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

Private Health Insurance Amendment (Modernising the Private Health Insurance Rebate) Bill 2026

Senate Community Affairs Legislation Committee

August 2026

Contact:

Ben Harris, Director Policy and Research
0418 110 863
ben.harris@pha.org.au

About Private Healthcare Australia (PHA)

Private Healthcare Australia (PHA) is the Australian private health insurance industry's peak representative body. We have more 20 registered health funds throughout Australia as members and collectively represent 99% of people covered by private health insurance. PHA member funds provide healthcare benefits for 15 million Australians.

In preparing this submission PHA has ensured that the material provided is current, data driven and evidence based. We will provide more detail on the source of any of the statements made or numbers provided on request.

Introduction

PHA welcomes the opportunity to provide advice to the Senate Community Affairs Legislation Committee on the Private Health Insurance Amendment (Modernising the Private Health Insurance Rebate) Bill 2026. This proposed legislation would increase the price of private health insurance for older Australians by up to $600 by reducing the Private Health Insurance Rebate (the Rebate) by around four or eight percentage points.

The proposed Rebate cuts are essentially a large cost-shift from the Australian Government to more than three million Australians holding private health insurance. Collectively, these older Australians will be required to pay more than $900 million more for their health insurance.

The proposed Rebate cuts will also adversely impact private hospitals and state and territory health systems. These cuts could destabilise the health system as a whole, not just disadvantage those directly affected.

The effects will not be evenly spread. Particular regions – such as Tasmania, the Sunshine Coast and the north coast of New South Wales – will be disproportionately affected. Communities in these regions and the private hospitals that serve older patients in these areas will be put under significant pressure. PHA is particularly concerned that low-income Australians across the country will drop or downgrade their private health insurance if this legislation passes.

Consumer polling shows that people do not think it is fair that older Australians, who have been paying premiums all their lives, are suddenly expected to pay more at the time they are likely to need to access health care. This finding repeats across all age groups, not just the people directly affected.

Health funds see their members paying premiums across decades. The proposed Bill will put more financial pressure on older Australians, which is likely to flow onto other family members, especially the Sandwich Generation who are caring for young children and ageing parents.

The proposed Bill needs to be reconsidered. As presented, it is a massive cost shift to older Australians and the public health system. It will adversely affect private hospitals, families and health system stability. It will hit pensioners the hardest, and those living in poorer communities.

Background

Older Australians with private health insurance

More than 3.002 million people aged 65 and older held private health insurance as at 31 December 2025. Nearly all of these people would be affected by the proposed cut to the Rebate. There are a small number of people over 65 who do not currently receive the Rebate (those with a taxable income over $164,000 for singles and $328,000 for couples), and a small number of people under 65 who do receive the Rebate (where the oldest person on the policy is over 65).

Currently, people aged between 65-69 years receive a Rebate, which is just over 4% higher than for people aged under 65. People aged 70 and older receive a Rebate that is just over 8% higher. It is the intention of the Bill that this additional Rebate be removed for people over 65.

Table one: Income thresholds for 2026-27

Type of policy	Base tier	Tier one	Tier two	Tier three
Single	Up to $105,000	$105,001 - $123,000	$123,001-$164,000	Over $164,000
Family/couple	Up to $210,000	$210,001 - $246,000	$246,001-$328,000	Over $328,000

Table two: Rebate rates effective from 1 July 2026 to 31 March 2027

Age of oldest person on the policy	Base tier	Tier one	Tier two	Tier three
Under 65 years old	24.118%	16.079%	8.038%	Nil
65 -69 years old	28.139%	20.098%	12.058%	Nil
70 years old or more	32.158%	24.118%	16.079%	Nil

Hospital utilisation

The private sector is vital for older Australians' access to health care. In 2024-25, Australia recorded 12.8 million hospitalisations (separations) across both public and private hospitals.[1] A large proportion of this care is funded by private health insurance for older Australians, the group most affected by this measure. APRA data shows that over 2.83 million hospital episodes for people over 65 years old were funded by private health insurance in 2025.[2]

(Data quoted in this submission are based on the residence of the patient, not necessarily the jurisdiction in which the care occurred. The data include services and benefits paid for admissions to both private hospitals and public hospitals where the patient elected to be treated as a private patient.)

Around 60% of planned surgery occurs in the private sector, including the majority of joint replacements and cataracts among other essential surgeries.

