



Private Health Insurance Incentives Amendment Bill 2004

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Private Health Insurance Incentives Amendment Bill 2004

Date Introduced: 18 November 2004

House: House of Representatives

Portfolio: Health and Ageing

Commencement: Upon Royal Assent

Purpose

The Bill amends the *Private Health Insurance Incentives Act 1998* and the *Income Tax Assessment Act 1997* to provide an increase in the private health insurance rebate from 30 per cent to 35 per cent for people aged between 65 and 69 years, and to 40 per cent for people aged over 70 years.

The Bill also makes a minor consequential amendment to the *National Health Act 1953* extending protection from the application of Lifetime Health Cover, established via the *Health Legislation Amendment (Private Health Insurance Reform) Act 2004*, to persons issued with a Gold Card from 1 July 2004 under the *Military Rehabilitation and Compensation Act 2004*.

Background

Schedule 1—Changes to the Private Health Insurance Rebate for People Aged 65 and over

Announcement of increased rebate

Prior to the 2004 election, the Government announced that from 1 April 2005 it would increase the private health insurance rebate (PHI Rebate) for people aged over 65 years.

The current PHI Rebate reduces the cost of private health insurance (PHI) premiums for Australians of all ages by 30 per cent. The amendments contained in this Bill will further reduce the cost of PHI for older Australians by increasing the rebate from 30 per cent to 35 per cent for policies covering at least one person aged 65 to 69 years, and to 40 per cent for policies covering at least one person aged 70 years and older.

Announcing this change, the Prime Minister provided the following explanation for increasing the rebate for people aged over 65 years:

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Many older Australians have contributed to private health insurance for most of their adult lives. They have contributed during their younger years while enjoying good health. Now, when they need private health insurance cover most, it is important that premiums remain affordable. The Government believes that older Australians, particularly those on fixed and low to moderate retirement incomes, deserve a further reward for contributions over the years of their health fund membership.¹

As with the existing 30 per cent PHI Rebate, the new increased rebate for older Australians will not be income tested.

Cost

Prior to the election, the Government estimated the cost of the new measures would be \$445.5 million over four years. No further estimate has been made available since this time. Following the introduction of this Bill, the Minister for Health and Ageing said that the measure would make PHI premiums ‘\$100 to \$200 per year cheaper for older Australians’, though detailed costings have not been released.²

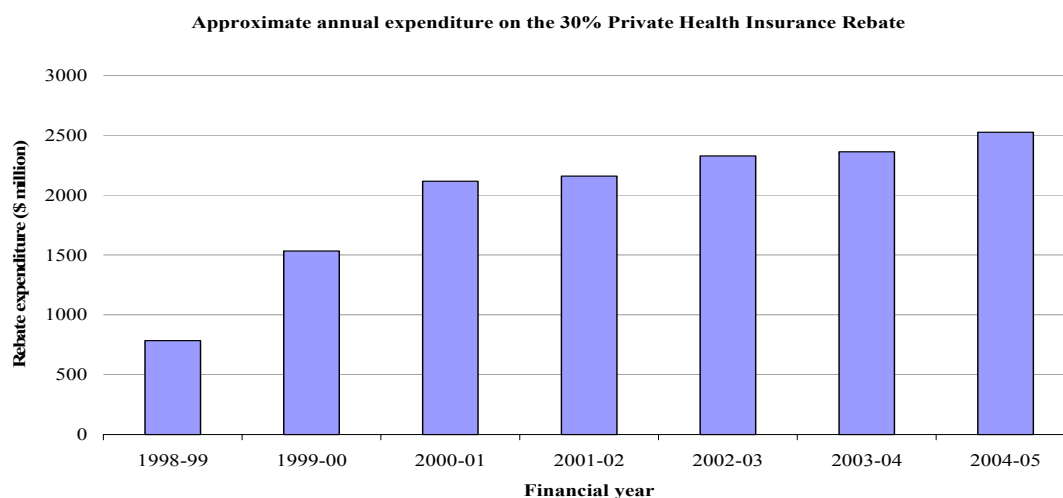
It should be noted, however, that it is particularly difficult to calculate an accurate estimate of the average cost of a PHI premium due to the extremely wide variety of policy types (and hence premiums) in the PHI market. The fact that the PHI Rebate is available for all types of PHI cover, including hospital and ancillary, makes it even more difficult to derive an estimate of the average benefit to older Australians under the increased rebate.

