


Private Health Insurance Controversies

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Declaration of interests







- I am a member of:
 - Medibank Private
 - Australian Labor Party
 - Australian Fabians Society.

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Session




- History
- Analysis
 - Why are premiums increasing?
 - Where does the money go?
 - Is PHI efficient?
 - Is PHI equitable?

It's all about ideology
 The sale of Medibank Private



- Does the government own it?
- Is it wise to sell?

- Conclusions

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History



- 1800s Friendly Societies
 - Imported from Britain.
 - Began in the days before government provided social welfare and before insurance was readily available.
 - Established by ordinary men and women to protect themselves from the hazards of life, through a system of mutual self-help.
 - Members came together to pool their resources and provide care for members and their families in the case of illness or death and during times of financial distress.

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History

- 1952 National Health Act
 - Organisations registered under the Act were able to offer cover for medical costs, some ancillary treatments and hospital costs.
 - Enshrined principle of community rating; all contributors to a particular table offered by a health insurance fund pay the same contribution irrespective of their state of health or claims experience.

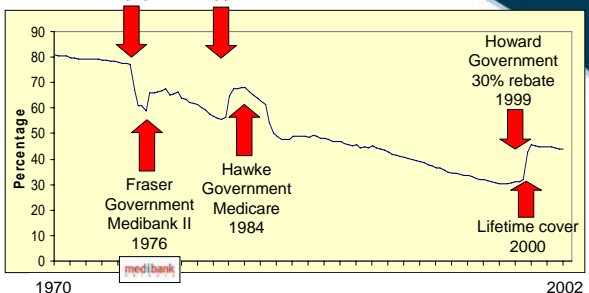



The seal of the Independent Order of Rechabites. The IOR take their name from the Biblical test-rehabilitating nomadic tribe who refused to party down with the wine crowd.

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Coverage of PHI 1970-2002



Whitlam Government Medibank 1975

Free hospital care abolished 1981

Fraser Government Medibank II 1976

Hawke Government Medicare 1984

Howard Government 30% rebate 1999

Lifetime cover 2000

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Liberal government interventions

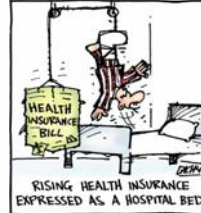
- Taxation “incentives” to encourage PHI (such as the 1 per cent Medicare levy for high income earners without PHI);
- A 30 per cent government PHI rebate (from April 2005 increased to 35 per cent for those aged between 65 and 69, and to 40 per cent for those aged 70 or older);
- Legislation requiring ‘no gaps’ or ‘known gaps’ policies to be offered by all health insurers, and
- “Lifetime Health Cover” allowing health funds to offer lower premium rates to people entering insurance early in their lives and higher premiums for people joining later;
- A massive advertising campaign.



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Why government intervention?

- Falling fund membership (from 50% in 1984 to 31% in 1997).
- Premiums rising faster than CPI.
- An uncoordinated proliferation of doctors' bills causing unpredictable “out-of-pocket” expenses.
- A vicious circle in which rising premiums led to the lower risk (younger) members dropping out, shrinking the pool of insured but also raising its overall risk, leading to higher pay outs and higher premiums yet again.
- Liberal government support for private market solutions.



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The result

- PHI coverage peaked at 45% in late 2000 and more younger people joined the funds.
- Subsequently, coverage has slowly declined.
- As at the end of March 2006, 43 per cent of the population was covered by PHI and the average age of policy holders was slowly increasing.
- The main cause of increased coverage appeared to be “Lifetime Health Cover” probably aided by the 30% rebate which made PHI more affordable.
- The 30 per cent rebate costs about \$2.5 billion annually while the 2005 increase in rebates for the age has added another \$111.3 million per year.



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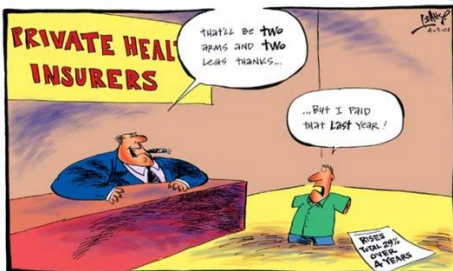
The cost of PHI

- Health insurance is expensive.
- A “middle of the road” cover will cost a couple without children around \$2,500 per annum after deduction of the 30 per cent government rebate.
- In other words, around \$3,500 per annum without the government subsidy.
- But for the maximum cover, a couple could expect to pay about \$4,170 per annum after the subsidy, or nearly \$6,000 without the it.
- This is a high-cost item in most people's household budget, particularly as premium increases regularly exceed CPI (premiums increased on average by 7.6% in 2005-05).



