Dissenting Report by the Australian Greens

1.1 The Australian Greens have been campaigning for significant reform to the private health insurance market for some time. As noted by Mr Alan Kirkland, CEO of CHOICE:

> It's hard to imagine any other area of public expenditure where you have the same number of Australians contributing from their own pockets, with significant public expenditure and subsidies backing that up, without us having clear data on what we're getting in return.[1]

1.2 Private health insurance premiums continue to climb for consumers, with greater exclusions meaning policyholders receive less care for their money, and with scant evidence the subsidy is taking any pressure off the public health system. The government's bill attempts to deal with a public policy failure of an enormous scale by tinkering at the edges.

1.3 This inquiry has shown that this series of reforms, ostensibly designed by the government to address rising premiums for consumers and restore value to private health insurance products, will have little effect in improving the sustainability of the market. What we are instead seeing is an ideological commitment to throw good money after bad. The private health insurance system operates only through the generosity of vast public subsidies of more than $6.5 billion each year. There is no argument that without these subsidies, the market would collapse.

Increasing maximum excess levels

1.4 Schedule 1 of the bill increases the maximum excess permitted in a complying private health insurance policy that provides hospital cover, from $500 to $750 in any 12 month period for a policy that covers an individual and from $1000 to a maximum excess of $1500 for any other policy.

1.5 This will allow consumers to take out products that are low-premium and low-value. The prospect of a high excess will deter consumers from utilising their cover. While the Committee notes that this may promote choice, we argue that this is not the form of choice the Private Health Insurance rebate is intended to promote. Instead, this change pushes consumers towards taking out low-value options that are designed purely to avoid the Medicare Levy Surcharge, while policyholders continue to rely on health care through the public health system. As noted by Mr Michael Roff, CEO of the Australian Private Hospitals Association:

> **Senator SIEWERT**: So would it be fair to say that it would be fairly rare for somebody with a basic policy or low-premium policy to be using that policy in a private hospital?
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> **Mr Roff** : I think that would be fair to say, yes.

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1 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Committee Hansard*, 7 August 2018, p. 7.

1.6 The effect is to make tax minimisation easier. Lower-premium products simply require a greater share of the cost of a procedure or admission to be covered at the event point, rather than across the life of the product. The greater the share of costs to be met at the incidence of an unforeseen health event, the lower the probability that the policyholder will opt to claim against their product. This does not take pressure off the public health system. It directs tax dollars away from the public health system towards the private insurance market, without reducing the demand for the public health system itself. This is the only stated reason for the subsidy. It is misaligned and misguided.

Product design reforms

1.7 CHOICE, the Australian Medical Association, the Australian Private Hospitals Association and Day Hospitals Australia made clear to this Committee their objections to the inclusion of a 'Basic' category of cover on the basis that these policies provide low value cover to consumers and exist to take advantage of the financial incentives provided by government.

1.8 The Committee's view, that the Basic category of product should be included because some consumers find this product to have value, is simplistic and misleading. There is no 'inherent' value to these products. They exist to reduce tax for consumers. The rationale that they should continue as a way to maintain a broad distribution of risk throughout the insurance pool simply points to how poorly the current system is designed. The government is encouraging low-risk consumers to take up a form of private health insurance to prop up higher-risk consumers, using tax penalties and price rebates. They do this at enormous cost to the taxpayer. The risk pool is artificially inflated with low-value products simply because these premiums contribute to the financial viability of private health insurers. The role of supporting the cost of older or less healthy Australians in living long, meaningful and productive lives is one for government, not for companies.

Aged-based discounts

1.9 The Australian Medical Association has made clear its concerns about the risk to community rating posed by the provision of aged-based discounts for private health insurance customers between 18 and 29:

> **Senator SIEWERT**: I want to go back to the community rating issue. Do both of your organisations acknowledge that the young people's discount will undermine the concept of community rating?
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> **Dr Bartone**: It certainly has the potential if not implemented correctly or if not further reviewed carefully in the fullness of time to see the effect it's having. It is a watch-out area; it is a risk area.[2]

1.10 The Committee argues that aged-based discounts are necessary to improve the appeal of private health insurance for young people. Fundamentally, there are two key

2 Dr Tony Bartone, President, Australian Medical Association, *Committee Hansard*, 7 August 2018, p. 12.

ways to boost take up of private health insurance amongst young people, who are critical to the sustainability of the market overall. The first is to reduce the cost of participation, which aged-based discounts are designed to do. The second is to improve the value of offerings. Combining the impact of aged-based discounts with increases to maximum excesses, we see the preferred approach of the Government is the former rather than the latter. This is disappointing. A product with little value is not appealing at any price point. Value seems to be artificially produced by various carrots and sticks within the tax system, along with the Lifetime Health Cover Loading. In this way, young people see value in private health insurance principally as a tax minimisation vehicle. To this point, there is no value in the product itself. It is only what purchasing the product allows the consumer to avoid that any value is realised. The same impact could be achieved by strengthening the 'stick' of the tax penalty. This is not the preferred approach of the Australian Greens, but it demonstrates how little is actually achieved by these reforms.

1.11 The principle of community rating underpins the functioning of our private health insurance market. The impact of allowing discounts to certain cohorts based on demographic factors such as age has potentially no impact on participation in private health insurance. If there is no improvement in participation among young people in particular, then the provision of aged-based discounts will have no benefit from a public policy perspective. It will have a potentially deleterious impact on the market as a whole (by eroding the principle of community rating), as well as represent a greater cost to the taxpayer, with no demonstrable benefit for these significant costs.

Inspection powers

1.12 While it is supported that oversight of private health insurance companies should be increased for the benefit of consumers, it is quite unusual to grant the Private Health Insurance Ombudsman the power to enter a private premise without requiring a warrant beforehand. Arguments proposed by the Department that these powers are justified because there is an equivalent power available to the Australian Tax Office are alarming. The Australian Tax Office has a far broader remit than the Private Health Insurance Ombudsman. Their powers and their responsibilities are not equivalent. The Tax Office frequently cooperates with law enforcement agencies in criminal investigations. It is imaginable that such an investigation may necessitate the power of inspection without warrant, in extraordinary circumstances. No evidence has been submitted that the Private Health Insurance Ombudsman would require similar powers under anywhere approaching similar circumstances.

Conclusion

1.13 The Private Health Insurance Rebate represents a transfer of wealth from the taxpayer to the private health insurance industry. It has been justified by the government on the grounds that we need a well-functioning private health insurance system to take pressure off the public health system. There is no evidence that this is achieved, or that this package makes any reforms which can be said to take pressure off the public health system.

1.14 Through the rebate, taxpayers subsidise the taking out of private health insurance products. Taxpayers cover the cost of these private health insurance

customers nonetheless opting to use the public health system. Finally, the $6.5 billion in taxpayer dollars which is currently diverted to private health insurance companies, could be better spent in the public system, improving the care available to all.

1.15 The cumulative cost to the taxpayer is tremendous. It is unprecedented that such a cost would be inflicted on the taxpayer with so little evidence to suggest that any value is being created from such an investment of public money.

Recommendation 1

The Australian Greens recommend that the Senate does not pass these Bills.

Senator Rachel Siewert **Senator Richard Di Natale**