[1] AIHW 2026, Admitted Patient Care 2024-25, available at https://www.aihw.gov.au/hospitals/topics/admitted-patient-care

[2] Data sourced from the Australian Prudential Regulatory Authority (APRA).

The economic contribution of consumers and health funds to this care is significant. In 2025, health funds paid benefits of over $11.386 billion for hospital services for people aged 65 and over.[3]

Table three: hospital separations for people over 65 funded by private health insurance

NSW	963,299
VIC	683,898
QLD	598,999
SA	238,969
WA	240,628
TAS	66,321
ACT	32,108
NT	6,184
AUSTRALIA	2,830,406

Dental, optical and ancillary benefits

To date, public debate on the proposed cuts to the Rebate has focused on hospital care. The Bill will also adversely affect older Australians' dental health, optical health and access to other allied health services and products.

Private health insurance is the largest funder of dental care in Australia. The Australian Dental Association's *Australian Dental Health Plan 2025* notes that in 2017-18, older Australians aged 65 and older had an average of 13.7 missing teeth.[4] Most (59%) suffered periodontitis and around one-quarter (27%) avoided eating some foods due to problems with their teeth, mouth or dentures. [5] The cost of oral health services is often reported as a barrier to accessing services. In 2017-18, 22% of people aged 75 and over avoided or delayed dental care due to cost.[6]

Health funds provide more funding for dental benefits than the Commonwealth, State and Local governments combined, and have been able to exercise some market power to put downward pressure on costs in what is essentially a purely private cottage industry. In 2024-25, health funds covered more than 13.405 million dental services for people aged over 65,[7] providing benefits estimated at over $1 billion.[8]

Optical care is equally as important for older Australians. Vision impairment is a major contributor to falls, reduced mobility, and social isolation. Private health insurance is the major third-party funding source for optical aids such as glasses and contact lenses for Australians.

[3] APRA data.
[4] At https://ada.org.au/media/z41ezyoa/australian-dental-health-plan-2025.pdf, including references for the data presented.
[5] Ibid.
[6] Ibid.
[7] See https://www.aihw.gov.au/reports/dental-oral-health/oral-health-and-dental-care-in-australia/contents/private-health-insurance
[8] Based on the proportion of dental rebates paid for people over 65 from large representative funds.

State subsidy schemes such as the NSW Spectacles Program or Victoria's Victorian Eyecare Service are small programs with limited reach. In 2024-25, health funds paid more than $1.033 billion in optical benefits across more than 12.37 million services[9] with an estimated 22% of benefits provided to people over 65.[10]

Other general treatment benefits include services such as physiotherapy and podiatry, as well as a raft of other benefits including hearing aids, orthotics and movement aids. Across 2024-25, Australians aged 65+ claimed 25,599,158 times for ancillary care through their private health insurance, attracting benefits of more than $1.684 billion.[11]

[9] APRA data.
[10] Based on the proportion of optical rebates paid for people over 65 from a large PHA representative fund.
[11] APRA data.

Modelling the effects

The effect of the proposed Bill on older Australians

The proposed legislation will impose higher private health insurance costs on more than three million older Australians, with premium increases of either 4% or 8% based on age and current premium levels.

There are many different types of health policies available, with older Australians more likely to hold Gold or Silver cover. Canstar publishes typical cover costs by category (noting there are significant cost differences between policies) – Silver singles cover $1854, couples $3708. Gold singles cover is around $3790, and $7580 for couples.[12] The costs of these policies will increase by 4% or 8% for older Australians solely as result of changes to the Rebate proposed by this Bill.

However, the increase experienced by consumers will be much larger on 1 April. The effects of the Bill's rebate cut will be added to the typical inflation-driven premium rise that occurs each year. In 2026, this averaged 4.41%. However, these averages are based on significant differences in premium changes. Choice noted the typical increase in premiums for Gold hospital cover for 2026 was over 13%.[13]

Should these increases be similar to last year, a couple on a typical Gold policy will be required to pay an additional $1614 next year – an 8% increase due to the cut in the Rebate plus 13.3% due to the additional costs of a Gold policy, which includes the most complex and expensive medical procedures.

The Australian Government argues that the cuts to the Rebate for older Australians will not significantly affect the number of people holding health insurance. PHA estimates 62,000 people dropping their cover, which is significantly higher than the Government's estimate of 44,000 on a base of over three million people. However, these numbers alone provide a misleading picture of the full effects on lower income Australians and our health system.

