

# Coalition Senators' Dissenting Report

## Summary

It is clear from the evidence that the Lifetime Health Cover initiative has been successful in encouraging people to purchase hospital cover earlier in life and in driving membership growth and future sustainability of private health insurance.

This success is recognised by the Government. Evidence from the Department of Health and Ageing stated:

Statistics from the Private Health Insurance Administrative Council indicate that LHC has had a positive effect in supporting private hospital membership, with an 18.7% increase in the number of 30 to 34 year olds taking out private hospital cover since its commencement in July 2007.<sup>1</sup>

Coalition Senators are concerned the Governments changes could undermine the success of this initiative especially when the Government has failed to take any steps to model the impact of the proposed change and that these changes may force people who are already paying private health insurance to drop out of private health cover altogether.

Coalition Senators oppose the primary measure of the Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012 because it will unwind the successful take up of private health insurance especially among younger Australians, will lead to increased cost of premiums and risks the transferring of more Australians from the private to public health system.

These changes are the third that the Government is proposing in relation to private health insurance. Coalition Senators are concerned that the cumulative effect of the changes will cause many people to either reduce their level of cover or drop out of private health insurance altogether.

Coalition Senators are concerned that these latest measures are being put forward before the full impact of the previous changes to private health insurance are fully known.

Coalition Senators cautiously welcome the secondary measure of the Bill, the removal of the Incentives Payment Scheme (IPS), if it does in fact remove the administrative burden on insurers.

## Unstable policy settings

The Governments numerous changes to private health insurance arrangements and the reversal of its election commitments has created an unstable policy environment for private health insurers and consumers.

On numerous occasions the Government committed to retaining the existing private health insurance rebates.

---

1 Department of Health and Ageing, *Submission 2*, p. 2.

In February 2009, the Health Minister, the Hon Nicola Roxon MP said:

The Government is firmly committed to retaining the existing private health insurance rebates.<sup>2</sup>

The decisions of the Government on private health insurance have confirmed the Government can't be trusted to keep its election commitments.

The Government has introduced two changes to private health insurance (PHI) rebate arrangements in Australia.

Coalition Senators are concerned these changes have undermined the attractiveness and financial incentives for Australians to take out private health insurance cover for them and their families.

Further, these changes have left private health insurers with more complex health insurance products and steep, unforeseen increases in the cost of their policies, have undermined the attractiveness of private health insurance and will put additional pressures on Australia's public health system.

The Government has embarked on the following changes:

- In 2011/2012 the Government enacted three new private health insurance incentive tiers reducing the amount of PHI rebate for an eligible person with a complying PHI policy. This change was announced in the 2009/2010 Budget despite the Government giving an election commitment to the contrary. The change came into effect on 1 July 2012
- In the 2012/2013 Mid Year Economic and Fiscal Outlook (MYEFO) the Government announced it would introduce a new measure to calculate an individuals PHI rebate using the commercial premium and then index the premium using the lesser of the CPI or actual commercial increase in premiums. The measure will take effect from 1 April 2014.

The measures in the Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012, also announced in the 2012/2013 MYEFO, are the third and most recent changes to private health insurance.

Coalition Senators agree with concerns raised by private and not-for-profit private health insurers that this latest change to private health insurance arrangements 'further complicates and erodes the value of PHI'<sup>3</sup> and that the legislation will make private health insurance 'less affordable', 'further restricting peoples' access to health care services, while increasing public hospital waiting lists'.<sup>4</sup>

---

2 Leo Shanahan, 'Scrap health rebate: Treasury', *The Age*, 24 February 2009, p. 1.

3 Hirmaa, *Submission 4*, p. 4.

4 Private Healthcare Australia, *Submission 6*, p. [2].

In the words of Australia's largest representative of private health funds this latest measure 'disadvantages those Australians who take responsibility for their own health care needs by holding private health insurance'.<sup>5</sup>

### **Summary of concerns**

Coalition Senators believe the primary measure of the Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012 is further evidence of the Governments disregard for the value of private health insurance in Australia's health system.

Coalition Senators believe the measure will have adverse consequences for:

- (a) Low income families
- (b) Affordability of private health insurance
- (c) Operations of private health insurers
- (d) Increased pressure on the public health system

### ***Impact on low income families***

Coalition Senators are particularly surprised that the Government would propose such a highly regressive health measure where the greatest percentage impact will be on the lowest income families.

Submissions to the inquiry pointed to evidence to suggest that 3.4million people with private health insurance live in households with incomes less than \$35,000 and that 5.6 million people with private health insurance live in households with gross annual incomes below \$50,000.

