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BACKGROUND NOTE

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13 August 2009, 2009–10

Private health insurance premium increases—an overview

Amanda Biggs
Social Policy Section

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Introduction

Annually the Health Minister announces the average increase for health insurance premiums following the Government's assessment of applications from health insurers. This attracts considerable media attention. Insurers that then announce premium rises larger than the figure announced by the Minister, may attract consumer complaints to the Private Health Insurance Ombudsman.[1]

On 2 March 2009, the Health Minster announced that premiums for health insurance products would increase by an industry average of 6.02 per cent from 1 April 2009.[2] This average increase is in line with a five year average annual increase of 6.1 per cent.[3]

This background note provides an overview of rises in private health insurance premiums in recent years, outlines possible reasons for these increases and for variations in the increases experienced by individual funds, and outlines recent changes to the regulation of private health insurance that may affect how premium rises are assessed and how they are reported.

Approval process for premium increases

Health insurers wanting to increase their premiums are required under legislation to seek regulatory approval. Applications for premium increases can be made by a health insurer at any time; however, the practice of applying for an annual increase early in the year remains the norm.

Over time there have been changes to the procedures governing the approval of premium rises. In 1996, the Howard Government introduced the practice whereby premium increases required approval by the Health Minister, in consultation with the Prime Minister and the Treasurer.[4] Following an interdepartmental review of health insurance arrangements in 2003, the process for seeking premium rises at or below the consumer price index (CPI) was 'streamlined'. Those health insurers applying for lower-than-CPI increases were not required to provide as much information to support their claim, nor undergo the same level of scrutiny,

1. For example, following premium rises in 2003, the Private Health Insurance Ombudsman received a record number of complaints relating to premium increases. Private Health Insurance Ombudsman, *Annual Report 2003*, PHIO, Canberra, 2003, p. 22. In recent years, the number of complaints relating to premium increases has declined.

2. N Roxon (Minister for Health and Ageing), *Private health insurance premiums rise*, media release, 2 March 2009, viewed 7 April 2009, http://www.health.gov.au/internet/ministers/publishing.nsf/Content/FC6BE03353C98F2FCA25756D0018BE18/$File/nr026.pdf.

3. Private Health Insurance Administration Council, *Operations of the Private Health Insurers Annual Report 2007–08*, PHIAC, Canberra, 2008, p. 17.

4. Industry Commission, *Private health insurance*, Industry Commission report no. 57, Canberra, 1997, p.66.

as those applying for higher-than-CPI increases.[5] The Health Minister was empowered to disallow any premium increase if it:

- could breach a condition of registration or other section of the *National Health Act 1953*
- imposes an unreasonable or inequitable condition affecting the rights of any contributor
- adversely affects a fund's stability
- would be contrary to the public interest.[6]

Any changes to premiums were required to be tabled in Parliament.

In 2007, legislative changes affecting the process for seeking premium increases were made with the passage of the *Private Health Insurance Act 2007*. The notification period whereby a health insurer can seek approval from the Minister to increase its premiums has been lengthened from 14 days to 60 days—allowing health insurers a longer time to make applications. The Minister is now required to approve all premium increases, unless this 'would be contrary to the public interest'. Except in the case of public interest, the other former criteria for disallowing increases are no longer specified in the Act. If the Minister does not allow an increase the reasons for this have to be publicly disclosed.[7] Effectively, this represents a significant shift away from the onus being on insurers to ensure that their proposed increases are compatible with specified criteria, to the onus being on the Minister to show cause for not approving an increase. Furthermore, the only remaining specified reason to disallow an increase—the public interest test—remains undefined.

In addition, the new Act altered the way premium increases are notified; it is no longer a requirement that information on premium rises granted to individual insurers be tabled in Parliament. However, the Minister is required to table reasons for not approving an increase.[8]

The new Act also included changes to the articulation of the objectives of the industry regulator, the Private Health Insurance Administration Council (PHIAC). PHIAC provides advice to the Minister (and the public) about the health insurance sector. This includes advising the Minister on premium rises.

