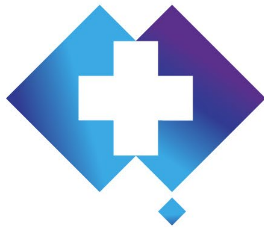

Private Healthcare Australia
Better Cover. Better Access. Better Care.

Senate Select Committee on cost of living

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About Private Healthcare Australia

Private Healthcare Australia (PHA) is the Australian private health insurance industry's peak representative body. We have 24 registered health funds throughout Australia as members and collectively represent 98% of people covered by private health insurance. PHA member funds provide healthcare benefits for over 14 million Australians.

Introduction

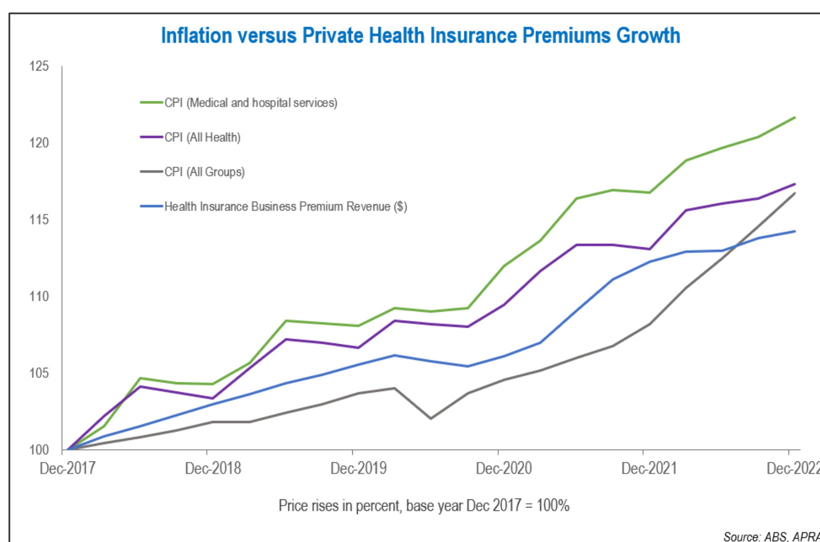
Private Healthcare Australia welcomes the Senate establishing a select committee, to be known as the Select Committee on the Cost of Living, to inquire into and report on:

a. the cost of living pressures facing Australians;
b. the Government's fiscal policy response to the cost of living;
c. ways to ease cost of living pressures through the tax and transfer system;
d. measures to ease the cost of living through the provision of Government services; and
e. any other related matter.

Background

More than 14.4 million Australians are covered by private health insurance, with over $26 billion paid in premiums. Private health insurance is regularly reported as one of the top five expenses for households.[1] In the context of the economy as a whole, private health insurance was over one percentage point in 2022.

Up until 2020, the cost of private health insurance general increased relative to inflation, and on occasion, above health inflation. Over the last two years, the increased average premium cost of private health insurance has been 2.7% and 2.9% - well below the rate of inflation during this time.



The value of private health insurance has also been impacted by the perceived deterioration of the public health systems in most states and territories in recent years. With rapidly growing waiting times for care, more than 750,000 Australians have joined private health funds since mid-2020 – ten consecutive quarters of growth.

[1] See https://www.abs.gov.au/statistics/economy/finance/household-expenditure-survey-australia-summary-results/2015-16

It is well recognised a strong private system supports the public health system – inequity is often greater in entirely public systems. Pressure on the private system affects the public system, and vice versa.

The cost of living pressures facing Australians

Australian consumer research shows clearly consumers want lower premiums, access to high quality care, and lower out of pocket costs. These objectives are consistent with system improvement, addressing access and quality for people with private health insurance and those relying wholly on the public system.

Polling data – February 2023

We have recently been polling people who have recently taken out private health insurance or considering doing so. The preliminary data (from yougov) show those who recently took out private health insurance are much more likely than those who considered it but did not to say their financial situation got better in the past three years (44 vs 17%). They are also more likely to anticipate that things will get better over the next 12 months (52 to 38%).

B1. In the last three years, has your financial situation…? Please select one option only.	**Total**	**Has PHI or is considering PHI**	
Base	1500	728	772
Got better	30%	44%	17%
Stayed about the same	34%	34%	35%
Got worse	35%	22%	48%
Don't know	0%	0%	1%

B2. In the next 12 months, do you expect your situation to…?			
Base	1500	728	772
Get better	45%	52%	38%
Stay about the same	38%	34%	41%
Get worse	17%	13%	21%

Of those who have private health insurance it but are considering not keeping it, cost is the number one factor (47% list this as a reason to drop their insurance). It is an even more dominant reason for not keeping insurance for those who decided not to take it out (80% list this as a reason). Premiums always increasing was also the number two reason for both groups.

These latter data match the trends seen with previous polling (including through IPSOS).