It was noted in the evidence that all members with a Lifetime Health Cover loading are equally impacted by the change irrespective of their income levels. It was suggested by GMBHA that:

taking the rebate away from those with a Lifetime Health Cover loading is in fact highly discriminatory to lower income earners who have taken responsibility for their own health by insuring themselves privately.<sup>6</sup>

This point was echoed by the private health insurer Hirmaa that suggested that of the three changes to private health insurance since 2010 this latest measure was:

far more damaging to consumers in general, and to low income earners in particular.<sup>7</sup>

In its evidence, HBF stated the expected increase in premiums would hit the elderly and those least able to afford increased costs the most. It said:

---

5 Private Healthcare Australia, *Submission 6*, p. [2].

6 GMBHA, *Submission 1*, p. [1].

7 Hirmaa, *Submission 4*, p. 2.

Many of these are older Australians on fixed incomes who will be subject to considerable financial stress by the proposed changes. In the current economic climate, this will mean that for many members private health insurance will become unaffordable...<sup>8</sup>

### *Affordability of private health insurance*

There was broad consensus the measure will lead to an increase in premiums. Coalition Senators are agreed the removal of the rebate on Lifetime Health Cover loading will reduce the affordability of private health insurance and drive premium increases for those affected.

Coalition Senators do not believe that Australians and their families blindly accept premium increases and instead actively consider the value of private health insurance against other house-hold expenditure. For this reason, increased premiums can be expected to lead to a transfer from private health insurance to the public health system despite the risks of waiting lists and reduced choice.

This point was ably demonstrated in various submissions. GMHBA, a not-for-profit private health insurer with a regional Victorian focus stated the measure 'will result in 1% to 18% (average 10.6%) price increase from 1 July 2013' and impact 40,000 private health insurers in their fund alone.<sup>9</sup>

The peak industry body for thirteen restricted access and five regional private health insurers, Hirmaa, expects the change 'will amount to an average 8.4% premium increase in the first year of implementation'.<sup>10</sup>

Private Healthcare Australia representing 24 private health funds and approximately 12.4 million Australians or 95% of all Australians with private health insurance believes some consumers will be 'confronted by an increase in their premium of up to 27.5% on 1 July 2013' and may be paying 'around \$500 a year more' for their private health insurance.<sup>11</sup>

HBF, a Western Australian domiciled fund representing 900,000 members said 'tens of thousands of WA members will see their premiums rise by hundreds of dollars per year'.<sup>12</sup>

Coalition Senators agree with the evidence provided that the measure will increase premiums and reduce the affordability of private health insurance to many Australians.

---

8 HBF, *Submission 10*, p. [1].

9 GMBHA, *Submission 1*, p. [1].

10 Hirmaa, *Submission 4*, p. 2.

11 Private Healthcare Australia, *Submission 6*, pp. [1–2].

12 HBF, *Submission 10*, p. [1].

The evidence from the Department of Health and Ageing confirmed that there would be a premium increase. It said the average financial impact of this measure on consumers is estimated to be 'approximately \$116 per year, based on the current average LHC loading of 24%'.<sup>13</sup>

### *Attitudes of private health insurers*

Coalition Senators note the legislation is opposed by Private Healthcare Australia which represents 24 private health funds and approximately 95% of the 12.4 million Australian who hold private health insurance.<sup>14</sup>

#### *i. Disincentive and added complexity to private health insurance*

Coalition Senators are concerned the legislation will further reduce the incentive for Australians, especially younger Australians, to take out private health insurers. These concerns were explained by Hirmaa in the following statement:

The measure provides a disincentive to everyone without PHI who is over 31 years of age from purchasing PHI ... It presents an additional barrier to those who do not have PHI.<sup>15</sup>

Private Healthcare Australia said the 'significant increases in premiums will inevitably result in many people choosing either to downgrade or terminate their cover'.<sup>16</sup>

It added the increased complexity in products increased confusion which acted as a further disincentive to consumers to pursue private health insurance. It noted recent rebate measures had created 12 different pricing structures to premiums based on age compared to the three rebate levels that existed previously

#### *ii. Timeline for implementation*

Private health funds also advised the Committee that it would be 'difficult' and 'very unlikely' that all insurers would be able to make the necessary system and back office changes in time for the 1 July 2013 implementation date.

Private Healthcare Australia identified the additional administrative burden as one of five core objections to the legislation. It said the new measure would be a cost burden to private funds who will be required to make 'considerable system enhancements before 1 July' to implement the change. It added these cost pressures are 'inevitably' reflected in future premium increases.

