years after 1995–96, it has remained relatively stable over the past decade.⁸

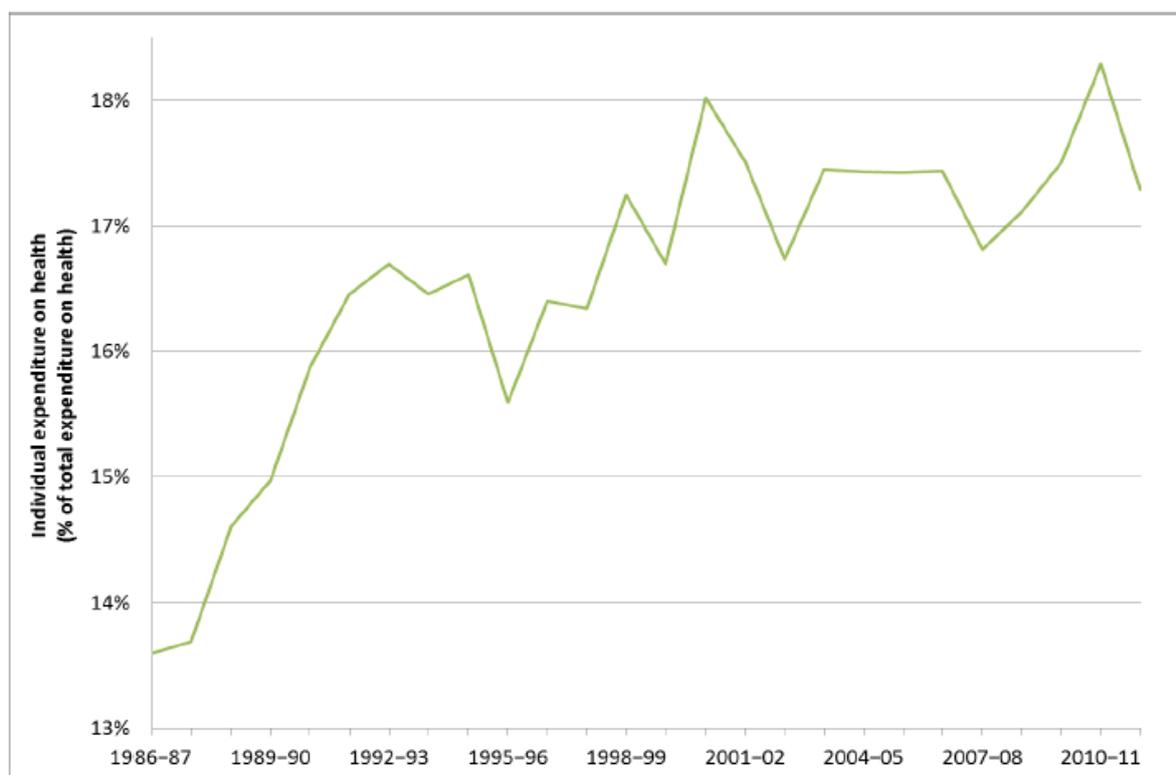
2.15 Further to this, the Department submitted:

⁷ Australian Institute of Health and Welfare, *Submission 35*, p. 3.

⁸ Department of Health, *Submission 101*, p. 7.

Overall health expenditure per capita and out-of-pocket expenditure on health per capita continue to grow at a faster rate than the broader economy, average incomes and overall household expenditure. Measured in current prices, overall health expenditure per capita and out-of-pocket expenditure on health per capita have grown by 91.4 per cent and 89.0 per cent respectively over the decade to 2011–12. That is, out-of-pocket expenditure on health per capita is currently growing at the same rate as total expenditure on health. Over the same period, GDP per capita grew by 69.7 per cent, average weekly earnings grew by 54.0 per cent and total household expenditure grew by an estimated 65.6 per cent in nominal terms.⁹

Figure 2.1: Share of health expenditure funded by out-of-pocket payments, 1986–87 to 2011–12.



Source: Department of Health, *Submission 101*, p. 7. (Departmental analysis of AIHW health expenditure data)

2.16 Several submitters and witnesses commented on the proportion of health expenditure contributed by individuals¹⁰, noting that there are a number of issues that need to be considered when analysing the proportion of individual health expenditure.

2.17 The committee heard evidence from the Consumers Health Forum of Australia (CHF) that 17.3 per cent out-of-pocket expenditure is contributed by individuals. It was explained that this percentage comprises areas of healthcare where

⁹ Department of Health, *Submission 101*, p. 7.

¹⁰ See for example, The Menzies Centre for Health Policy/The George Institute for Global Health, *Submission 28*, p. 2; National Rural Health Alliance, *Submission 54*, p. 4.

there are no (or limited) government subsidies including: some pharmaceutical spending, dental services, and aids and appliances. This suggests that there are some areas of health care where individual consumers are paying a large proportion—in some cases the entirety—of the cost.¹¹

Growth in individual expenditure

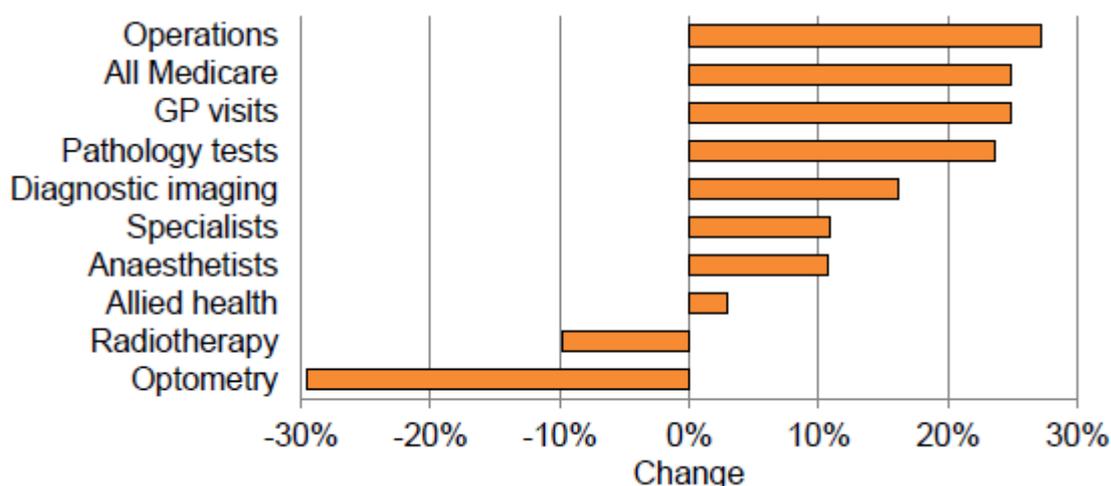
2.18 Evidence to the committee stated that individual expenditure has risen in real terms whilst individual expenditure as a proportion of overall health expenditure has remained relatively stable.