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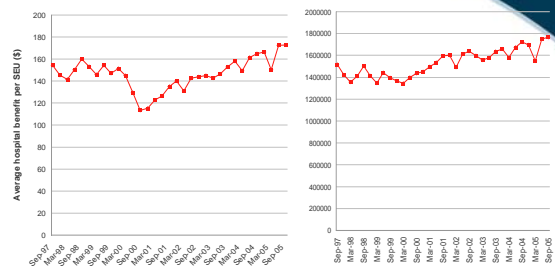
The cost of PHI



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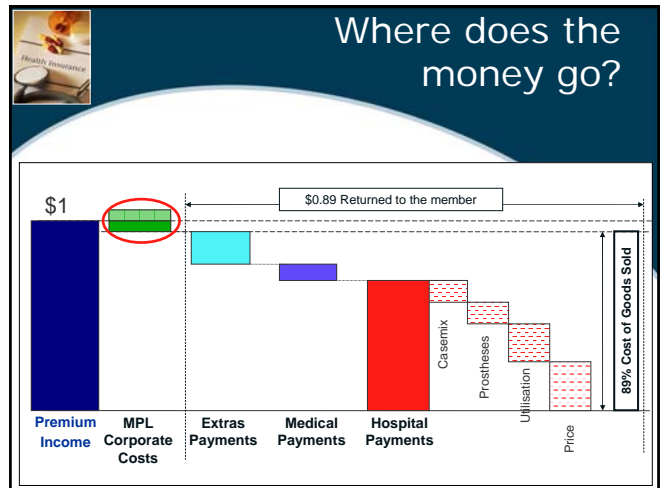
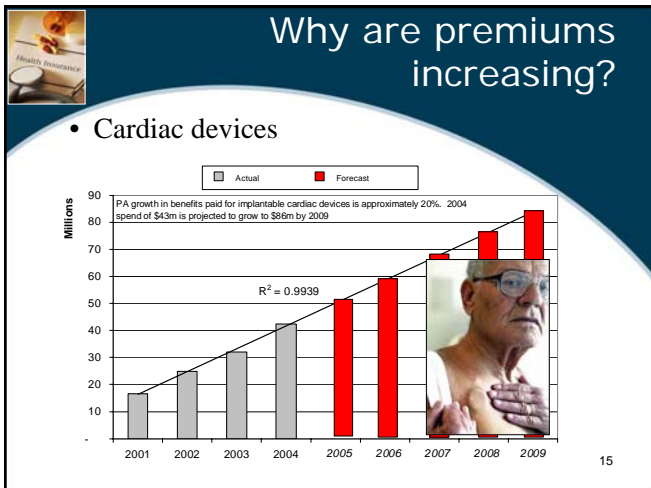
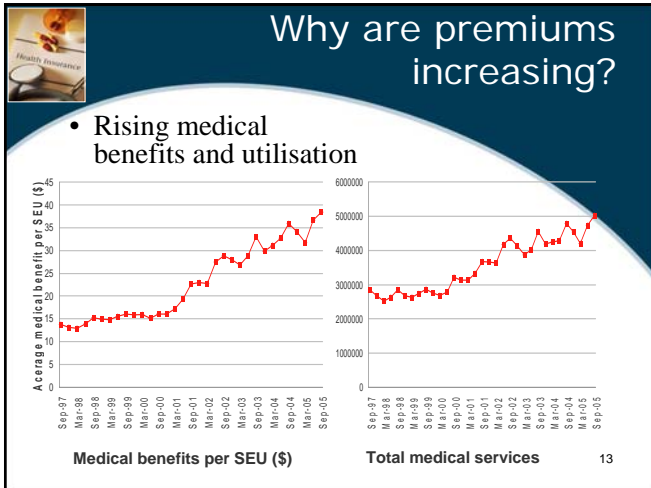
Why are premiums increasing?

- Rising hospital benefits and utilisation



Hospital benefits per SEU (\$)

Total bed days for acute patients

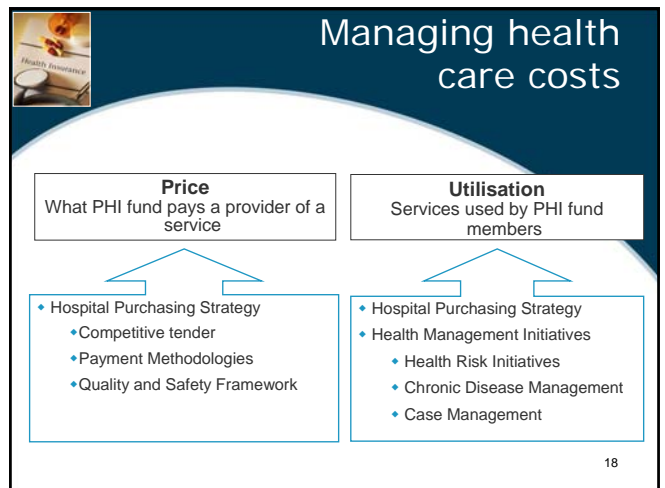


Price of uncomplicated hip replacement



City	Lowest	Average	Highest	Highest compared to Average
Melbourne	\$8,076	\$9,834	\$12,274	25% higher
Sydney	\$8,364	\$8,467	\$10,610	25% higher
Brisbane	\$7,710	\$8,545	\$9,644	13% higher
Adelaide	\$6,632	\$6,978	\$9,206	32% higher

Values shown are "hospital prices" and exclude Prostheses and ICU. Reference: Verified hospital figures 2004

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Is the private health sector efficient?