According to the Department of Treasury *Pre-election Economic and Fiscal Outlook* document released prior to the 2004 election, the increased rebate for people aged over 65 years will increase the overall cost of the PHI Rebate by \$29 million in 2004-05.³ When this figure is added to the forward estimate of \$2.495 billion provided in the 2004-05 federal budget, the total cost of the PHI Rebate in 2004-05 comes to approximately \$2.525 billion. This is shown in the table below, which illustrates expenditure (actual and projected) on the PHI Rebate from its introduction in 1998-99 to the current financial year.⁴

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Existing rebate and other private health insurance measures

The PHI Rebate was introduced on 1 January 1999 with the aim of stemming the decline in private health insurance membership and creating a better balance between the private and public health sectors. The PHI Rebate replaced an existing income tested private health insurance incentives measure, the Private Health Insurance Incentive Scheme (PHIIS). The PHIIS had operated since 1 July 1997, one of a series of related measures introduced over the last decade, including the Medicare Levy Surcharge and Lifetime Health Cover (LHC).

The proportion of Australians with private health insurance hospital cover declined significantly following the introduction of Medicare, from 50.0 per cent in June 1984 to 30.6 per cent in June 1998. From 1998, PHI coverage has risen to a high of 45.7 per cent in September 2000, but since then has gradually declined, with the exception of a small rise in the most recent quarter (up 0.1 per cent to 43 per cent).

While, it is not possible to say with any certainty which of the above measures is responsible for the rise in private health insurance membership since 1999, it is worth noting that the greatest increase came in the months immediately prior to the 1 July 2000 deadline for taking out a PHI policy under the LHC legislation. PHI hospital coverage rose steeply (by 33 per cent) between the March and the June quarters in 2000 (from 32.2 per cent to 43.0 per cent). Under LHC, an uninsured person needed to take out private health insurance (hospital cover) before this date in order to have their premiums set at the base rate for the rest of their lives. Some commentators have therefore emphasised the role of the LHC 'stick' in preference to the PHI Rebate 'carrot' in causing the rise in PHI membership since 2002.⁵

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Details of increased rebate

Currently, there are three ways of claiming the PHI Rebate: as a direct payment, a reduced premium or as a tax offset.

The proposed amendments to the *Private Health Insurance Incentives Act 1998* will increase the direct payment or reduced premium available to people aged 65-69 years (to 35 per cent of the premium cost) and 70 years and over (to 40 per cent of the premium cost) who hold private health insurance.

The proposed amendments to the *Income Tax Assessment Act 1997* will increase the tax offset available to people aged 65-69 years (to 35 per cent of the premium cost) and 70 years and over (to 40 per cent of the premium cost) who hold private health insurance.

As with the current PHI Rebate, the higher rebate will be available for hospital, ancillary and combined cover. It will apply to the whole premium for PHI policies where one or more of the individuals covered qualify for the age threshold.

Where a person is entitled to an increased rebate because someone else on the policy is 65 or older, he or she will continue to be entitled to the higher rebate if the older person leaves the policy (for example, in the event of death, divorce or separation), provided that the policy is not replaced by a couples or family policy with another person (other than adding a dependent child). This is 'savings provision' is intended to ensure that a change in family circumstances will not lead to overpayment and a debt to the government. The savings provision will not apply where its application would result in less rebate being payable.

Response of key interest groups

The Government's announcement of the increased PHI Rebate for people aged over 65 years was welcomed by a number of interest groups within both the health and ageing sectors, including the Australian Health Insurance Association (AHIA), the Australian Medical Association (AMA), the Australian Private Hospitals Association (APHA), Catholic Health Australia (CHA), and the Council on the Ageing National Seniors Partnership (COTA NSP).