2.19 According to the AIHW:

People are definitely paying more—that is, taking into account inflation and having adjusted for the medical expenses rebate—out of their pockets than they were in the past. It has been increasing as per person, so it is not just about population growth. Per person, we are also spending more. It has not been increasing as a proportion of total expenditure. So whilst growth has been strong, growth across the health sector has been strong.¹²

2.20 Dr Stephen Duckett, Director, Health Program, Grattan Institute observed that out-of-pocket costs are increasing because total health expenditure is increasing and there has been a real increase in out-of-pocket costs over the last five years.¹³ In particular, since 2007, the average out-of-pocket payments for Medicare services have risen by a quarter in real terms. Out-of-pocket costs have increased in all but three categories¹⁴ (see Figure 2.2).

Figure 2.2: Real increase in out-of-pocket costs, 2007-2013



Source: Grattan Institute, *Submission 79*, p. 4.

11 Ms Priyanka Rai, *Committee Hansard*, 29 July 2014, pp 5–6.

12 Dr Adrian Webster, *Committee Hansard*, 29 July 2014, p. 43.

13 Dr Stephen Duckett, *Committee Hansard*, 29 July 2014, p. 33.

14 Grattan Institute, *Submission 79*, p. 4

2.21 Submitters observed that individuals are carrying an increasing burden of out-of-pocket costs for health care in a variety of areas, including GP visits, medications, pathology and imaging, dental services, hospital services.¹⁵

2.22 Data from the AIHW indicates that per person health expenditure by individuals (that is averaged over the whole population) grew at an average of 5.2 per cent per year from 2001–02 to 2011–12. The areas of expenditure with the highest per person growth rates in 2011–12 included benefit-paid pharmaceuticals (4.2 per cent) and dental services (2.2 per cent). The areas with negative growth included community and public health services (–18.8 per cent), patient transport services (–7.4 per cent) and hospital services (–5.9 per cent).¹⁶

Household expenditure on out-of-pocket health costs

2.23 Another measure of health expenditure analysed by the AIHW is the household final consumption expenditure which measures household expenditure as opposed to income. There has been an increase from approximately 2.7 per cent to 3.2 per cent over the last 10 years in the proportion of household expenditure being spent on out-of-pocket healthcare costs.

2.24 The AIHW advised that this data is not currently compared against proportion of household income.¹⁷

2.25 The Department of Health submitted details from the 2009–10 ABS Household Expenditure Survey which showed that weekly expenditure on 'medical care and health expenses' (including the cost of private health insurance) was \$65.60 for the average Australian household, making up 5.3 per cent of total household expenditure. The Department observed that components of household expenditure have grown at different rates over time, sometimes decreasing in real terms. The fastest growing direct health costs for households are for the category that includes non-prescription medicines, pharmaceutical products and therapeutic appliances.¹⁸

International comparisons

2.26 Several submitters and witnesses discussed Australia's out-of-pocket costs in comparison to a range of international jurisdictions. It was noted that out-of-pocket expenditure for Australian health consumers is high by international standards.¹⁹

2.27 Data from the AIHW indicates that in 2000, Australia's average out-of-pocket expenditure per person using OECD criteria (\$583) was \$35 above the weighted OECD average (\$548). In 2010, Australia's average out-of-pocket expenditure per person (\$1 075) was \$94 above the weighted OECD average (\$981).

15 See for example, The Australia Institute, *Submission 1*.

16 Australian Institute of Health and Welfare 2013. *Health expenditure Australia 2011–12*. Health and welfare expenditure series no. 50. Cat. no. HWE 59. Canberra: AIHW, p. 45.

17 Dr Adrian Webster, *Committee Hansard*, 29 July 2014, p. 45.

18 Department of Health, *Submission 101*, p. 12.

19 See for example, Australian Council of Social Service, *Submission 61*, p. 6.

2.28 The AIHW also noted that out-of-pocket expenditure fell as a proportion of total health expenditure, accounting for 19.8 per cent of total health expenditure in 2000 and 19.3 per cent in 2010²⁰. However, out-of-pocket expenditure increased as a percentage of total household final consumption expenditure in Australia, from 2.7 per cent in 2000 to 3.2 per cent in 2010. The OECD weighted averages against these measures were 16.3 per cent in 2000 and 13.9 per cent in 2010, and 2.7 in 2010 and 2.9 per cent in 2010 respectively.²¹

2.29 Several submitters and witnesses discussed Australia's out-of-pocket costs in the context of comparisons against OECD data.

2.30 Professor Stephen Jan, The George Institute for Global Health, told the committee that the level of out-of-pocket costs in Australia, when compared with the OECD average, is third only to the US and Switzerland.

