Chapter 1

Introduction

1.1 Australia operates a mixed public and private healthcare system. Under this system, Australians have the freedom to choose whether they wish to use the public health insurance provided by Medicare or if they wish to be treated privately.

1.2 Since the late 1990s, the Commonwealth Government has encouraged Australians to take out private hospital cover and remove pressure on public hospitals by providing tax and financial incentives.

1.3 In the Senate Community Affairs References Committee's (committee) *Price regulation associated with the Prostheses List Framework* inquiry, the committee received evidence from industry stakeholders that private health insurance was becoming increasingly unaffordable for consumers.[1]

1.4 Submitters to this inquiry confirmed that some consumers are experiencing difficulty to pay private health insurance premiums and/or out-of-pocket costs.[2] In 2015–16, Australians paid $11.4 billion for private hospital policies and $4.5 billion for general treatment policies.[3] Australians also paid $483 million in excesses and co-payments for hospital services and $706 million out-of-pocket for medical services.[4] For general treatment, Australians paid $4.7 billion out-of-pocket.[5] These amounts do not include the substantial contributions of Commonwealth, state and territory governments.[6]

1.5 Private health insurance premiums have become less affordable at the same time that exclusions and co-payments have increased. The number of Australians covered by a policy with a co-payments or exclusions increased from seven per cent in June 2007 to 40 per cent in 2017.[7] The increase in premiums and the increase in the number of exclusions in policies has eroded the value of private health insurance and led some people to drop or downgrade their cover.

Trends in policy coverage

1.6 Graph 1.1 provides a brief overview of the reforms that have influenced individuals to take up private health insurance. As Graph 1.1 demonstrates, Australia

---

1 Senate Community Affairs References Committee (committee), *Price regulation associated with the Prostheses List Framework*, May 2017, p. 63.

2 NSW Council of Social Service, *Submission 7*, pp. 12, 22; Consumers Health Forum of Australia, *Submission 17*, pp. 3, 5–6.

3 Department of Health (Department), *Submission 127*, p. 34.

4 *Submission 127*, p. 34.

5 *Submission 127*, p. 34.

6 *Submission 127*, p. 34.

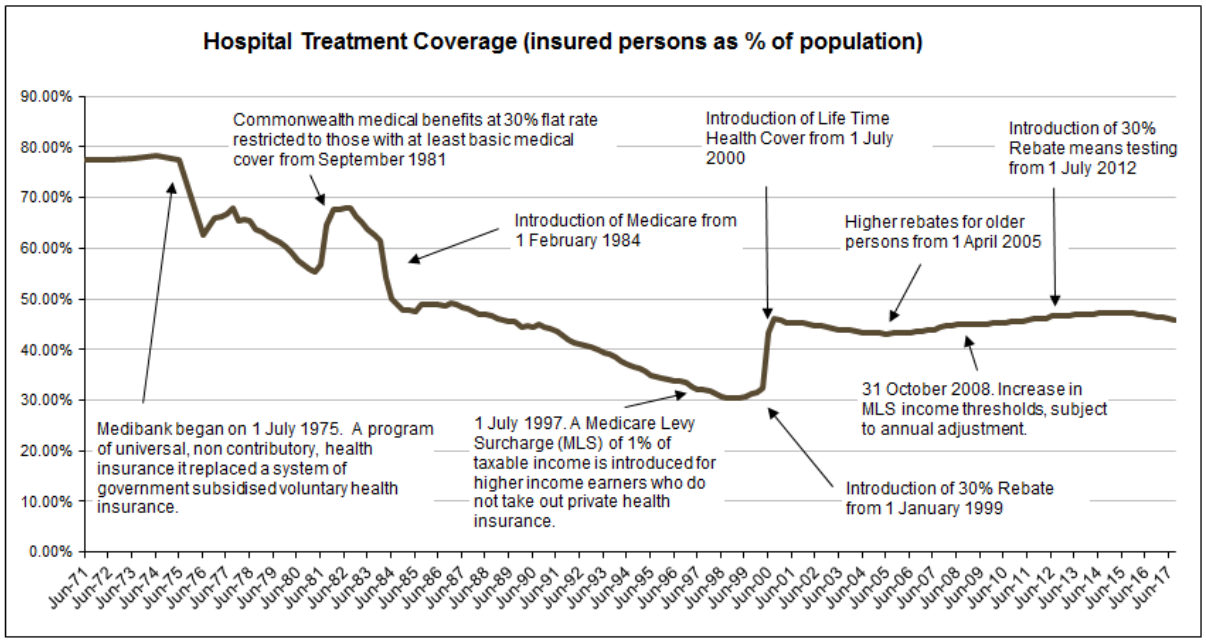
7 Australian Private Hospitals Association (APHA), *Submission 80*, p. 12.