---

13 Department of Health and Ageing, *Submission 2*, p. 4.

14 Private Healthcare Australia, *Submission 6*.

15 Hirmaa, *Submission 4*, p. 3.

16 Private Healthcare Australia, *Submission 6*, p. [1].

***Increased pressure on public health system***

Coalition Senators acknowledge the considerable contribution private health arrangements, especially but not limited to private health insurance, make to alleviating the cost of provision of public health services in Australia.

In addition, individual Australians make a contribution first by meeting their obligations as individual taxpayers and paying the compulsory Medicare Levy and secondly through self-insurance.

Coalition Senators believe this measure will further undermine the attractiveness of private health insurance and shift consumers and the associated costs of care and treatment to the public health system. In a tight budgetary environment this trend will reduce the quality of care and increase public hospital waiting times.

This shift of consumers from the private health system to the public health system is exacerbated in difficult financial circumstances as evidenced by HBF:

In the current economic climate, this will mean that for many members private health insurance will become unaffordable and they may choose to cancel their health insurance and rely on an already overstretched public hospital system, to the detriment of the community as well as a whole.<sup>17</sup>

***Unknown impact of cumulative changes to private health insurance***

There was very strong and consistent evidence that the measure should be analysed in the context of other recent changes to private health insurance.

...should be read in the context of the Government's other executed and announced proposals to change the PHI rebate arrangements.<sup>18</sup>

Evidence was also provided that the full impact of income testing the rebate that was introduced on 1 July 2012 is yet unknown as the full effect has been delayed as many consumers took the opportunity to prepay their premiums.

There is a concern among some that anticipated negative effects of changes in Government policy are not yet visible.

The Consumers Health Forum of Australia stated:

we have not yet seen the impact of the various changes, and there have been a number of them ... We do want to make sure that there continues to be very active monitoring of those changes so that we are not seeing a huge impact in terms of dropout rates.<sup>19</sup>

---

17 HBF, *Submission 10*, p. [1].

18 Hirmaa, *Submission 4*, p. 1.

19 Ms Bennett, Consumers Health Forum of Australia, *Proof Committee Hansard*, 8 February 2013, p. 6.

Private insurers speculated the Department of Health and Ageing had not comprehensively modelled the potential impacts of changes already made, and proposed to be made to private health insurance arrangements

the true impacts of the Lifetime Health Cover loading change have not yet been modelled by the Government and cannot be modelled in isolation of the potential impacts of other changes already made and proposed.<sup>20</sup>

This was a concern also raised by the Consumers Health Forum of Australia which expressed caution and the need for monitoring to accurately assess the possible impact of 'dropouts' from private health insurance and the as a result of the measure. It stated:

It is important, though, that there is monitoring of private health insurance participation rates to make sure that this, as well as other policy changes, does not cause high dropout rates. The proportion of Australians with private health insurance is continuing to rise, despite successive policy and premium changes, and we do not want to see that trend reversed.<sup>21</sup>

It was suggested by private health insurers that to make additional changes in advance of knowing the full impact of previous changes 'is fraught with risk'.<sup>22</sup>

### ***Lack of modelling of the impact of the measure***

Coalition Senators are sceptical of evidence from the Department of Health and Ageing that the measure will not lead to a reduction in private health insurance. It stated:

I reiterate that we do not believe that this will lead to a reduction in private health insurance.<sup>23</sup>

Coalition Senators do not believe the Government can defend this view when by its own admission it has not undertaken any modelling to assess the impact of these measures on consumers. Evidence from the Department of Health and Ageing stated:

No, and we responded initially that we did not model movement or people dropping out of private health insurance as a result of this measure,

and

we have not modelled a specific increase in or decrease in membership as a result of this change.<sup>24</sup>

---

20 GMBHA, *Submission 1*, p. [2].

21 Ms Bennett, Consumers Health Forum of Australia, *Proof Committee Hansard*, 8 February 2013, p. 2.

22 GMBHA, *Submission 1*, p. [3].

23 Mr Fawns, DoHA, *Proof Committee Hansard*, 8 February 2013, p. 20.

24 Mr Fawns, DoHA, *Proof Committee Hansard*, 8 February 2013, pp. 19, 22.

**Incentives Payments Scheme (IPS)**

Coalition Senators note that the removal of the Incentives Payments Scheme (IPS) was supported by various private health insurers and seen as a 'simple and low cost option to reducing the administrative burden on insurers'.<sup>25</sup>

Coalition Senators cautiously welcome the removal of the IPS, if it does in fact remove the administrative burden on insurers.

**Senator Dean Smith**

**Senator Concetta Fierravanti-Wells**

---

25 Hirmaa, *Submission 4*, p. 3.