2.31 The committee inquired into the underlying reasons for this ranking and were advised by Professor Jan:

In general terms, it is the level of co-payments that we pay for Medicare reimbursed services and also the fact that we have a significant number of medical expenses that are not covered by Medicare or through the hospital system that people have to incur out of pocket. One example might be home oxygen for people. The coverage for that varies for chronic obstructive pulmonary disease, and we found that to be a significant burden for a particular patient population. There are a number of allied healthcare services that often are not covered under Medicare or through the hospital system that people have to pay for out of pocket. Those are really the two areas. It is gap payments or co-payments and also the services that are not covered.²²

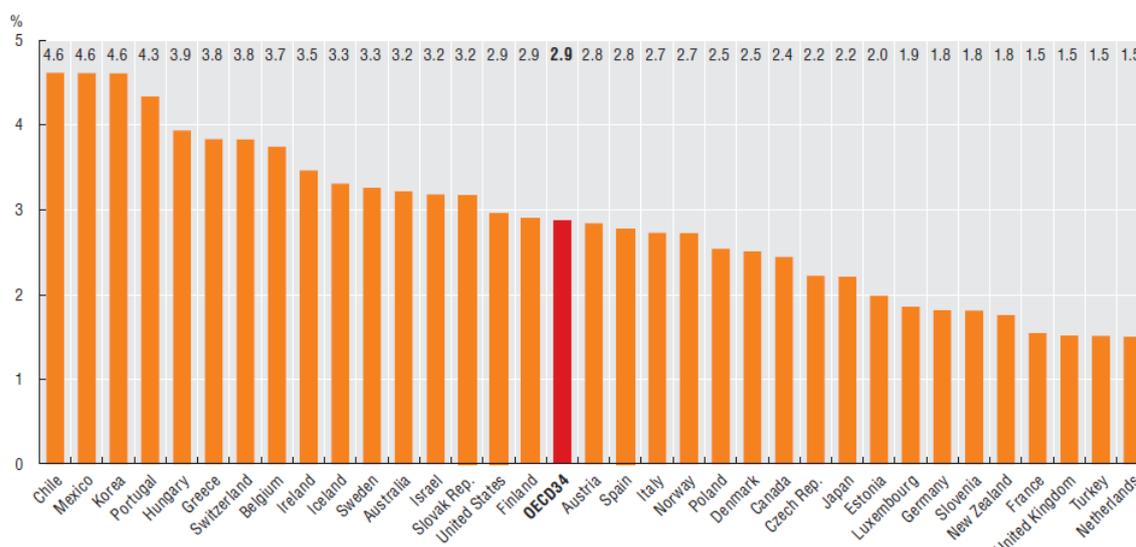
2.32 The Grattan Institute submitted that Australia is ranked in the middle of the OECD for the proportion of health costs paid for with out-of-pocket fees. It was also noted that the amount Australians pay as a proportion of their household expenditure is relatively high (see Figure 2.3).

20 The proportion of out-of-pocket expenditure noted here differs from other AIHW data provided in Table 2.1 due to different methodology being used to compile information for the OECD.

21 Australian Institute of Health and Welfare, *Submission 35*, p. 5.

22 Professor Stephen Jan, *Committee Hansard*, 3 July 2014, p. 4.

Figure 2.3: Out-of-pocket medical spending as a share of final household consumption, 2011 (or nearest year)



Source: OECD, *Health at a Glance 2013, OECD Indicators*, p. 141.

2.33 The Grattan Institute also compared countries in terms of out-of-pocket payments and GDP per capita. When comparing against this indicator with similar countries, only Switzerland is ranked much higher than Australia.²³

2.34 According to the Department of Health:

In 2011, Australia expended 9.1 per cent of its GDP on health. This is lower than the average level of expenditure across the OECD, at 9.3 per cent. It is also lower than the median across the OECD, at 9.3 per cent. Australia ranks 21st out of the 34 OECD countries on this measure. This places Australia in the 2nd lowest quintile on this measure.²⁴

2.35 The Royal Australian College of General Practitioners (RACGP) observed:

I would like to begin by saying that Australians already pay high out-of-pocket costs, with the average Australian paying \$1 075 annually on health care. Total patient out-of-pocket expenses for primary health care have significantly increased over the past 10 years, rising from \$9.7 billion in 2001–02 to \$17.1 billion in 2011–12—that represents a 76 per cent increase. These costs are above the OECD average and are already delaying or preventing 1.8 million Australians from seeking the health care that they need—and that is based on ABS data.²⁵

2.36 The AIHW explained to the committee that individual out-of-pocket expenditure is collected by drawing together approximately 80 data sources from all levels of government as well as the private sector. The AIHW collects this information in accordance with OECD requirements and standards and provides this data to the

23 The Grattan Institute, *Submission 79*, pp 3–4.

24 Department of Health, *Submission 101*, p. 25.

25 Dr Liz Marles, *Committee Hansard*, 3 July 2014, p. 15.

OECD and the World Health Organisation annually. The AIHW noted that there are many OECD countries that are not able to estimate out-of-pocket expenditure.²⁶ The AIHW added:

They [the OECD] try to pull together the expenditure information and, by and large, they look at that at a high level and they try to produce country rankings to give people a sense of where they sit in the overall expenditure. As to whether we are fifth or 10th or 15th, it is a bit hard to tell but we are probably not 30th and we are probably not first. They take that information and look at health outcomes information. Obviously, the OECD reports have a wide range of information—not just about expenditure but also about all the key indicators of health. As Dr Duckett and others have mentioned, we are known for a system that is relatively efficient. In terms of the dollars spent for the health outcomes achieved, we do well.

... That is an international comparison. That judgement about relative efficiency is comparing us to other nations that perhaps spend a similar quantum of dollars but do not achieve the same health outcomes.²⁷

2.37 Officials from the Department of Health cautioned against drawing comparisons between Australia and other OECD countries:

A number of submissions have highlighted the absolute value of out-of-pockets as evidence of an issue across the system. The trend over the last couple of years for out-of-pockets as a percentage of total health expenditure is down. It peaked at 19 per cent some years ago; it was 18.3 per cent in 2010–11; and in 2011–12 it was 17.3 per cent. It is lower than the OECD average, and Australia ranks 15 out of 34 of OECD countries for out-of-pockets as a percentage of health expenditure. The absolute dollars in many ways are an indication of the wealth of a society, rather than the appropriateness or inappropriateness of the level of out-of-pockets being charged. The extent to which out-of-pockets are discretionary is highlighted when an analysis of the out-of-pocket data is undertaken. The largest and fastest-growing area is non-prescription medicines, including complementary medicines. They are nearly one third of the total out-of-pocket costs. Medical services are about 12 per cent, and prescription pharmaceuticals are less than seven per cent of the total.²⁸