For example, AHIA Chief Executive Officer, Russell Schneider, argued that the policy would be beneficial as it would reduce the stress on public hospitals through increasing the possibility that more people aged over 65 'will be able to either keep their private health insurance or afford to take out cover'.⁶ AMA National President, Dr Bill Glasson said that the initiative would give people over 65 with private health insurance greater access, affordability and choice for their complex health needs.⁷ COTA NSP joint Chief Executive Officer, David Deans, also welcomed the proposal to increase the rebate, arguing that while people aged over 65 were more likely to require elective procedures, many people in that age bracket were finding it harder to afford PHI: '[the increased rebate] lets them get that done straight away rather than having to wait on a public waiting list'.⁸

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In contrast, the policy to increase the rebate for over 65s was criticised by other interest groups such as the Australian Consumers' Association (ACA) and the Doctors Reform Society (DRS). Nicola Ballenden of the ACA argued that the measure would increase PHI premiums and possibly result in a fall in numbers of people insured, because benefits paid to older customers by PHI funds exceed their contributions (meaning that 'health funds make a loss on their over 65 customers which they need to recoup by charging younger customers more').⁹ The DRS criticised the measure as likely to lead to more doctors and nurses moving from the 'already desperately understaffed public hospital system' to the private hospital system.¹⁰

Analysis of measure

Commentary on the Government's policy to increase the PHI Rebate for those aged over 65 years has been wide-ranging, encompassing broader debates about the efficacy, cost-effectiveness and appropriateness of the existing PHI Rebate, and other measures designed to shift the balance of the health sector more towards private sources of finance and delivery in general. While such debates are clearly important, they are beyond the scope of this digest and so will not be covered in any depth. Instead, the digest is specifically directed at an analysis of specific claims made in relation to this Bill.

The main explanation provided by the Government in support of the increased rebate measure is that it further rewards older Australians, particularly those on fixed and low to moderate retirement incomes, for their years of health fund membership by making PHI more affordable. While it is probably the case that, initially, PHI will become more affordable for people aged over 65, the issue of affordability is complicated by a number of factors, including:

- the fact that while people aged over 65 account for only around 12 per cent of those with PHI hospital membership, but they receive approximately 44 per cent of hospital benefits paid by PHI funds due to their heavier use of healthcare services.¹¹ If the new increased rebate led to an increase in coverage among people aged over 65, this could have an inflationary effect on the cost of providing PHI, and hence lead to premium increases. This in turn could have the effect of causing younger people to abandon their PHI coverage, which would also be likely to put further financial pressure on PHI funds. Some commentators have argued that this may also lead to the value of the increased rebate to over 65s being eroded by higher premiums.¹²
- at the same time, it is possible that the LHC regulations which, as noted above, penalise those over 30 who did not take out PHI before July 2000, will make it less likely that over 65s who are not insured will take up PHI. This is due to the fact that the LHC penalties would be likely to erode the benefits obtained from taking out PHI and hence becoming eligible for the increased rebate.
- while it is the case that the increased rebate will provide for a greater 'reward' for older Australians than under the existing rebate, the available evidence indicates that this reward is most likely to be concentrated among people in higher income brackets

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as they are more likely than those in lower income brackets to have PHI. While it is difficult to provide accurate information on PHI membership by income level, the Australian Council of Social Services (ACOSS) has published survey data indicating that 84 per cent of those aged over 65 years who have incomes over \$100,000 are covered by PHI, while only 23 per cent of persons with an income below \$20,000 are covered by PHI. These figures indicate that the benefits of any increase in the rebate for older Australians may, on the whole, go principally to those on higher incomes.¹³

- there is also evidence that people in rural and regional areas have substantially lower PHI coverage than those living in capital cities. A 2003 report using unpublished ABS data suggested that this meant that people in rural and regional areas received an estimated \$100 million less of the PHI Rebate than if funds were allocated on a per capita basis.¹⁴

While the Government has not responded directly to commentary such as the above, the Minister for Health and Ageing has stated that he does not believe that increased rebate will lead to a 'vast increase' in the number of people aged over 65 who take out PHI.¹⁵ As such, both the Minister and the Prime Minister have both indicated that they regard the increased rebate more as 'reward' for those who already hold PHI, than a measure aimed at increasing PHI coverage.¹⁶ This would indicate that the Government does not view as likely the possibility that the increased rebate will have an inflationary impact on the PHI market. The Prime Minister has also challenged the view that the 'reward' from the increased rebate will be concentrated among those on higher incomes by stating that 'there is a very high number of people on low incomes over the age of 65 who take out private health insurance'.¹⁷