PHA modelling suggests that around 200,000 people will downgrade their health cover, predominantly dropping from Gold to an insurance product with exclusions. This will put pressure on the rest of the system (see below), but also increases the risk of consumers not being covered for services they need.

The impact of this legislation will not be felt equally across the community. Our data show the number of people over 65 across Australia with private health insurance are not evenly distributed. Proportionally, Western Australians will be the most affected, while the Northern Territory has the smallest share of their population over 65 with private health insurance.

[12] See https://www.canstar.com.au/health-insurance/what-does-health-insurance-cost/

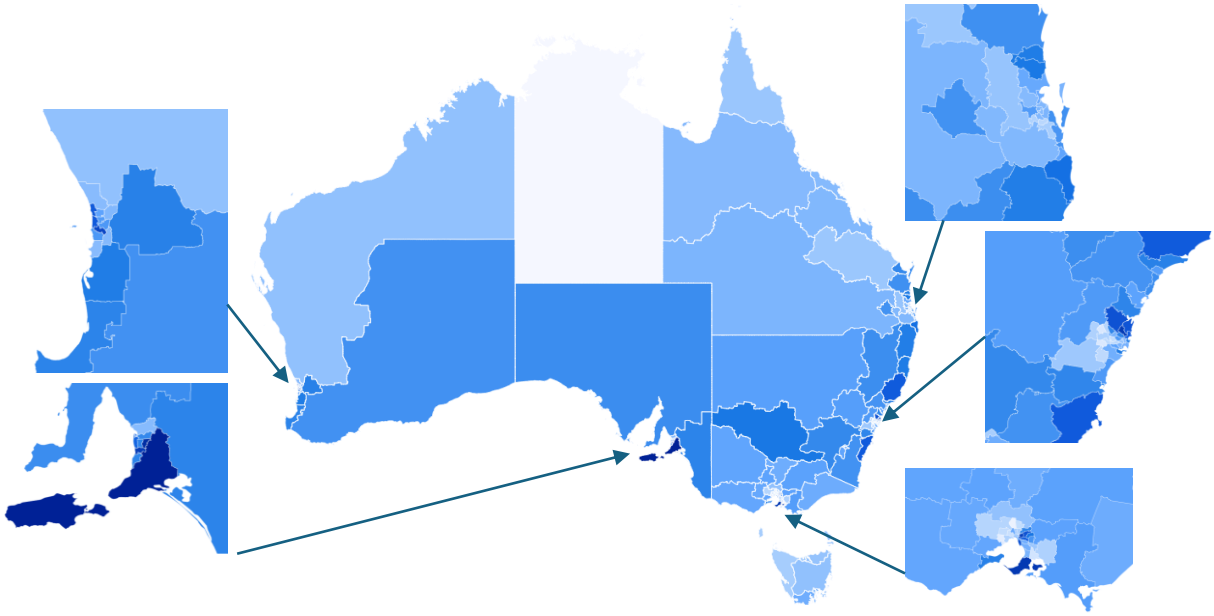
[13] See https://www.choice.com.au/money/insurance/health/articles/health-insurance-price-hikes-higher-than-ever-what-youre-really-paying

The electorates with the largest number of people over 65 with private health insurance include:

Mayo	Mackellar	Cook
Sturt	Curtin	Farrer
Flinders	Moore	Fisher
Bradfield	Gilmore	Cowper
Boothby	Lyne	Canning
Kooyong	Chisholm	Fairfax
Tangney	Warringah	Page
Berowra	Hindmarsh	Corangamite
Menzies	Richmond	Bullwinkel
Goldstein	Deakin	Paterson

Each of these electorates has more than 25,300 people over the age of 65 with private health insurance, making up the top quintile of electorates affected by the proposed Bill. While many of the federal electorates with high rates of people aged over 65 with private health insurance are also in the top half of electorates ranked by income, many are not. For example, Lyne, Cowper, Page, Gilmore, Richmond and Farrer are in the lowest quintile of household income in the country.[14]

Figure one: number of people over 65 with private health insurance by electorate



[14] See https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/Statistics_and_Maps/Your_Electorate

Fundamentally, this Bill will result in a massive cost shift of $3 billion from the Australian Government to older Australians during a cost-of-living crisis. Many older Australians will not be able to absorb this added impost on their household budgets.