Key areas of expenditure

2.38 Australian consumers spend money on healthcare in a number of different areas. In 2011–12, the AIHW estimates that individuals spent \$24.8 billion²⁹ in recurrent funding for health goods and services. Over one-third (39.2 per cent) of this

26 Dr Adrian Webster, *Committee Hansard*, 29 July 2014, pp 42–43.

27 Dr Adrian Webster, *Committee Hansard*, 29 July 2014, p. 44.

28 Mr Richard Bartlett, *Committee Hansard*, 3 July 2014, p. 63.

29 This AIHW figure of \$24.8 billion quoted here is higher than the figure of \$24.3 billion provided in paragraph 2.11. The \$24.8 billion reflects the gross expenditure by individual and the \$24.3 billion accounts for rebates such as from private health insurers.

was for medications (mostly non benefit-paid pharmaceuticals). A further 19.1 per cent was for dental services; 11.9 per cent for medical services; 10.1 per cent for aids and appliances; and 7.8 per cent for other health practitioner services (see Table 2.2).³⁰

Table 2.2: Individuals' funding of recurrent health expenditure, by area of expenditure—current prices—2011–12

Area of expenditure	Amount (\$ million)	Per cent
Public hospital services	1 117	4.5
Private hospitals	1 334	5.4
Patient transport services	351	1.4
Medical services	2 955	11.9
Dental services	4 736	19.1
Other health practitioners	1 928	7.8
Community health and other	115	0.5
Public health	20	0.1
Benefit-paid pharmaceuticals	1 665	6.7
All other medications	8 067	32.5
Aids and appliances	2 503	10.1
Administration	—	—
Research	5	—
Total	24 795	100.0

(a) Individuals' expenditure has not been adjusted down for the medical expenses tax rebates

(b) Public hospital services exclude certain services undertaken in hospitals. Can include services provided off-site, such as hospital in the home, dialysis or other services

(c) 'Other' refers to other recurrent health services not elsewhere classified.

Note: Components may not add to totals due to rounding

Source: Australian Institute of Health and Welfare³¹

2.39 Although individual health expenditure as a proportion of health expenditure from all sources has remained stable between 2001–02 and 2011–12, there have been changes in expenditure in different areas of healthcare over the same period (see Table 2.3).

30 Australian Institute of Health and Welfare, *Submission 35*, p. 3.

31 Australian Institute of Health and Welfare, *Submission 35*, p. 3.

Table 2.3: Average individual recurrent health expenditure per person, constant prices, and annual growth rates, by area of expenditure, 2001–02 to 2011–12

Year	Hospitals ^{(a)(b)(c)}		Patient transport ^(a)		Medical services		Dental services ^(a)		Other health practitioners ^(a)		Community and public health ^(a)		Benefit-paid pharmaceuticals		All other medications		Aids and appliances ^(a)		Total recurrent	
	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)
2001–02	47	..	14	..	89	..	185	..	77	..	..	..	44	..	174	..	75	..	706	..
2002–03	31	-34.9	15	4.8	99	11.8	192	3.7	82	6.6	..	..	49	11.7	159	-8.7	83	10.2	710	0.6
<i>Break in series</i>																				
2003–04	28	..	11	..	105	5.5	196	..	88	..	12	..	53	7.6	178	12.0	87	..	757	..
2004–05	34	21.1	12	1.7	97	-6.9	205	5.0	94	7.3	11	-4.9	58	9.8	197	10.7	91	4.8	800	5.7
2005–06	37	9.5	12	4.8	98	0.5	202	-1.6	97	3.3	14	21.4	62	6.2	201	2.2	93	2.9	817	2.1
2006–07	35	-8.8	13	6.0	107	9.6	205	1.5	97	0.2	15	6.9	63	1.2	225	11.9	97	4.0	857	4.9
2007–08	43	23.6	14	5.6	113	5.0	199	-3.1	87	-10.4	15	2.4	63	1.3	242	7.5	93	-4.0	889	1.4
2008–09	..	..	17	22.2	118	4.4	199	-0.1	74	-14.6	7	-54.8	68	7.1	269	11.1	96	2.8	942	8.4
2009–10	103	8.0	17	1.5	125	5.7	217	8.9	79	6.5	7	-1.2	71	3.8	281	4.4	104	8.5	1,002	6.3
2010–11	116	12.7	17	-0.4	129	3.8	206	-5.0	84	6.4	7	11.3	71	0.7	362	28.9	112	7.9	1,104	10.2
2011–12	109	-5.9	16	-7.4	131	1.6	210	2.2	86	1.4	6	-18.8	74	4.2	358	-0.9	111	-0.9	1,101	-0.3
Average annual growth rate (%)																				
2006–07 to 2011–12	..	..	3.8	..	4.1	..	0.5	..	-2.5	..	..	..	3.4	..	9.8	..	2.7	..	5.2	..
2001–02 to 2011–12	..	..	..	..	4.0	..	..	..	..	..	..	..	5.3	..	7.5	..	..	..	..	..

Source: Australian Institute of Health and Welfare, *Health expenditure Australia 2011–12*, p. 46.