ALP/Australian Democrat/Greens policy position/commitments

The formal position of the ALP on the measures proposed in the Bill has not been announced. Following the announcement of the Government's intention to increase the PHI Rebate for over 65s, the Opposition Leader Mark Latham indicated that Labor would oppose the measures, stating that any additional health funding should be spent on the public system, rather than on private healthcare.¹⁸ However, recent media reports have indicated that, while Labor continues to have misgivings, it may support the Bill on the grounds that the Government could be considered to have received a mandate to introduce the measure following its election victory.¹⁹

The Australian Democrats health spokeswoman Senator Lyn Allison, and Australian Progressive Alliance Senator Meg Lees and Greens Senator Kerry Nettle have each criticised the increased rebate measure on the grounds that it 'wastes money' that they believe should be put into the public healthcare system. Each has also indicated that they would oppose the Bill.

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Schedule 2—Lifetime Health Cover and Department of Veterans' Affairs Gold Card

The Government also proposes to make a minor consequential amendment to legislation concerning Lifetime Health Cover. The proposed amendment to the *National Health Act 1953* would extend protection from the application of LHC to persons issued with a Veterans' Affairs Gold Card from 1 July 2004 under the *Military Rehabilitation and Compensation Act 2004*.

Gold Card

The Gold Card is a health treatment card for eligible war service veterans that provides for access to the full range of medical, hospital, pharmaceutical, dental and allied health services. A patient contribution is required for pharmaceutical services and nursing home care. The Gold Card also provides for the costs of transport to access treatment and medical services. It provides the equivalent of top of the range private health cover.

According to the Department of Veterans' Affairs, as of July 2004 there were 269,544 Australians with a Gold Card.²⁰

Under the Veterans' Entitlements Act 1986 (VEA), those entitled to a Gold Card are veterans of Australia's defence force who:

- served in Australia's defence force after World War II, who are aged 70 or over and have qualifying service under section 7A of the VEA,
- are World War II veterans who served in Australia's defence forces and mariners who served in Australia's merchant navy, between 3 September 1939 and 29 October 1945, who are aged 70 years or over, and have qualifying service from that conflict,
- are returned ex-servicewomen of World War II, that is, who served in Australia's Defence Force between 3 September 1939 and 29 October 1945 and who have qualifying service from that conflict,
- are ex-prisoners of war,
- receive a disability pension at or above 100 per cent of the general rate,
- receive a disability pension at or above 50 per cent of the general rate plus any amount of service pension,
- receive a disability pension including an additional amount under section 27 of the VEA for specific service-related amputations or blindness in one eye,
- receive a service pension and satisfy the treatment benefits eligibility income and assets test,
- receive a service pension and are permanently blind in both eyes,
- receive a disability pension for pulmonary tuberculosis before 2 November 1978, or
- served in World War I.

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Lifetime Health Cover

The *National Health Amendment (Lifetime Health Cover) Bill 1999* passed the Senate on 27 September 1999. The main purpose of this measure was to encourage more Australians to take out PHI at a younger age and to maintain that insurance by establishing penalties in the form of higher payments for those that did not take out PHI membership before 1 July 2000. As noted above, this measure appears to have been at least partially responsible for the increase in PHI coverage that occurred in 2000, where it appears that people took out PHI in large numbers to avoid penalty under LHC arrangements.

This legislation introduced a major change to PHI arrangements and, in particular, to community rating, by permitting health funds to charge different premiums depending on the age at which people take up private health insurance. Under the new arrangements an uninsured person was able to take out private health insurance (hospital cover) at any time before 1 July 2000 and pay the base rate (set at 30 years of age) for the rest of their lives provided they remained insured.

Proposed measure

Under existing LHC arrangements, special provisions apply to people born prior to 1 July 1934. These enable such people to join a health fund at any time and still pay the base rate for the rest of their lives. The measure proposed in this Bill extends this protection against the LHC provisions to Gold Card holders. This means that Gold Card holders can join a health fund at any time and still pay the base rate for the rest of their lives.