The effect of the proposed Bill on pensioners

Nationally, around 62% of older Australians receive the Age Pension.[15] At the time of writing, the Australian Government has not been able to publicly quantify the number of pensioners with private health insurance and who are, thus, affected by this measure.

PHA has asked the Department to consider working with the Department of Social Security and the Australian Taxation Office to determine the actual number of people aged over 65 receiving the Private Health Insurance Rebate and a pension (the Age Pension, Carers Pension, Disability Support Pension, Parenting Payment (single) or Service Pension) and report this figure publicly. The full rate of the pension for a single person is currently $31,223 for a single person and slightly higher for the Parenting Payment (single).

PHA acknowledges some older Australians have significant tax-free incomes through superannuation annuities and other payments, and this complicates the accurate targeting of programs such as the Private Health Insurance Rebate. However, people on government pensions have their full income assessed, with pension eligibility cutting out completely at $68,322 per annum for a single pensioner (slightly higher for Parenting Payment single). Reducing the Rebate for pensioners by 4% and 8% will increase the burden significantly on pensioners with private health insurance.

In the absence of the actual data from government, PHA has asked Mandala Partners to estimate the number of pensioners with private health insurance. Using a combination of data sources, including the Household, Income and Labour Dynamics in Australia (HILDA) Survey database, the best estimate is that 1.32 million aged pensioners hold private health insurance, with a small number of older Australians on other pension types. Of these, close to 70% are estimated to be full pensioners.[16]

Again, the effects of this Bill on pensioners will not be evenly distributed across the community. For example, aged Tasmanians are likely to be significantly affected, as administrative data indicate significantly higher reliance on the Age Pension in Tasmania[17] combined with Tasmanians having lower superannuation balances overall[18] and at retirement.[19]

[15] See https://www.aihw.gov.au/reports/australias-welfare/income-support-older-australians.
[16] ANAO 2026, Administration of the Aged Pension, available at https://www.anao.gov.au/sites/default/files/2026-01/Auditor-General_Report_2025-26_20.pdf
[17] For example, see https://phidu.torrens.edu.au/social-health-atlases/topic-atlas/ageing-atlas
[18] See https://www.fool.com.au/2024/07/02/whats-the-average-superannuation-balance-based-on-where-you-live/
[19] See https://www.superannuation.asn.au/media-release/average-super-account-balance-passes-172000-as-superannuation-system-continues-to-achieve-aims/

When looking at the electorates with the largest number of people receiving the aged pension[20] there are strong correlations with the electorates with the largest number of people aged 65 and older with private health insurance. Of the top thirty electorates with people over 65 with private health insurance, 12 are also in the top 30 electorates by people receiving the aged pension (indicated in red below).

Mayo	Mackellar	Cook
Sturt	Curtin	Farrer
Flinders	Moore	Fisher
Bradfield	Gilmore	Cowper
Boothby	Lyne	Canning
Kooyong	Chisholm	Fairfax
Tangney	Warringah	Page
Berowra	Hindmarsh	Corangamite
Menzies	Richmond	Bullwinkel
Goldstein	Deakin	Paterson

PHA would welcome more accurate figures based on the actual data of the number of pensioners with private health insurance by state, territory and region being provided by Government to the community and the Senate to help inform modelling.

PHA modelling uses larger elasticity figures for people on very low incomes, assuming that the lower people's incomes, the more vulnerable they would be to dropping their private health insurance. This finding is reinforced by our polling data (see below). Therefore, our model predicts that full pensioners are more likely to drop their private health insurance in response to the proposed Rebate cuts.

The effect of the proposed Bill on public health systems

Our estimate is that states and territories will be liable for almost $260 million per annum additional expenditure. This is not inconsistent with the Government's estimate, which suggests the impact on state governments will be less than one percent of admissions.[21] One percent of the $52.6 billion state and territory governments spend on public hospital services is around half a billion dollars per annum.