2.40 The Department of Health observed that there has been a considerable change in the out-of-pocket costs associated with medications and with medical, dental and other health practitioners over time. In particular:

The share of out-of-pocket costs spent on medicines and pharmaceutical products doubled between 1986–87 and 2011–12 from 19.5 per cent to 39.3 per cent; and the share of out-of-pocket costs spent on medical, dental and other health practitioners fell from 64.1 per cent to 38.8 per cent.³²

2.41 The range of goods and services captured as part of health expenditure is broad. The Department of Health explained that out-of-pocket costs comprise a broad range of components including an element of cosmetic surgery, complementary medicines, complementary therapies and a range of vitamins and supplements.³³

2.42 Further to this, the Department explained the discretionary choices that people are making in terms of their health expenditure. In 2007, Australians spent \$4 billion on complementary medicines and therapies. Whilst acknowledging that detailed data is limited, departmental officials noted that expenditure in this area has continued to grow strongly.³⁴

2.43 The Department also advised that out-of-pocket costs for medical services (broader than the MBS) are \$2.9 billion and prescription pharmaceuticals (broader than the PBS) are \$1.7 billion. This equates to about 20 per cent of the total out-of-pocket costs.³⁵

32 Department of Health, *Submission 101*, p. 8.

33 Mr Richard Bartlett, *Committee Hansard*, 3 July 2014, p. 65.

34 Mr Richard Bartlett, *Committee Hansard*, 3 July 2014, p. 63.

35 Mr Richard Bartlett, *Committee Hansard*, 3 July 2014, pp 64–65.

2.44 Mr Gordon Gregory, Executive Director, National Rural Health Alliance described an alternate model for consideration of the different areas of health expenditure:

We ask you to conceive of three concentric circles: the centre one has the out-of-pocket costs for seeing a GP; next, what might be called the rest of the standard out-of-pocket health care costs; and, on the outside, the actual total out-of-pocket health care costs for rural and remote people, which includes the cost of transport to and from services. All three of these are relevant, but evidence about the middle circle is not available by remoteness and the importance of the outside circle—that is transport and accommodation—is obvious but not easily quantified.³⁶

2.45 The next section summarises the evidence received by the committee in the following areas of health expenditure:

- pharmaceuticals and other medications, such as over-the-counter medications that do not require a prescription;
- medical services;
- specialist services;
- medical devices and supplies;
- dental care;
- health related travel costs.

Medical services

2.46 In 2011–12 Australians spent \$2.955 billion on medical services, comprising 11.9 per cent of total healthcare expenditure.³⁷ Medical services in this category include GP visits, pathology and imaging services.

2.47 The committee heard evidence that in 2012–13, 81.1 per cent of GP consultations were bulk billed and 88.7 per cent of private in-hospital medical services were charged at the private health insurance benefit (i.e. no out-of-pocket costs).

2.48 The committee notes that there is some variability across regions in terms of GP bulk billing rates.

2.49 The Australian Medical Association (AMA) submitted:

In the decade to 2012–13, the percentage of medical services attracting out of pocket costs has either stayed the same or declined. The medical profession has effectively absorbed the relative reductions in Government and PHI contributions to the cost of medical services. However, patients

36 Mr Gordon Gregory, *Committee Hansard*, 3 July 2014, p. 23.

37 Medical services includes services provided by, or on behalf of, registered medical practitioners that are funded by the MBS. Most medical services are provided on a fee-for service basis and attracts benefits from the Australian Government under Medicare. Full definition of medical services available: Australian Institute of Health and Welfare, *Health expenditure Australia 2011–12*, p. 118.

who do have out of pocket costs for medical services are paying more today than they were a decade ago. These services partly offset the services provided at no cost.³⁸

2.50 Furthermore, the AMA observed that contrary to common perceptions, medical services do not make up the majority of out-of-pocket costs for individuals, accounting for 11.9 per cent of the total of individuals' out-of-pocket costs.³⁹

2.51 The committee was reminded that the figure of 81 per cent of bulk-billed GP consultations relates to each individual item number that is bulk-billed. The provision of this information at item number level does not allow for analysis of the number of individuals that are bulk-billed, the frequency of bulk-billing and the location.⁴⁰

2.52 Evidence received from Catholic Health Australia indicated that the average out-of-pocket cost for a GP visit is now \$28, which represents a 50 per cent increase in five years.⁴¹

2.53 The AMA advised that the average out-of-pocket cost for a GP visit was \$28.58 in 2012–13 compared to \$12.46 in 2002–03, reflecting an 11.8 per cent growth per annum.⁴²

2.54 COTA Australia provided evidence about the average out-of-pocket cost for a visit to non-bulk-billing doctors, noting that the average was \$46.50 in 2012.⁴³

2.55 During the 2014–15 Budget Estimates, the Department of Health advised that in 2012–13, total expenditure on out-of-hospital pathology was \$2.14 billion, 98.5 per cent paid by government and 1.5 per cent paid by patients.⁴⁴

2.56 The Australian Diagnostic Imaging Association submitted that out-of-pocket costs for non-bulk billed services are growing at rates significantly higher than inflation, and averaged \$88 in 2012–13 (\$158 for MRI), with patients contributing \$475 million to their cost of their care. The growth in gaps was 9.8 per cent in 2010–11, 7.0 per cent in 2011–12 and 4.7 per cent in 2012–13.⁴⁵

Pharmaceuticals and other medications

2.57 Data from the AIHW indicates that Australians spent approximately \$9.7 billion on medications in 2011–12 which is approximately 39 per cent of total expenditure. The table below shows the breakdown between benefit-paid pharmaceuticals and all other medications.

38 Australian Medical Association, *Submission 72*, p. 2.

39 Australian Medical Association, *Submission 72*, p. 3.

40 Mr Andrew McAuliffe, *Committee Hansard*, 29 July 2014, p. 11.

41 Catholic Health Australia, *Submission 63*, p. 4.

42 Australian Medical Association, *Submission 72*, p. 2.

43 COTA Australia, *Submission 62*, p. 3.

44 Mr Richard Bartlett, *Estimates Hansard*, 2 June 2014, p. 61.

45 Australian Diagnostic Imaging Association, *Submission 45*, p. 7.

Table 2.4: Amount of out-of-pocket costs paid by Australian consumers on benefit-paid pharmaceuticals and all other medications.