Demographics and income

For the most part people with private health insurance are not rich - 42% have a taxable income of $50,000 per year or less and 10% of these are on the aged pension as their only income.[2] They are all however trying to do the right thing by making a direct contribution to the cost of their health care. Without this contribution our world-class health system would fall over.

[2] Australian Tax Office figures, 2022

In communities with lower overall incomes, the importance of private health insurance is immense. For example, private health insurance paid over $65 million in hospital benefits in the electorate of Lyons (Tasmania) in 2022 – an electorate with one of the lowest rates of private health insurance coverage in the country. These monies support private medical and allied health practitioners, and those who work in the overstretched public system and supplement their income with private work.

In many electorates with ageing populations, the benefits paid are generally over $100 million per annum. These electorates are often outside capital cities, providing much needed support to families and their communities. Examples include the NSW mid-north coast through to South East Queensland, with electorates such as Newcastle, Patterson, Hunter, Lyne, Richmond, Moncrief, Blair and Groom each attracting over $100 million in hospital benefits in 2022.

Private health insurance is reasonably effective at wealth redistribution, with people in wealthy electorates such as Wentworth, Bennelong and the three seats in the ACT all having much lower claims per member than lower income areas such as Blair, Mallee and Lyons. Medicare can be less fair, with areas in the electorate of Wentworth attracting some of the highest specialist rebates in the country, and Tasmania receiving $30 million less from Medicare than their per capita share in 2017-18.[3]

Private health insurance is a large and necessary funder of health care across Australia. This means that the community as a whole, and the Australian Government in particular, have clear incentives to ensure that private health insurance is affordable.

Cost pressures

Over recent decades, Australia has enjoyed an unprecedented run of low inflation. This has meant that areas of the economy not subject to the normal commercial pressures, such as health care, were able to drift along without significant reform, just growing complexity and tangled policy settings.

When introducing Medicare in 1983, then Health Minister Neal Blewett noted, "The more complex a health scheme, the more likely it is to favour the well -off, the articulate and those capable of manipulating a complex system."[4]

In recent years, provider interests have been prioritised over consumer interests. Multinational device companies, hospital groups and some specialist groups have benefited from regulatory constraints entrenching the status quo. The benefits of innovation and convenient community-based care have been compromised, as have general practice and allied health care. Some large commercial interests have profited enormously, while small medical practices struggle, and consumers pay more out of pocket.

Waste and low value interventions are rife in health care. Cost of living pressures now mean there is greater urgency on reducing waste and ensuring value for money – business as usual is not sustainable, as it is not affordable for consumers.

PHA's 2023 Budget Submission (link) includes a range of recommendations to reduce costs to consumers, including:

[3] Harris et al 2019, Is Medicare Fair? At https://www.vu.edu.au/mitchell-institute/health-systems-change/is-medicare-fair
[4] Hansard, 6 September 1983

- introduce a standing committee to combat fraud, miscoding and low value care,
- reduce the over-pricing of medical devices to the same as the public sector, then commission the ACCC to review a better way forward to prioritise consumer interests,
- abolish second tier default benefits (the hospital subsidy program),
- allow private health insurance to support specified primary care programs approved and monitored by general practitioners,
- legislate to hold consumers not liable for costs not disclosed beforehand, and
- allow Services Australia to inform other payors of fraud and overpayments.

Implementing each of these recommendations has the potential to save consumers over $1 billion per annum over time – allowing premiums to be reduced by around 5%.

Ways to ease cost of living pressures through the tax and transfer system

Currently, the Australian Government funds a significant proportion of private health care. In addition to Medicare Benefits for medical services, the government provides a rebate to most people with private health insurance and provides incentives through the Medicare Levy Surcharge for high income earners to take out private health insurance.

These taxation transfers are valuable to families with private health insurance and to those who do not. Every dollar spent on private health insurance through the rebate leverages another three in private spending (costing taxpayers less than 25 cents in the dollar), while providing care through the public system costs taxpayers 45 cents in the dollar through the National Healthcare Reform Agreements. Ensuring high income Australians are encouraged to take out private health insurance through the Medicare Levy Surcharge means that fewer people are on public waiting lists.

PHA asks the Select Committee to consider recommendations including:

- Restoring the Private Health Insurance Rebate to 30%, beginning with a one percentage point increase for low income earners,
- Increasing the Medicare Levy Surcharge, and
- Remove fringe benefits tax penalties.

Private Health Insurance Rebate

The Private Health Insurance Rebate (PHIR) was initially set at 30%. Older Australians now receive a higher rebate than people under 65, and income-based tiers have also been introduced. Since 2013, the PHIR has been adjusted for premium inflation, with the current base rate now under 25%.

The rebate applies to hospital, general treatment and ambulance policies. The current rebate levels[5] are:

Singles Families	≤$90,000 ≤$180,000	$90,001-105,000 $180,001-210,000	$105,001-140,000 $210,001-280,000	≥$140,001 ≥$280,001
Rebate				
	Base Tier	**Tier 1**	**Tier 2**	**Tier 3**
< age 65	24.608%	16.405%	8.202%	0%
Age 65-69	28.710%	20.507%	12.303%	0%
Age 70+	32.812%	24.608%	16.405%	0%

Single parents and couples (including de facto couples) are subject to family tiers. For families with children, the income thresholds are increased by $1,500 for each child after the first.