- The Prime Minister argues that coalition policy measures have provided “private health choice for most Australians”.
- The government notes that private hospital beds are increasing and that more than 50 per cent of surgery is now done in private hospitals.
- They quote research (sponsored by Medibank Private) that argues that for every dollar the government spends on the private health insurance rebate, the state and federal governments would otherwise have to spend \$2 providing these services via the public system.

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Is the private health sector efficient?

- This is disputed.
- When controlled for case type, a number of surgical procedures cost considerably more in private hospitals than in public hospitals
- Some, for example operative interventions during childbirth delivery, also appear to be performed excessively.
- Less cost controls are imposed on private hospitals by health insurers than are demanded of public hospitals by State Health Departments.
 - the use of diagnostic related grouping (DRG) case payment, volume-outcome purchasing and pay for performance are common in the public sector but rare in the private sector.

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Is the private health sector efficient?

- Even the health minister recently acknowledged that many patients still face “nasty surprises” when their bills arrive despite the introduction of ‘no-gap’ PHI policies.

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What about equity?

- The lower a person's income the less likely it is that they will have PHI yet poorer people tend to have greater health needs than those with higher socioeconomic status.
- While there are about a million Australians over 65 who are privately insured there is another 1.5 million, mostly age pension recipients, who rely on the public system.
- In addition, there are far fewer private hospitals in the country compared to the cities so that people in rural areas (who also have lower income) also miss out.

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What about equity?

- People with PHI (often with less health care needs) make more use of health services, probably because of capacity to pay & consumer and supplier-induced demand.
- Given constraints on health services supply, such as the number of surgeons available, it is likely that services provided for patients with PHI come at the expense those without it (but whose needs are greater).
- Finally, the PHI rebate is regressive, reducing the contribution gap between the rich and the poor.

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Conclusion

- Given the inefficiencies and inequity of the private sector, many believe the PHI rebate would have been better spent funding:
 - more public hospital beds for the chronically ill,
 - decreased public elective surgery waiting times,
 - improved services in hospital accident and emergency centres.

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Conclusion

- The 2004 National Platform and Constitution of the Australian Labor Party says, "Labor believes that the private health insurance industry needs to be reviewed, including the operation of the private health insurance rebate".



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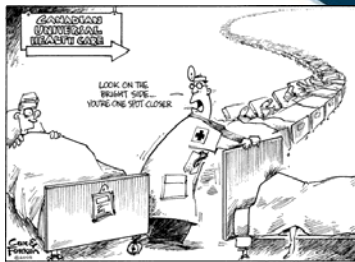
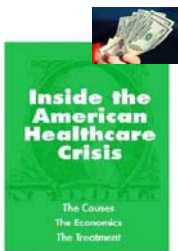
Ultimately it's about ideology

- Given a tax-based universal health care system (Medicare), some believe that the cost of PHI should be met entirely by individuals because PHI only funds 'optional extras' such as choice of doctor, more timely elective surgery and a private room.
- Others believe that PHI deserves government support because use of the private health sector reduces the need for public funding of Medicare.



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Ultimately it's about ideology



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The sale of Medibank Private

- Why was Medibank Private set up by the Fraser government?
 - Medibank Mark II (1976)
 - Introduced a 2.5% levy on Medibank users
 - Allowed people to opt out of Medibank if they took up PHI despite an election promise to "maintain Medibank" (1995)
 - Was bitterly opposed by Labor, the unions and others.
 - Establishing Medibank Private was said to:
 - Introduce competition into the PHI market
 - Allow people to *both* support Medibank *and* take out private health insurance,

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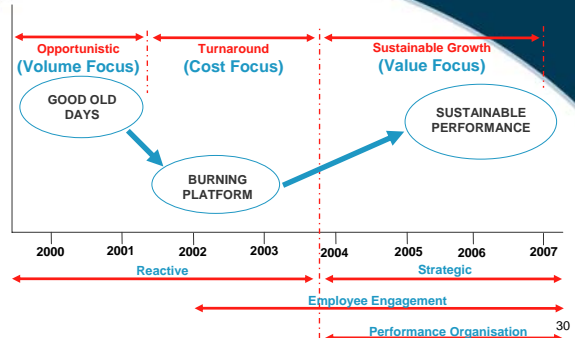
Medibank Private

- Keeping the PHI competitive?
 - In 2002 Medibank Private made a net loss of \$175 million.
 - Its cost structure was high, revenue didn't cover costs and the company only survived on investment income, the interest of which was also declining due to a downturn in the share market.
 - Subsequently, a new management team steadily improved performance.
 - Nevertheless, the 2004 PHI Ombudsman's 'State of the Health Funds Report' ranked Medibank Private behind a number of other funds on finances and costs, price of top hospital cover and ancillary cover.