Area of expenditure	Amount (\$ million)	Per cent (of total expenditure)
Benefit-paid pharmaceuticals	1 665	6.7
All other medications	8 067	32.5

Source: Australian Institute of Health and Welfare

2.58 The Department of Health submitted that the share of out-of-pocket costs on PBS medication has remained stable over the period from 2001–02 to 2011–12, reporting a small rise from 6.3 per cent to 6.7 per cent of total out-of-pocket costs. In contrast, the out-of-pocket costs incurred from purchasing non-PBS subsidised medications have increased over the same period:

In 2002–03, non-PBS subsidised medications (most of which are non-prescribed medications) accounted for 22.3 per cent of total out-of-pocket costs. In 2011–12 they accounted for 32.5 per cent of all out-of-pocket costs. Some of this increase is due to an increase in the number of PBS listed medications whose cost is fully covered by the level of the non-concessional co-payment, as the cost of these medications is shown in the non-PBS subsidised category. However, most of the increase is due to an increased use of non-prescribed medications. The Department estimates that the share of out-of-pocket costs associated with non-prescribed medications increased from 17.2 per cent in 2002–03 to 23.5 per cent in 2011–12.⁴⁶

Benefit-paid pharmaceuticals

2.59 Evidence from the Pharmacy Guild of Australia noted that the cost of pharmaceuticals has increased since 2000 on average by 2.1 per cent, compared with the 2.8 per cent increase in the Consumer Price Index. The concessional co-payment for pharmaceuticals has increased from \$3.30 in 2000 to \$6.00 in 2014 which equates to 4.4 per cent average annual change. The general co-payment has increased from \$20.60 in 2000 to \$36.90 in 2014 which is 4.5 per cent average annual change.⁴⁷

2.60 Further to this, the committee was advised that approximately 72 per cent of prescriptions for general patients have a dispensed price less than the \$36.90 general payment.⁴⁸

Other medications

2.61 As evidenced in Table 2.5 above, the majority of medication expenditure relates to the 'all other medications' category. The AIHW advised that 63 per cent of the other medications category relates to over-the counter medications. The remaining

46 Department of Health, *Submission 101*, p. 9.

47 Pharmacy Guild of Australia, *Submission 41*, p. 3; p. 8.

48 Pharmacy Guild of Australia, *Submission 41*, p. 6.

components in this category are approximately 20 per cent for under co-payment prescriptions and approximately 10 per cent for private prescriptions.⁴⁹

2.62 The committee heard evidence that information about the sale of products in the other medications category is collated from pharmacies, supermarkets and the health food sector using broad categories (see Table 2.5 and Table 2.6⁵⁰). This data is not broken down to a product level so the quantum of particular products in each industry category is unknown.⁵¹

2.63 The committee notes that it is unclear what proportion of expenditure is attributed to complementary medicines. As outlined earlier, the Department advised results from a market survey which found that Australians are spending \$4 billion annually on complementary medicines and natural therapies.⁵² This data provides the total amount spent nationally but does not give any indication about where this spending occurs and by whom.

2.64 Data from the ABS related to household weekly expenditure may provide some additional detail on this matter. 2009–10 figures indicate that a weekly household spend is \$5.83 on prescription medicines, \$2.12 on first aid supplies and therapeutic appliances, 84 cents on non-prescribed painkillers, 16 cents on sunscreen and \$8.91 on other non-prescribed items.

2.65 The committee notes that expenditure in the 'other medications' category does not contribute to the PBS safety net threshold amount. Safety nets are discussed in greater detail in chapter three of this report.

49 Dr Adrian Webster, *Committee Hansard*, 29 July 2014, pp 45–46.

50 Australian Institute of Health and Welfare, answer to question taken on notice, 29 July 2014 (received 31 July 2014).

51 Dr Adrian Webster, *Committee Hansard*, 29 July 2014, pp 45–46.

52 Mr Richard Bartlett, *Committee Hansard*, 29 July 2014, p. 69.

Table 2.5: Categories that AIHW uses to compile expenditure on over-the-counter pharmaceuticals purchased from supermarkets

Sunscreen and after sun care	Cotton e.g. cotton wool, cotton balls, cotton buds/tips	Throat care
Adult incontinence	Dietary supplements	Wound care
Allergy care	Laxatives	Nappy rash treatment
Analgesics	Anti-diarrhoeal	Footcare
Antacids	Fluid replacement	Anti-dandruff hair care
Antiseptics	Rheumatic rubs	Toothbrushes and toothpaste
Cold relief	Sinus remedy	Medical non-durables (i.e. family planning)
Cold sore care	Smoking control	Facial treatment and cleansers

Source: Retail World Annual Reports⁵³

Table 2.6: Categories that AZTEC provides to compile expenditure on over-the-counter pharmaceuticals purchased from pharmacies

Total allergy	Total first aid and sports medicine	Total smoking cessation
Total analgesics	Total footcare	Total sports nutrition
Total cough and cold	Total home self care	Total weight management
Total digestive care	Total natural health	
Total eye care	Total sexual health	

Source: AZTEC⁵⁴

Medical devices and supplies, aids and appliances

2.66 Evidence provided to the inquiry indicated that individuals contribute a high proportion of expenditure for medical devices and supplies, aids and appliances. High out-of-pocket costs in this area is partly due to the high cost of these items and the low level of contribution from other sources (if any at all).⁵⁵

2.67 Several individuals submitted details about out-of-pocket costs associated with purchasing necessary medical supplies such as catheters. Examples of the annual costs of purchasing catheters provided were in excess of \$2 000 up to over \$7 000.⁵⁶

Dental care

2.68 Costs associated with dental care are a significant area of health expenditure. Dental expenditure in Australia is made up of government and non-government