The measure appears to be relatively uncontroversial and has not attracted significant commentary from opposition parties or interest groups.

Main Provisions

Schedule 1—Changes to the Private Health Insurance Rebate for People Aged 65 and Over

Part 1 — Amendment of the *Private Health Insurance Incentives Act 1998*

Item 1 proposes to repeal subsections 4-10(5) and (6) of the *Private Health Insurance Incentives Act 1998* and substitutes new subsections 4-10(5) and (6), to introduce the 35 per cent and 40 per cent PHI Rebate where the choice is made to make a **direct claim for the rebate from Medicare offices**.

Item 2 proposes to insert a new section 4-12, to establish a savings provision. This is intended to ensure that, where a person ('the first person') is entitled to an increased rebate because someone else on the policy is 65 or older, he or she will continue to be entitled to the higher rebate if the older person leaves the policy (for example, in the event of death,

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divorce or separation), provided that the policy is not replaced by a couples or family policy with another person (other than adding a dependent child).

The savings provision will not apply where its application would result in less rebate being payable.

Item 3 proposes to repeal subsections 12-5(2A) and (3) of the *Private Health Insurance Incentives Act 1998* and substitutes new subsections 12-5(2A) and (3), to introduce the 35 per cent and 40 per cent PHI Rebate where the choice is made to receive the rebate as a **premium reduction through PHI funds**.

Item 4 proposes to insert a new section 12-7, to establish a savings provision. As with the savings provision outlined in item 2, this is intended to ensure that, where a person ('the first person') is entitled to an increased rebate because someone else on the policy is 65 or older, he or she will continue to be entitled to the higher rebate if the older person leaves the policy (for example, in the event of death, divorce or separation), provided that the policy is not replaced by a couples or family policy with another person (other than adding a dependent child).

The savings provision will not apply where its application would result in less rebate being payable.

Part 2 — Amendment of the *Income Tax Assessment Act 1997*

Item 5 proposes to repeal subsections 61-340(5) and (6) of the *Income Tax Assessment Act 1997* and substitutes new subsections 61-340(5) and (6), to introduce the 35 per cent and 40 per cent PHI Rebate where the choice is made to receive the rebate as a **tax offset in annual tax returns**.

Item 6 proposes to insert a new section 61-342, to establish a savings provision. As with the savings provision outlined in items 2 and 4, this is intended to ensure that, where a person ('the first person') is entitled to an increased rebate because someone else on the policy is 65 or older, he or she will continue to be entitled to the higher rebate if the older person leaves the policy (for example, in the event of death, divorce or separation), provided that the policy is not replaced by a couples or family policy with another person (other than adding a dependent child).

The savings provision will not apply where its application would result in less rebate being payable.

Part 3 — Application

Item 7 proposes that amendments made by this Schedule will apply on and from 1 April 2005.

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Schedule 2—Lifetime Health Cover and Department of Veterans' Affairs Gold Card

Item 1 proposes to replace the reference in paragraph 4(2)(a) of Schedule 2 of the *National Health Act 1953* to “under the *Veterans' Entitlement Act 1986*”, with the amended definition in subclause 4(3) of Schedule 2 which references Gold Cards issued under both the *Veterans' Entitlement Act 1986* and the *Military Rehabilitation and Compensation Act 2004*.

This will have the effect of extending protection from the application of a Lifetime Health Cover loading to persons issued with a Veterans' Affairs Gold Card.

Item 2 proposes to replace the current definition of Gold Card with a new definition which references Gold Cards provided in accordance with both the *Veterans Entitlement Act 1986* or the *Military Rehabilitation and Compensation Act 2004*.

Item 3 proposes to make the amendments in item 2 retrospective, thereby ensuring that anyone issued with a Gold Card under the *Military Rehabilitation and Compensation Act 2004* from 1 July 2004 is covered by the amendment, and protected from the application of a Lifetime Health Cover loading from this date.