While PHA notes the financial cost impost on public hospitals, we are concerned about the capacity of public hospitals to absorb the types of services required. Many states and territories are not well equipped to increase their capacity for additional procedures in clinical areas currently dominated by the private sector. Existing waiting lists for planned surgeries in treatment areas such as cataracts, joint replacements and other Category 2 and 3 surgeries can

[20] See https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/Statistics_and_Maps/Your_Electorate

[21] At https://oia.pmc.gov.au/sites/default/files/posts/2026/05/Modernising%20Private%20Health%20Insurance%20Impact%20Analysis_0.pdf

be very long, with waiting times often past the 365-day threshold. Further, additional patients requiring these surgeries would generally need to go through outpatient clinics, which can also have significant wait lists. As public hospitals have a larger proportion of emergencies and medical admissions than the private sector, a small increase in the number of planned surgeries required has a disproportionate impact on access to services.

Again, our data suggest the impact will not be felt evenly across the country. New South Wales and South Australia will be significantly affected, as these two states have the highest ratios of privately funded patients over 65 to public hospital admissions.[22] Tasmania will also be significantly affected, with a higher proportion of older people on lower incomes less likely to be able to absorb the price increases imposed by the Rebate cuts, a high ratio of privately funded hospitalisations for people over 65, and tight capacity in its public health system.

Across the states and territories, the impact will not be uniform, meaning some public hospitals will likely need to absorb higher number of patients. Public hospitals in lower income electorates with high rates of private health insurance are likely to be most affected, including Port Macquarie Base Hospital, Kempsey District Hospital, Lismore Base Hospital, Shoalhaven District Memorial Hospital, Tweed Valley Hospital and Albury Hospital.

The effect of the proposed Bill on private hospitals

The proposed Bill will also have a significant negative impact on many private hospitals across Australia. While there are many urban areas with an oversupply of private hospital beds, leading to low utilisation rates, PHA is particularly concerned about private hospitals in regional Australia where there are fewer alternative services.

In many country towns and regional centres, the local private hospital is not a luxury – it is an essential part of the health ecosystem. If activity drops significantly because older Australians can no longer afford their cover, some private hospitals will struggle to remain viable. That would mean fewer local healthcare options and more pressure on already stretched public hospitals.

PHA has identified regional private hospitals where more than 70 per cent of privately insured patients are aged over 65, making them particularly vulnerable to changes in older Australians' insurance participation.

Hospitals of concern include:

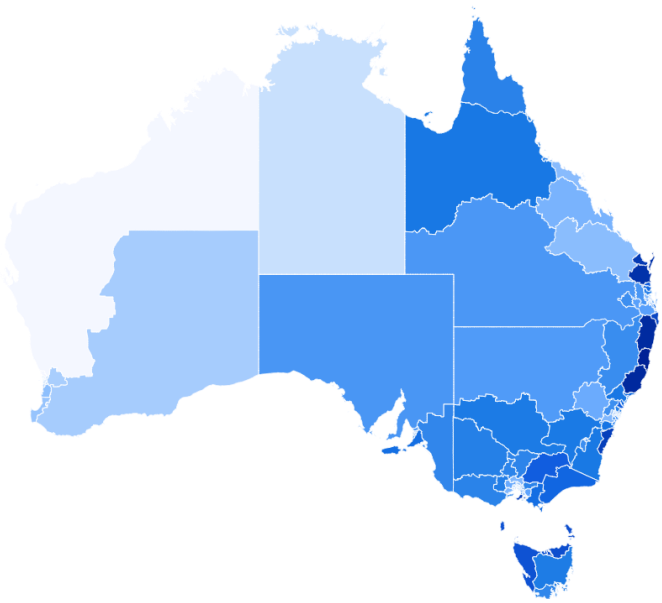
- In Queensland: Eden Private Hospital, Nambour Selangor Private Hospital, St Stephen's Hospital, Hervey Bay Surgical Hospital and Noosa Hospital.
- In New South Wales: Forster Private Hospital, Border Cancer Hospital, Mayo Private Hospital, Toronto Private Hospital, St Vincent's Private Hospital Lismore, Figtree Private Hospital, Berkeley Vale Private Hospital, Nowra Private Hospital, Port Macquarie Private Hospital and Shellharbour Private Hospital.

[22] Derived from AIHW Admitted patient care 2024-25, Table 2.2, at https://www.aihw.gov.au/hospitals/topics/admitted-patient-care/hospitalisations-and-patient-days and the APRA data at table three.

- In Victoria: Beleura Private Hospital, Maryvale Private Hospital[23] and Mildura Health Private Hospital.[24]

In addition, private hospitals across Tasmania are likely to be under threat due to the anticipated oversized impact on the older, less wealthy population.