53 Australian Institute of Health and Welfare, answer to question taken no notice, 29 July 2014 (received 31 July 2014).

54 Australian Institute of Health and Welfare, answer to question taken no notice, 29 July 2014 (received 31 July 2014).

55 See for example, Audiology Australia, *Submission 92*, p. 4.

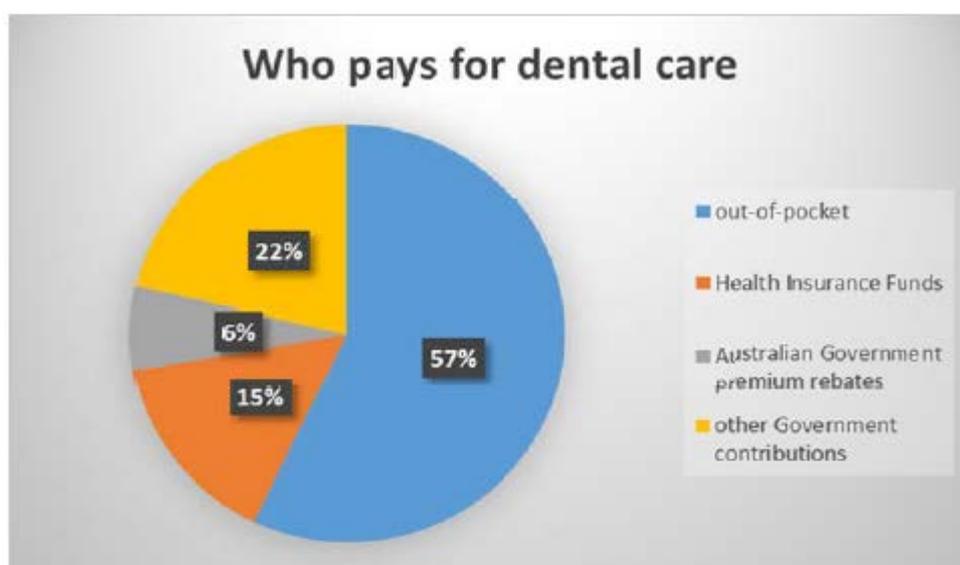
56 See for example, Name withheld, *Submission 91*, p. 3; Name withheld, *Submission 95*, p. [1].

funding. In 2011–12, total expenditure paid on dental health was estimated at \$8.336 billion comprising the following:

- federal and state governments paid \$2.3 billion:
 - state and territory governments paid \$718 million through public sector service provision;
 - federal government paid \$1.59 billion through private providers;
- non-government contributed \$6.03 billion;
- health funds contributed \$1.26 billion;
- individuals contributed \$4.74 billion; and
- \$34 million came from other sources.⁵⁷

2.69 The committee notes that these figures demonstrate that individuals make the second highest contribution towards the cost of dental care.

Figure 2.4: Dental expenditure in Australia 2011–12



Source: Australian Dental Association, *Submission 57*, p. 1.

2.70 The committee heard evidence from the Australian Dental Association (ADA) that Australians contributed \$4.7 billion towards their dental care in 2011–12. Much of this amount relates to private health insurance premiums and out-of-pocket costs created by gap fees between fees and the rebate.⁵⁸

2.71 The ADA advised that treatment charged by dentists have not risen a great deal since 2006. The ADA explained that although the costs charged by dentists and private health insurance rebates have remained relatively stable, private health

⁵⁷ Australian Dental Association, *Submission 57*, p. 1.

⁵⁸ Dr Karin Alexander, *Committee Hansard*, 3 July 2014, p. 27.

insurance premiums have increased. Increased premiums contribute to the increased out-of-pocket costs for individuals.

2.72 The Australian Healthcare & Hospitals Association highlighted that out-of-pocket costs for dental services were the same as the costs for medical services, public hospital and private hospital care combined.⁵⁹

Health related and other travel costs

2.73 Health related travel costs are not accounted for when health expenditure data is collected. The Department of Health confirmed:

As soon as they are subsidised they are captured but—you are right—a huge proportion will not be subsidised and will not be captured, just as those sorts of costs are not captured for a whole range of other things.⁶⁰

2.74 Evidence provided to the committee indicated that health related travel costs contribute significantly to individuals' out-of-pocket costs. These costs include direct travel costs (flights, train or bus, fuel), accommodation as well as costs associated with loss of income due to inability to work and the cost of care arrangements for other family members.⁶¹ Submitters emphasised that travel costs may act as a barrier to accessing required health services.⁶²

2.75 Parkinson's Victoria explained that transport assistance schemes are means tested and often limited to concession card holders. This places a significant cost burden for individuals without healthcare cards who need to travel to health services. Even when financial assistance is available, benefits are only payable if the journey exceeds 100 kilometres.⁶³

2.76 The cost of travelling to access healthcare is particularly significant for regional and remote communities. Mr Gregory explained to the committee:

The standard measurement of out-of-pocket health care cost does not include the cost of transport to services, which due to the distances to be covered and the lack of public transport are much higher for rural people for every occasion of service. These transport costs—including accommodation, income forgone and logistical complexities—often dwarf standard out-of-pocket costs for families in more remote areas. The jurisdictional patient travel and accommodation schemes are poorly understood, poorly promoted and not sufficient to cover the real costs involved in travelling to and staying in major cities.⁶⁴

59 Australian Healthcare & Hospitals Association, *Submission 43*, p. 1.

60 Mr Bartlett, *Committee Hansard*, 3 July 2014, p. 66.

61 See for example, Services for Australian Rural and Remote Allied Health, *Submission 34*, p. 3; Associate Professor Pam McGrath, *Submission 104*.

62 See for example, Audiology Australia, *Submission 92*, p. 5.

63 Parkinson's Victoria, *Submission 30*, p. 3.

64 Mr Gordon Gregory, *Committee Hansard*, 3 July 2014, p. 23.

2.77 Further to this, Mr Gregory advised that 'there is almost nothing that pops up on our radar here at the Rural Health Alliance more regularly, than patients' travel and accommodation—it is still a major issue'.⁶⁵

2.78 Dr Christine Walker, Executive Officer, Chronic Illness Alliance provided evidence about the impact of the high cost of hospital parking:

We had a dreadful example—somebody whose child was a transplant patient who eventually died at one of Sydney's major hospitals. They did not think about the cost of parking. After the child had died, they worked it out and they reckoned they had spent something like \$6 000 on parking their car at the hospital.⁶⁶

Specialist services

2.79 Professor Jan advised that when looking at the level of out-of-pocket costs in the health system, the majority of the costs incurred relate to specialist services. In contrast to the approximately 80 per cent of bulk-billed GP services, only a very low percentage of specialist services are bulk billed.⁶⁷