Concluding Comments

As discussed above, the measures proposed by Schedule 1 of this Bill have been the subject of wide-ranging public debate. Commentary on the measure has involved discussion of:

- broader questions about the efficacy, cost-effectiveness and appropriateness of the existing PHI Rebate, and other measures designed to shift the balance of the health sector more towards private sources of finance and delivery in general; and
- the specific claim by the Government that the increased rebate for over 65s rewards older Australians for their years of health fund membership by making PHI more affordable.

The increased rebate has been supported by a number of key interest groups in both the health and ageing sectors on the grounds that, by making PHI more affordable, the measure will enable people aged over 65 to either take out health insurance or retain their existing coverage. Some commentators have argued, however, that the issue of affordability is complicated by a number of factors, including:

- the possibility that the introduction of more people aged over 65 to the PHI market, could have an inflationary effect on PHI premiums. This is because while people in this age bracket account for only 12 per cent of those covered by PHI, they receive

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around 44 per cent of benefits from PHI funds, due to their higher than average use of healthcare services;

- the possibility that Lifetime Health Cover (LHC) regulations may make it less likely that over 65s who are not insured will take up PHI due to the fact that the LHC penalties could erode the benefits obtained from taking out PHI and hence becoming eligible for the increased rebate; and
- the possibility that the reward for older Australians derived from the increased rebate is most likely to be concentrated among people in higher income brackets and those in capital cities (i.e. those more likely to be holders of PHI).

The Government's position, however, is that the increased rebate is unlikely to lead to a significant increase in numbers of people aged over 65 with PHI. This indicates that the Government does not regard the measure as likely to have an inflationary impact on the PH market. The Government has also taken the position that increased rebate will 'reward' a broad cross-section of Australians with PHI, not just those on high incomes.

The amendments to the *National Health Act* proposed by Schedule 2 relate to the proposal to extend protection from the application of LHC to persons issued with a Veterans' Affairs Gold Card from 1 July 2004 under the *Military Rehabilitation and Compensation Act 2004*. As discussed above, the measure appears to be relatively uncontroversial and has not attracted significant commentary from opposition parties or interest groups.

Endnotes

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- 1 Hon. J Howard, *Government rewards older Australians who contribute to private health insurance*, media release, Prime Minister of Australia, 22 August 2004.
 - 2 Hon. T. Abbott, *More help for older Australians*, media release, Minister for Health and Ageing, 18 November 2004.
 - 3 Department of Treasury, *Pre-election Economic and Fiscal Outlook*, Canberra, 2004.
 - 4 The figures for 1998-99 to 2002-03 are sourced from the Department of Health and Ageing's Annual Reports for those years; the 2003-04 figure is from the 2004-05 Health and Ageing Portfolio Budget Statement; the 2004-05 figure is the forward estimate contained in the 2004-05 Health and Ageing Portfolio Budget Statement (\$2,495 billion), plus the anticipated cost of the higher rebate for over 65s in 2004-05 (\$29 million) contained in the Department of Treasury's Pre-election Economic and Fiscal Outlook.
 - 5 M. Steketee, 'Private subsidy a public quandary', *The Australian*, 11 April 2002.
 - 6 S. Balogh, 'Health discount to woo ageing', *Courier Mail*, 23 August 2004.

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- 7 B. Glasson, *Increased rebate will benefit older Australians*, media release, Australian Medical Association, 23 August 2004.
- 8 S. Balogh, *op. cit.*
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- 10 C. Costa, T. Woodruff and T. Schrader, *Private health rebate increase will take doctors from understaffed public hospitals*, media release, Doctors Reform Society, 22 August 2004.
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- 12 See, for example, N. Ballenden, *op. cit.*
- 13 G. Macfie, 'New data shows private health insurance inequity', *ACOSS Info 364*, September 2004.
- 14 R. Dennis, *Health spending in the bush: an analysis of the geographic distribution of the private health insurance rebate*, The Australia Institute, September 2003.
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- 18 E. Macdonald, 'Aged rebate in doubt as parties refuse support', *Canberra Times*, 24 August 2004.
- 19 J. Gillard, 'Governor-General to open Parliament tomorrow; Shadow ministers comment on government agenda', *AM*, ABC Radio, 15 November 2004.
- 20 Department of Veterans' Affairs (DVA), *Treatment population statistics—June 2004*, DVA, 2004.

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