Over 40% of Australians with private health insurance have incomes under $50,000 per annum. Cost of living pressures are biting hard amongst this group, and more support is needed for them to maintain their private health insurance.

Increasing the PHI rebate for singles earning under $50,000 and families under $100,000 by one percentage point would cost the Budget around $70 million directly (with lower net costs), saving families with a Silver policy an average $27 on their premiums each year.

Second order savings to Commonwealth and States and Territories Budgets from increasing the PHI rebate have a combined positive Return on Investment[6], as low-income earners leaving private health insurance will then create greater pressure on the public system.

Supporting private health insurance is the best way to ensure more access to elective surgery - elective surgery through the Private Health Insurance Rebate costs less than 25 cents in the dollar, while elective surgery funded through state-run public hospitals costs 45 cents in the dollar.

Over time, and as the budget situation allows, government should work towards restoring the rebate to the base 30% rate.

Medicare Levy surcharge

It is not fair that some very high-income earners rely exclusively on the public system when they could afford to use the private system. High income earners crowd out others, meaning longer waiting times. As the Medicare levy only covers a fraction of the costs of healthcare, the Australian Government encourages high income earners to take out private health insurance with a Medicare levy surcharge (MLS).

[5] From https://www.privatehealth.gov.au/health_insurance/surcharges_incentives/insurance_rebate.htm, as at 7 March 2023. The government has announced no change to the rebate levels from 1 April 2023 as average premium increases are below inflation. It is not clear at time of writing if the income tiers will change on 1 July 2023.

[6] The return on investment for the Commonwealth alone is marginal, with assumptions on savings on additional payments to states under the NHRA probably not achievable in the current environment. There are significant savings to state and territory governments with a transfer of activity to the private sector.

Over 300,000 high income earners pay the MLS – the current rate is not high enough to influence behaviour. Research shows that very few of these people are true conscientious objectors to private health, most are simply unaware of this obligation.

Increasing the MLS by 100 basis points would encourage many more high-income earners to take out private health insurance and the Budget would save a net $170 million pa.[7] State and territory health systems would also benefit from a proportion of people seeking care in the private system rather than the public system. And as private health insurance is community rated, an influx of high income, generally healthy contributors would improve the risk pool and reduce pressure on premiums for all.

Increasing the MLS surcharge would improve the Budget position, reduce cost of living pressures for lower-income Australians with private health insurance, and decrease pressure on the public health system.

Remove FBT penalties

The current Fringe Benefits Tax rules provide a disincentive for employers to help their staff with private health insurance. Inclusion of private health insurance premiums as an exemption from fringe benefit taxes, allowing employers to provide PHI as a fringe benefit and thereby reduce the taxable income of the employee, effectively delivers a discount on PHI for the employee. It is assumed employees will be able to opt in or opt out from this option.

The fringe benefits tax payable on employers' contributions to private health insurance premiums is prohibitive. Employers wishing to support their employees' health insurance must pay the premium, then also pay FBT on top.

Corporate provision of private health insurance has many advantages for employees. Often, the premiums are discounted, and many insurers offer wellness services or additions to the health insurance product as part of the package. For example, one fly-in fly-out employer negotiated subsidised child minding when the stay-at-home partner required medical care. While not part of the health insurance product, it is a valuable extra for the employee and their family provided by the insurer which was unavailable in retail health insurance.

Further, employers generally support high level 'gold' cover with no excesses, meaning the employee is covered for all health services which the law allows funds to cover. This takes the most pressure off the public system.

Unlike the American system, health insurance in Australia is portable. That means if a person ceases employment, they can keep their corporate health insurance by paying for it themselves. The American system leaves millions not covered, but fund portability rules in Australia remove this concern.

Previous modelling by PHA estimates that allowing younger Australians aged 18-39 an FBT exemption would produce a net increase in participation of 1.5 percentage points (assuming a 30% uptake). The net costs to the Federal Government would be approximately $510 million pa: with benefits flowing to consumers and to state and territory governments. These estimates are dependent on a number of key assumptions, with options including age and income eligibility limits.

[7] This net figure includes increased premium revenue and increased PHI rebate costs to government, with lower proportions of MLS collection at a higher rate. PHA has done extensive modelling on this policy proposal.

The recommended changes should only be applicable to employers offering this benefit to all employees and not a select few.

These changes would address cost of living pressures and provide more options for employers to retain and attract staff.

Conclusion

Business as usual for the Australian economy, and for health care in particular, is no longer an option. Consumers deserve better than policy drift and inattention. Most Australians have never seen inflation this high, and the pressure on household budgets is growing. We need to take urgent action to reduce inefficiency and waste, to consider better ways to tax and to support the economy, and to prioritise the interests of consumers.