Figure two: Proportion of hospital benefits paid for people over 65 by electorate



In some areas, losing local private hospital capacity could force patients to travel many hours for surgery, rehabilitation or specialist treatment. These hospitals support local jobs, local specialists and local healthcare services. Once services are lost in regional Australia, they can be very difficult to restore.

The effect of the proposed Bill on health funds

Health funds are concerned about the effects of the proposed Bill on our members and the community as a whole, but the impact of the legislation on health fund margins in the short term would be positive.

Australia's private system is based on community rating, where health indicators such as age do not affect premiums. This means that older Australians, on average, pay less into private health insurance than they withdraw in benefits. In other words, if this Bill is passed as proposed by the government, health funds will lose a cohort of customers aged over 65 who receive more in pay outs than they contribute into funds. With an estimated 9% of older members either dropping cover or reducing cover, revenue to health funds will diminish, but the benefits paid will decrease by a slightly larger amount – improving the margins for health funds but reducing the pool of insured Australians.

[23] Note Maryville Private Hospital is owned by a PHA member fund, La Trobe Health
[24] Note Mildura Health Private Hospital is owned by a PHA member fund, Mildura Health

PHA considers the negative effects of this Bill – including pressure on households, public systems and private hospitals – significantly outweighs any considerations of minor additional short-term profits for health funds.

The effect of the proposed Bill on other fund members

Any reduction in the number of people with Gold health cover will detrimentally impact those remaining in the pool. Over the past few years, there has been a significant reduction in the number of people with top level cover. As Gold cover includes the most complex and expensive treatments – including maternity, mental health care and joint replacements – a smaller pool of higher risk contributors leads to higher price increases. Last year, the average price increase for health insurance was 4.41%, but for Gold coverage, the average price increase was 13.3%. This pattern of larger increases for Gold cover has been evident over the past few years, which then in a vicious cycle leads to more people downgrading from Gold coverage to lower cost policies (predominantly Silver Plus products).

The proposed Bill will not only result in a significant number of people dropping private health cover altogether, but also an estimated 200,000 people downgrading their coverage from Gold to lower tiers. This is in addition to the average of around 300,000 who have been downgrading each year.

The effects on services such as maternity care and mental health care, both of which are concentrated in Gold products, could be severe if Gold coverage becomes out of reach. This Bill will not just affect older people, but the system as a whole.

Polling

Consumers overwhelmingly view the Government's plan to reduce the Rebate for older Australians as unfair. They prefer an option where people on lower incomes are protected from these cuts.

PHA commissioned RedBridge to undertake polling in May and June 2026 on consumers' attitudes to the government's proposal and alternative policy proposals presented by PHA. RedBridge conducted seven focus groups with people of different ages recruited from marginal Labor seats, and a representative quantitative survey of 1505 people (with a margin of error of +/- 2.8%).

The research reaffirms the community is most concerned about cost-of-living pressures, with this dominating the top three issues most important to people deciding who will receive their vote. The importance of the cost of private health insurance to voters is also high, with a net importance score of 53.

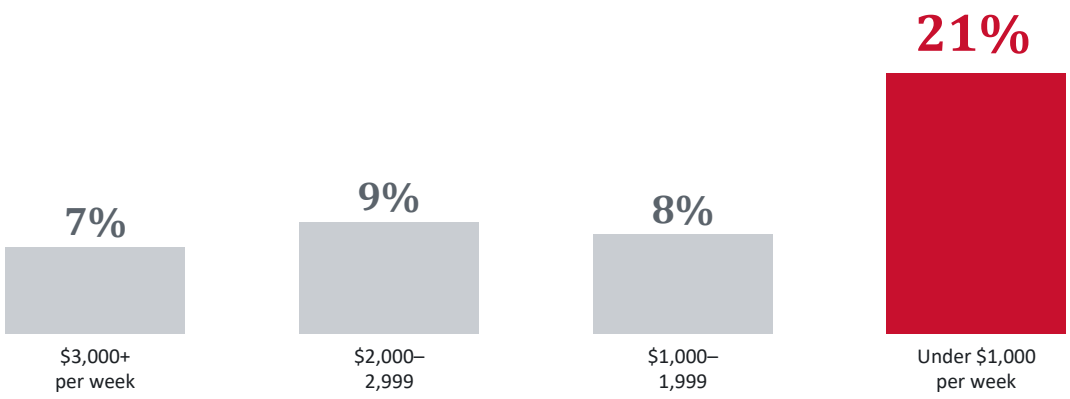
In the focus groups, people considered the policy unfair.