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5. Department of Health and Ageing (DoHA), *Annual report 2002–03*, Canberra, DoHA, p. 218; see also, A Elliot, *Regulation of private health insurance premiums*, Research Note no. 41, 2002–03, Parliamentary Library, 2 June 2003, viewed 7 April 2009, http://www.aph.gov.au/library/pubs/rn/2002-03/03rn41.pdf.
6. A Elliot, *Regulation of private health insurance premiums*, p. 1.
7. S 66-10, *Private Health Insurance Act 2007*. Public interest is not defined.
8. Since 2001, no premium increases have been disallowed, although some have been subject to 'adjustment'.

PHIAC's new role is broadly defined as attempting to 'achieve a balance between its various objectives', which as stated in the Act includes:

- fostering an efficient and competitive health insurance industry, and
- protecting the interests of consumers, and ensuring the prudential safety of individual private health insurers.[9]

While PHIAC continues to provide advice on premium rises, its former objective of 'minimising the level of health insurance premiums' has however been removed from the Act. This has met with some criticism with some arguing this objective was 'vitally important'.[10]

Trends in recent premium increases

Generally, average premium rises in recent years have been well above the CPI, as shown in Table 1. Premium rises are driven by a combination of factors, the major ones being:

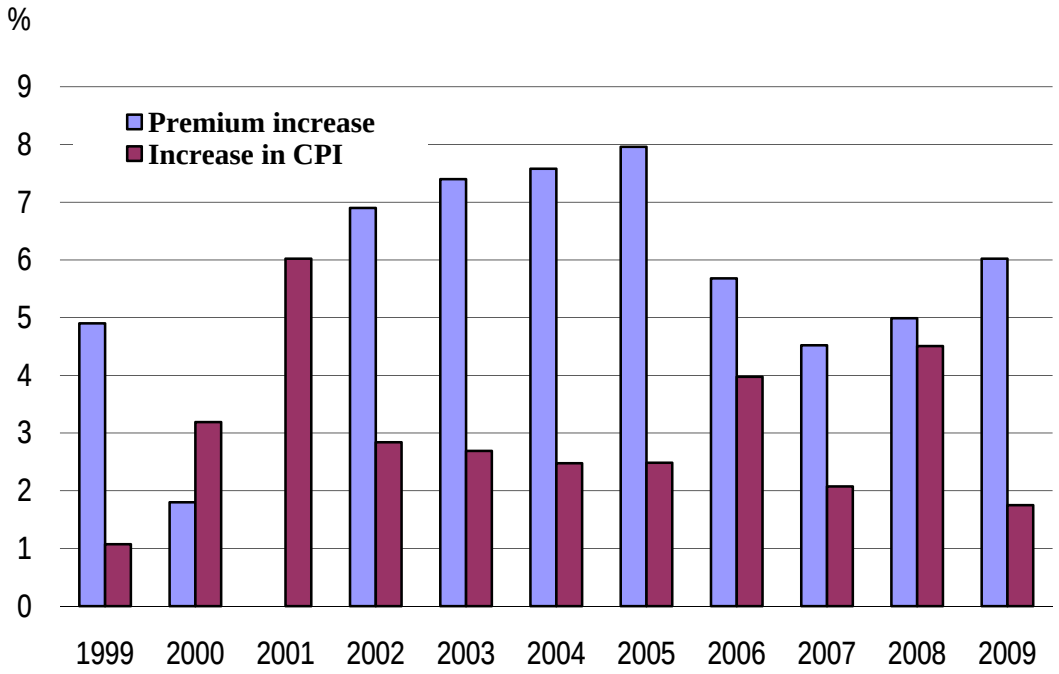
- an ageing population that increases utilisation and benefit outlays
- adverse selection, which sees younger, healthier people foregoing health insurance, but not those most likely to need treatment
- rising costs associated with advances in medical technology and new treatments, and
- unavoidable cost pressures, such as provider costs rising faster than the CPI, prostheses costs and Medicare Benefit Schedule increases not in line with other cost increases.[11]