has historically enjoyed high levels of private health coverage which declined until the late 1990s. At that time, the Commonwealth Government introduced three measures to encourage Australians who could afford to do so to take up private health insurance and therefore take pressure off public hospitals.[8]

1.7 In 1997, the Medicare Levy Surcharge (MLS) was introduced as a surcharge tax on high income earners who were not covered by a private hospital policy.[9] In 1999, a 30 per cent private health insurance rebate was introduced.[10] On 1 July 2000, the Lifetime Health Cover (LHC) loading was introduced.[11] The LHC allows a private health insurer to charge a loading of two per cent of the premium per year that the person was not covered by a private hospital policy after the person turns 30. The insurer may continue to charge the loading for ten years.[12]

1.8 Together, these incentives stabilised private health insurance coverage at approximately 50 per cent of the population as Graph 1.1 demonstrates.

Graph 1.1—Hospital treatment coverage as a per cent of population



Source: Australian Prudential Regulation Authority, *Private Health Insurance Membership Trends*, September 2017.

1.9 These incentives and their efficacy in encouraging Australians to maintain levels of coverage is discussed in greater detail in Chapter 3.

8 Catholic Health Australia, *Submission 238*, [p. 10].

9 *Submission 238*, [p. 10].

10 *Submission 238*, [p. 10].

11 Department, *Submission 127*, p. 26.

12 *Submission 127*, p. 24.

Previous inquiries

1.10 A number of previous inquiries have considered aspects of private health insurance.

1.11 In 2007, the Senate Standing Committee on Community Affairs reported on the *Private Health Insurance Bill 2006 [Provisions] and 6 related bills*.[13] The committee recommended the bills be passed with amendment.

1.12 In 2014, the Senate Community Affairs References Committee reported on its inquiry into *Out-of-pocket costs in Australian healthcare*.[14] The report considered private health insurance, but made no specific recommendations.

1.13 In 2015, the Productivity Commission delivered its *Efficiency in Health* report.[15] The Productivity Commission recommended that the Minister for Health conduct a review of private health insurance regulation and that trials be conducted of different private health insurance products.[16]

1.14 In September 2016 the Hon. Sussan Ley MP announced the establishment of the Private Health Ministerial Advisory Committee (PHMAC).[17] The then Minister for Health tasked PHMAC with investigating reforms that would increase competition and provide value for money for consumers.[18] Therefore, the former minister would conduct a review.

1.15 On 13 October 2017, the Minister for Health, the Hon. Greg Hunt MP (Minister) announced the results of the PHMAC review.[19] The reforms announced included developing 'gold', 'silver', 'bronze' and 'basic' categories for classifying private health insurance products, developing standard definitions of medical procedures across products and allowing travel and accommodation benefits to be included in hospital policies to assist consumers living in regional and rural areas.[20] These reforms are discussed in Chapter 5.

---

13 Senate Standing Committee on Community Affairs, *Private Health Insurance Bill 2006 [Provisions] and 6 related bills*, February 2007.

14 Committee, *Out-of-pocket costs in Australian healthcare*, August 2014.

15 Productivity Commission, *Efficiency in Health*, Research Paper, April 2015.

16 Productivity Commission, *Efficiency in Health*, Research Paper, April 2015, pp. 70–71.

17 The Hon. Sussan Ley MP, former Minister for Health, 'New Committee to provide recommendation on private health insurance reform', *Media release*, 8 September 2017, http://www.health.gov.au/internet/ministers/publishing.nsf/Content/health-mediarel-yr2016-ley056.htm (accessed 6 December 2017).

18 The Hon. Sussan Ley MP, 'New Committee to provide recommendations of private health insurance reform', *Media release*, 8 September 2017.