The proposed Bill is largely being considered as discrimination by stealth. Presented in identical language to every cohort, the Government's central proposition, that two households on the same income should not be treated differently by age, was rejected in every group. It was interpreted as a false equivalence: a 72-year-old and a 35-year-old on the same income are not in the same economic position.

This was backed by the qualitative research, with a -10 net support for the policy as announced (-22 among those holding cover).

The proposal is also regressive. Concerningly, but not surprisingly, the proposal lands hardest on those least able to afford it.

Figure three: Share of cover-holders who say the change makes them "much more likely" to drop their private health insurance, by weekly household income.



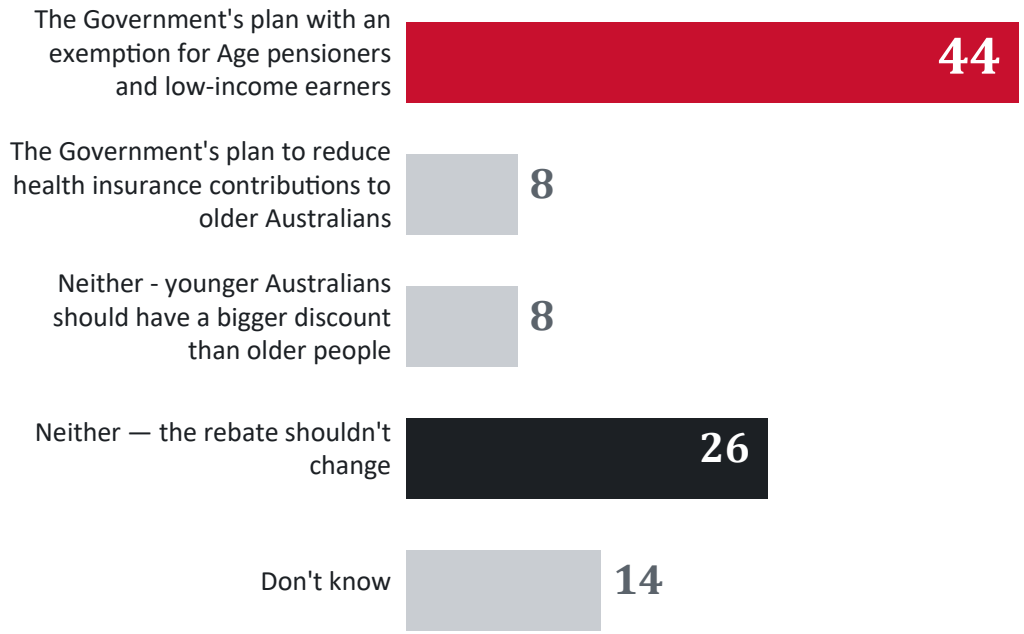
Among those in serious financial difficulty, 23% say they are much more likely to drop their private health insurance, compared to 6% for those who say they are financially comfortable.

Participants who have held cover for 30, 40 or 50 years described their premiums as money paid in good faith – often when they could barely afford it – on the understanding the rebate would be there when healthcare was most needed. This message was understood by Boomers describing themselves, for Gen X describing their parents, and for Millennials describing those who raised them.

For those in the sandwich generation, there is the perception that people will be paying for this measure twice. Many people in their 50s are supporting their parents as well as paying a mortgage and helping adult children. Many families, including those with parents born overseas, are built on mutual support, so a policy outcome that affects the aged is also seen as affecting the younger generations. Some of these families have three generations living under one roof.

However, the Government's policy position can be supported with important modifications. When presented with an option to provide an exemption for pensioners and low-income earners, the responses flipped from opposition to support.

Figure four: Offered a straight choice between the two versions, voters back the income-protected exemption over the Government's plan by more than five to one.



Q: Thinking about the two versions of the policy, which do you prefer? Figures are %. RedBridge / Accent Research national survey, N=1,505, 26 May–3 June 2026.

At the time of the qualitative polling (late May – early June), 60% of those surveyed were unaware of the proposed cuts to the Rebate. Most Australians have not yet processed the impact of this Bill on their personal circumstances, their families or the health system.

Recommendations

PHA is opposed to this measure.