9. Section 264-5 of the *Private Health Insurance Act 2007*.

10. Section 82BA(2)(c) of the *National Health Act 1953*, containing this objective was repealed. The Australian Physiotherapy Association argued that minimising premiums was 'vitally important' and should be retained. See A Biggs, L Buckmaster, *Private Health Insurance Bill 2006*, Bills Digest, no. 81, 2006–07, 2007, Parliamentary Library, Canberra, p. 16, viewed 25 May 2009, http://www.aph.gov.au/library/pubs/bd/2006-07/07bd081.pdf

11. Private Health Insurance Administration Council, p. 17.

Table 1: Comparison between annual average percentage increases in private health insurance premiums and the CPI (June quarter)



Source: Parliamentary Library estimates. Note there was no premium increase in 2001.[12]

Premium increases can vary across the sector with some insurers applying for and being granted higher premium increases than others. This can be due to a range of factors: in addition to variations in annual costs due to changed claiming patterns, there can also be changes in reserve levels, and in the investment income of individual funds from year to year.[13] Fluctuations in annual premium increases for individual health insurance products offered by health insurers can also occur.

12. Table compiled by Malcolm Park, Statistics &Mapping section, Parliamentary Library. CPI annual percentage increase to June 2009 is the estimate from the Reserve Bank of Australia, February 2009 *Statement on Monetary Policy*. Sources: ABS, Consumer Price Index Australia, December 2008; Reserve Bank of Australia, Department of Health and Ageing, *Report on private health insurance premium changes* [various years, title varies]; A. Pratt, *Public versus private? An overview of the debate on private health insurance and pressure on public hospitals*, Research Note no. 54, 2004–05, Parliamentary Library , Canberra, 20 June 2005; Private Health Insurance Administration Council, *Operations of the Private Health Insurers Annual Report* [various years].

13. Industry Commission, *Private health insurance*, p. 199.

The table below shows that in recent years the annual premium increases of Medibank Private—the largest health insurer by market share—have hovered around the industry average.[14] However, the range of premium increases experienced by individual insurers over the same period has at times, been quite large. In 2002 one fund reported a premium increase of 40.5 per cent compared to the industry average increase of 6.9 per cent for that year.[15]

Table 2: Average premium increases and Medibank Private increases, 2000–2009

Year	Industry average annual premium increase	Medibank Private annual premium increase (average for all products)	Range of increases across all funds (lowest to highest)
2000	1.8	0.0	0.0 to 11.8
2001	0.0	0.0	-1.2 to 3.8
2002	6.9	8.9	0.0 to 40.5
2003	7.4	4.9	2.8 to 23.3
2004	7.6	9.0	2.3 to 15.1
2005	8.0	7.9	2.3 to 34.4
2006	5.7	5.9	3.0 to 12.5
2007	4.5	4.9	0.7 to 10.0
2008	5.0	4.6[16]	N/A
2009	6.0[17]	5.7[18]	N/A

Source: Parliamentary Library estimates.[19] Figures are rounded to the nearest decimal point

14. Medibank Private has the largest national market share at 28.7%, as of June 2008. Private Health Insurance Administration Council, *Operations of the Private Health Insurers Annual Report 2007–08*, PHIAC, Canberra, 2008, p. 14.

15. In 2002, Goldfields Medical Fund reported an average premium increase of 40.5% across the fund. Department of Health and Ageing, *Report on private health insurance premium increases 2002*, Department of Health and Ageing, Canberra, 2002.

16. Medibank Private, 'Medibank rate rise lower than national average', media release, 6 March 2008.

17. Roxon, media release.

18. Medibank Private, *Economic climate puts pressure on premiums*, media release, 2 March 2009.

19. Table compiled by Malcolm Park, Statistics &Mapping section, Parliamentary Library. Sources: Department of Health and Ageing, *Report on private health insurance premium changes* [various years, title varies]; A. Pratt, *Public versus private? An overview of the debate on private health insurance and pressure on public hospitals*, Private Health Insurance Administration Council, *Operations of the Private Health Insurers Annual Report* [various years].