19 Department, *Submission 127—Attachment 1*, [pp. 1–2].

20 *Submission 127—Attachment 2*, [p. 1].

Role of private health insurance

1.16 The private health insurance industry in Australia is based on a system of 'community rating', which enables all consumers to access private health insurance—regardless of age or likelihood to make a claim—and an insurer cannot refuse to insure an individual.[21] To facilitate the community rated private health insurance model, a risk equalisation mechanism is utilised to pool high-cost claims and distribute them between insurers. This ensures that insurers with a higher risk consumer profile, such as older consumers, are not competitively disadvantaged.

1.17 To keep private health insurance premiums low, insurers need to attract younger and healthier members to balance out the risk profile of older, more costly, members of the existing pool.[22] Attracting younger healthier members places downward pressure on premiums by balancing the risk profile of the pool with lower-risk claimants.[23]

Report structure

1.18 This report is presented in five chapters:

- this first chapter provides a background to the committee's inquiry and an overview of the value and affordability of private health insurance and out-of-pocket medical costs in Australia;
- **Chapter 2** examines the challenges faced by consumers in terms of the affordability and out-of-pocket medical costs associated with private health insurance, including trends in the decline and downgrading of coverage;
- **Chapter 3** examines the economic structures of private health insurance, including factors which increase and constrain premiums;
- **Chapter 4** examines the role of private health insurance in different health contexts, including public hospitals, private and day hospitals, dentistry, allied and primary health care;
- **Chapter 5** concludes the committee's considerations and makes recommendations.

Conduct of the inquiry

1.19 On 29 March 2017, the Senate agreed that on 1 June 2017 it would refer the value and affordability of private health insurance and out-of-pocket medical costs to the committee for inquiry and report, with particular reference to:

(a) private and public hospital costs and the interaction between the private and public hospital systems including private patients in public hospitals and any impact on waiting lists;

---

21 Department, *Submission 127*, p. 2.

22 NIB, *Submission 24*, p. 10.

23 *Submission 24*, p. 10.

(b) the effect of co-payments and medical gaps on financial and health outcomes;

(c) private health insurance product design including product exclusions and benefit levels, including rebate consistency and public disclosure requirements;

(d) the use and sharing of membership and related health data;

(e) the take-up rates of private health insurance, including as they relate to the Medicare levy surcharge and Lifetime Health Cover loading;

(f) the relevance and consistency of standards, including those relating to informed financial consent for medical practitioners, private health insurance providers and private hospitals;

(g) medical services delivery methods, including health care in homes and other models;

(h) the role and function of:

(i) medical pricing schedules, including the Medicare Benefits Schedule, the Australian Medical Association fee schedule and private health insurers' fee schedules,

(ii) the Australian Prudential Regulation Authority (APRA) in regulating private health insurers, and

(iii) the Department of Health and the Private Health Insurance Ombudsman in regulating private health insurers and private hospital operators;

(i) the current government incentives for private health;

(j) the operation of relevant legislative and regulatory instruments; and

(k) any other related matter.[24]

1.20 On 16 November 2017, the Senate granted an extension of time for reporting to 15 December 2017.[25] The committee presented two interim reports on 15 December 2017 and 18 December 2017 advising that the committee would present its final report on 19 December 2017.

Submissions

1.21 The inquiry was advertised on the committee's website and the committee wrote to 108 stakeholders inviting them to make submissions.[26]

1.22 The committee invited submissions to be lodged by 28 July 2017.

---

24 *Journals of the Senate*, No. 37, 29 March 2017, p. 1220.

25 *Journals of the Senate*, No. 71, 16 November 2017, p. 2252.

26 The committee's inquiry website can be located at: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Privatehealthinsurance (accessed 8 December 2017).

1.23 The committee received 293 submissions. A list of submissions provided to the inquiry is available on the committee's website and at Appendix 1.

Public hearings

1.24 The committee held two public hearings: one in Canberra on 5 July 2017 and one in Sydney on 31 October 2017.

1.25 A list of the witnesses who provided evidence at the public hearings is available at Appendix 2.

Note on references

1.26 Some references to *Committee Hansard* in this report are to the proof transcripts. Page numbers may vary between the proof and official transcripts.