2.80 Evidence provided to the inquiry suggested that a large volume of expenses incurred by individuals using the health system relate to services provided by specialists.⁶⁸

2.81 The Australian Healthcare & Hospitals Association provided evidence that in the 2012 December quarter, medical specialist fees for in-hospital services totalled \$254 million, with Medicare covering \$67 million and private health insurance contributing \$47 million. Patients incurred out-of-pocket costs of \$140 million.⁶⁹

2.82 Evidence provided by the Australian Society of Anaesthetists (ASA) suggests out-of-pocket expenses for anaesthesia services is significantly less than that of other specialists.⁷⁰

2.83 Further to this, the ASA noted:

...approximately 3.5 million to 3.7 million anaesthetics are given in Australia each year, and more than 90 per cent of all anaesthesia services are provided at no out-of-pocket cost to the patient. In the private sector, more than 85 per cent are provided at no out-of-pocket cost to the patient. The primary reason for any out-of-pocket expenses has essentially been the lack of adequate indexation over the last 30 years and also, in anaesthesia specifically, the level of rebates have been significantly lower when compared to other craft groups. For example, anaesthesia rebates represent

65 Mr Gordon Gregory, *Committee Hansard*, 3 July 2014, p. 25

66 Dr Christine Walker, *Committee Hansard*, 3 July 2014, p. 48.

67 Professor Stephen Jan, *Committee Hansard*, 3 July 2014, p. 4.

68 See for example, Professor Peter Brooks, *Committee Hansard*, 3 July 2014, p. 8.

69 Australian Healthcare and Hospitals Association, *Submission 43*, p. 1.

70 Dr Mark Sinclair, *Committee Hansard*, 3 July 2014, p. 18.

about 40 to 45 per cent of the AMA recommended fee, whereas for other surgical specialties that is up to 60 to 65 per cent and even up to 70 per cent, varying on different specialties.⁷¹

2.84 The ASA explained that out-of-pocket costs for anaesthesia relate to private services. There are approximately 2.1 million anaesthesia services provided in the private sector annually and approximately one in six of these patients will incur out-of-pocket costs. The ASA advised the committee that ‘over the past 30 years the issue of out-of-pocket expenses for anaesthesia and for health services in general have arisen because of the failure of indexation’.⁷²

2.85 The committee notes that out-of-pocket costs incurred for private anaesthesia services are in addition to private health insurance premiums.

Private health insurance

2.86 Individual expenditure associated with private health insurance is a combination of insurance premiums and out-of-pocket costs to cover treatment costs not paid by Medicare or the private health insurer. The committee heard evidence that gap payments may vary significantly across private health insurers.

2.87 The Department of Health submitted that one third of household expenditure in 2009–10 on medical care and health expenses was associated with the cost of private health insurance.⁷³

2.88 According to data provided by the Private Health Insurance Administration Council (PHIAC) in *The Operations of Private Health Insurers Annual Report 2012-13*, during 2012–13 the funding of privately insured services totalled \$22.402 billion and comprised the following components:

- benefits provided by private health insurance of \$15.303 billion (68.3 per cent);
- benefits provided by Medicare of \$2.376 billion (10.6 per cent); and
- payments by patients of \$4.722 billion (21.1 per cent).⁷⁴

2.89 The Australian Healthcare Reform Alliance submitted:

PHIAC quarterly statistics for June 2013 show that the average co-payment for one episode of hospital treatment was \$307 and for non-hospital services it was \$47. Due to their higher average level of need, older people incur higher out-of-pocket payments than younger people using private health services.⁷⁵

71 Dr Richard Grutzner, *Committee Hansard*, 3 July 2014, p. 16.

72 Dr Mark Sinclair, *Committee Hansard*, 3 July 2014, p. 17.

73 Department of Health, *Submission 101*, p. 9.

74 Private Health Insurance Administration Council, *The Operations of Private Health Insurers Annual Report 2012-13*, p. 8.

75 Australian Healthcare Reform Alliance, *Submission 80*, [pp 4–5].

2.90 Bupa Australia observed two recent issues that have affected the out-of-pocket costs for individuals with private health insurance: (1) changes to the government private health insurance rebate and (2) contract arrangements between private health insurers and hospitals.⁷⁶

2.91 Issues relating to private health insurance are discussed in more detail in chapter five of this report.

Other areas of expenditure

2.92 The committee received evidence outlining other areas of out-of-pocket expenditure. The Australian Wound Management Association referred to a study undertaken in 2012 that reported a median of \$142 a month for dressing products over an average duration of 22 weeks with a total expense as high as \$10 400.⁷⁷

2.93 Optometrists Association Australia submitted that prescription glasses and contact lenses do not qualify for a Medicare rebate, although a portion of the cost is covered under some private health insurance policies. This means that the out-of-pocket costs can be a barrier to accessing essential primary eye care, particularly those on low incomes and without private health insurance.⁷⁸

Committee view

2.94 The Australian community incurs out-of-pocket costs in healthcare in a number of different areas. Individual expenditure as a proportion of overall expenditure on healthcare has remained relatively stable since 2001–02 although there have been changes in expenditure in different areas of the health system.

2.95 The committee notes evidence from several submitters and witnesses that individual expenditure has risen in real terms while individual expenditure as a proportion of overall health expenditure has remained relatively stable.

2.96 Evidence received about the impact of out-of-pocket expenditure in some areas of health is subject to debate. The committee notes that analysing Australia's healthcare system and out-of-pocket expenditure against international comparisons is useful but that these comparisons need to be made with caution and in context.

2.97 The committee notes the importance of developing and maintaining comprehensive and robust national data about different areas of the health system. This would ensure there is a solid evidence base to assist policy development and ongoing evaluation and analysis, and would reduce the likelihood of unintended consequences arising once policies are implemented.

76 Dr Dwayne Crombie, *Committee Hansard*, 3 July 2014, p. 37.

77 Australian Wound Management Association, *Submission 31*, p. 2.

78 Optometrists Association Australia, *Submission 18*, p. 1.