Consumer information

In the past, details of the approved average premium increase to be applied to the range of insurance products offered by individual funds had been publicly released. While a number of health insurers do continue to provide such information on their websites, as noted above, the requirement to table this information in Parliament has not applied since the introduction of the new Act.[20] Although health insurers are required to provide information to the public on the price of their individual health insurance products, they are not required to provide details of the average premium rise that will apply to their products.[21]

In the lead up to the 2009 announcement of premium increases, the Minister warned health insurers not to propose large increases to premiums as a result of legislative changes that saw increases to the Medicare Levy Surcharge (MLS) income thresholds.[22] Significantly, the Minister also indicated she was considering making changes to the level of consumer information about premium increases by publishing the details of the average premium rise for each individual fund, rather than the usual practice of only publishing the industry-wide average. The intention, she stated, was 'to enable consumers to assess their own fund's performance against alternatives' and 'drive more competition'.[23] However, when the annual premium increases were announced by the Minister in March 2009, only the average premium increase across the sector was provided. There was however a subsequent announcement in the 2009–10 Budget context that from 2010 the Government intends to

20. Under the now repealed Section 78 (8) of the *National Health Act 1953* information on premium increases was tabled in Parliament (generally under the title 'Report on private health insurance premium increases') and was also made available by the Private Health Insurance Administration Council on its website, but this information is no longer available. Some reports on premium increases are retrievable through the Internet Archive. See *Report on premium increases with date of effect in the quarter ending June 2007,* viewed 6 April 2009.

21. Nor are they required to advise the public about the premium rises they seek approval for each year, as these are regarded as commercial in confidence.

22. The income thresholds for the MLS—a surcharge which applies to high income earners who opt out of private health insurance—were increased in late 2008. This led to claims that as a result, many would drop their private health insurance having a consequent impact on health insurance premium costs. M Davis, 'Health funds warned over premium rises', *Sydney Morning Herald*, 17 October 2008, p. 5, viewed 7 April 2009, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FOCUR6%22

23. D Cronin, 'Health Minister flags insurance overhaul', *Canberra Times*, 9 October 2008, p. 8, viewed 7 April 2009, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FINRR6%22

publish individual insurers' average premium increases, in order to 'enhance the transparency of the premium-setting process'.[24]

Concluding comments

Over the last five years, increases to private health insurance premiums have averaged around 6 per cent—that these have been well above CPI increases has attracted some public concern. However, premium increases higher than CPI can be expected into the future as there remain a range of cost drivers pushing up the costs of health services; such as an ageing population, advances in expensive medical technologies and treatments, and the impact of the economic downturn, to name a few. Other recent regulatory changes affecting the MLS and the private health insurance rebate may also influence insurers' decisions to seek increases to the level of their premiums.

Nevertheless there has been considerable variation in the increases of individual funds, some being substantially higher than the average. Competition and consumer choice between these funds have not been assisted by recent legislative changes to the reporting requirements of premium increases that have meant that that there is now less information publicly available on the premium increases of individual funds. The Government's recent announcement that from 2010 it will make available consumer information on individual private health insurance premium increases should alleviate this situation.

Other legislative changes introduced in 2007 may however continue to affect the Government's process for considering premium increases. There is now only one specified reason in the legislation for disallowing an increase—the public interest test—but precisely what is meant by 'public interest' remains unclear and so far, untested. At the same time the industry regulator's role has been recast. PHIAC's formerly explicit objective of 'minimising the level of health insurance premiums' is no longer one of its specified legislative objectives. Any impact of this is yet to emerge.

In such an environment, transparency about the premium-setting process and the availability of consumer information about premium rises and the drivers of those rises are likely to become of greater import.

24. Australian Government, *Budget measures: budget paper no. 2, 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 312.