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Medibank Private



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Is it the governments to sell?


- Following separation from the HIC annual reports have said,
 - *No dividends are paid and all of Medibank Private's financial resources are directed to member benefits.*
 - *As a not-for-profit organisation, every dollar of profit is retained within the fund for the benefit of members.*
 - *Beyond excellence in insurance, Medibank Private will increasingly become a guide for our members and their advocate in the health system, providing access to information and working with providers to develop packages tailored to meet the diverse needs of families and individuals.*
- It has been argued that the use of terms such as 'guide' and 'advocate', 'for our members' is more in the character of a friendly society or mutual, than that of an insurer engaged merely in selling contracts of insurance.



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Is it the governments to sell?



- These considerations lead to the conclusion that:
 - Medibank Private, though owned legally and beneficially by the Commonwealth, is a corporate vehicle used to facilitate the operation of the Medibank Private fund for the benefit of its members.
 - The assets of the company, including the fund itself, are held by it on trust for the members of the Medibank Private fund.



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Is it the governments to sell?


- There seems to be general agreement that, prior to 2005, Medibank Private owed nothing to the Commonwealth Government.
- In 2005, the Commonwealth made an equity injection into Medibank Private Limited of \$85 million in return for 85 million \$1 shares to consolidate its capital structure.
- In its 2005 annual report Medibank Private reported net assets of \$653.3 million. Clearly, any demutualisation or similar process would need to account for the Government's equity, which appears to be at least \$85 million.

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Is it wise to sell?


- Arguments against,
 - Provides "competition" e.g. Medibank Private is consistently below the industry average on administrative costs.
 - Size and national presence provides bargaining power to negotiate cost-effective agreements with health care providers.



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Is it wise to sell?



- Arguments against,
 - Medibank Private is, "the conscience of the industry" supporting community rating rather than risk rating.
 - Privatisation is likely to increase salaries of executives and thus premiums (although competition with other funds presumably would provide some check on this).



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Is it wise to sell?


- Arguments for,
 - Medibank Private provides "unfair competition", e.g. co-location of offices with Medicare, equity injection of \$85 million.
 - A privatised Medibank Private might negotiate cost-effective services more aggressively, e.g. existing Government ownership (and sensitivity) may hamper commercial negotiations, particularly with high cost hospitals in marginal electorates.

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Is it wise to sell?


- Arguments for,
 - A privatised, freer, more innovative Medibank Private might stimulate a wave of demutualisation, amalgamation and increased efficiency of the remaining 42 health funds, many of whom are far too small to achieve economies of scale.



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Is it wise to sell?


- However, like all funds, a privatised Medibank Private will still be constrained by existing perverse government regulation.
- For example, urinary incontinence is prevalent in older women and its management has traditionally been surgical with the cost of treatment around \$4000.
- Physiotherapy has been shown to be an equally effective, low-risk, first-line treatment but costs only about \$300.
- Yet surgery is routinely covered by PHI hospital tables (and Medicare item numbers) whereas physiotherapy is only covered if consumers take out 'extra' PHI cover.



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Is it wise to sell?


- Another example is the successful pilot programs run by Medicare Private to encourage health risk assessment by members and better self-management of diabetes.
- Currently, any financial benefit that accrues to Medibank Private from a reduction in members' hospital claims as a consequence of preventative programs is largely nullified by the reinsurance pool to which all funds must contribute.



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Is it wise to sell?



- There is little incentive for one fund to spend substantial money on preventative programs for their members if they end up having to contribute to the hospital costs of other funds who have not undertaken such activities.
- In short, regulatory issues also need to be addressed by government if PHI funds (and private health care) are to become more efficient.



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Conclusion

- Should Medibank Private be sold?
 - Only if existing members were involved in the organisation's float and transformation, for example by being offered shares and greater involvement preventative health programs in return for past loyalty.
 - And the government introduces regulatory changes to encourage all funds to become more innovative and cost-effective.

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Further reading

- Community campaign to save Medibank Private <http://www.savemedibank.net.au/>
- Private Health Insurance Administration Council. *Insure? Not Sure? Your quick guide to private health insurance.* <http://www.phiac.gov.au/insurenotsure/index.htm>
- Australian Consumers' Association. *Health Insurance.* <http://www.choice.com.au/> (search health insurance).

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