The Bill as proposed by the Government would severely disadvantage older Australians on lower incomes; impact the viability and sustainability of a number of private hospitals, particularly in regional areas; shift significant cost onto the public hospital system, adding to emergency department waiting times as well as surgery waiting lists; lead to a fall in the number of Australians holding private health insurance; cause a significant number of Australians to downgrade their health insurance cover; destabilise Australia s strong health system.

However, noting the government appears committed to achieving expenditure savings, PHA offers some mitigating approaches the Senate may wish to consider.

The Bill should only reduce the Rebate for people over 65 at higher income levels

To the extent that the Government remains committed to achieving savings, PHA accepts that there is a less compelling case to retain the additional Rebate for higher income recipients.

PHA recommends the Bill only reduce the Rebate for older Australians earning over $105,000 (singles) and $210,000 (couples) to the same rates as those under 65. Older Australians earning below these thresholds (on the base tier) would maintain the additional Rebate to help them afford their private health insurance.

Savings from this measure could then be used to extend the higher Rebate for pensioners under the age of 65 (people receiving the aged pension, carers pension, disability support pension, parenting payment (single) or service pension).

This proposal, presented in the last PHA Budget submission, would ensure the Rebate targets those who need additional help – older Australians on lower incomes, and people under 65 on government pensions. This would improve equity and support our public health system.

As presented, the Bill will require more than three million Australians to pay more for their health insurance. While some older Australians are financially secure, with strong asset bases and high incomes the vast majority are not and cannot absorb these extra costs without significant hardship.

Alternate recommendation: All Australians on a pension should be eligible for a 28% Rebate

Should the preferred option (above) not be accepted by Government, PHA recommends all Australians receiving a government pension – the aged pension, carers pension, disability support pension, parenting payment (single) or service pension – be eligible to receive a 28% Private Health Insurance Rebate regardless of age.

This proposal would deliver around 70% of the savings sought by government compared with the Bill as drafted. Our modelling suggests this proposal would halve the number of people dropping their insurance and significantly reduce the impost on state and territory governments.

This proposal would ensure approximately 1.32 million people currently on the aged pension would retain a higher Rebate (albeit still with a reduction for people over 70 years old), and an additional 230,000 people under 65 on other pension types with equivalent benefits would receive an increase in their Rebate.

This position maintains the Government s broad intent to treat people on the same income equally and protects those receiving government payments on low incomes.

PHA has also modelled options that restrict the higher Rebate to persons receiving pensions over 65 years (delivering ~75% to ~85% of the savings, see appendix).

One weakness with this proposal is that there are a cohort of people who do not receive a government pension who have lower incomes than those on pensions. (This is a current weakness in many government programs, including our social security and tax systems.)

The Rebate should be simplified for all Australians

The Rebate is currently adjusted every year and set to the third decimal place (for example, 24.118% for tier one this financial year[25]). This level of complexity causes confusion for consumers and administrative difficulties for insurers and for government. PHA recommends the Rebate be reset at whole numbers (28%, 24%, 16% and 8%) from 2027-28 and rounded at whole numbers based on the existing Rebate Adjustment Factor process.[26]

This process would help the Government achieve its savings targets by bringing forward savings into earlier financial years (around $35 million per annum) and be simpler to administer for government agencies and insurers.

Addressing revenue gaps

PHA notes the importance of funding aged care and recommends two further measures to address the revenue gap caused by our proposed amendments to protect lower income Australians.

First, the cost of medical devices in Australia s private system is well above international benchmarks. Medical device prices in the private system are regulated by the Australian Government and set at rates between 7 and 100% higher than those paid by public hospitals, around 30% higher than prices in New Zealand, and more than double the prices paid in Germany.

Reducing the costs of medical devices to internationally competitive levels would help lower health insurance premiums for Australian consumers and create headroom to better fund private hospitals as they transition to more modern models of care. Removing the current private sector surcharge paid by consumers above the amounts paid for the same devices in public hospitals would deliver savings of around $80-100 million per annum. Reducing prices to

[25] See https://www.ato.gov.au/individuals-and-families/medicare-and-private-health-insurance/private-health-insurance-rebate/income-thresholds-and-rates-for-the-private-health-insurance-rebate

[26] For example, the Rebate for tier one would be reset to 24%, rounded down from 24.118%. The Rebate Adjustment Factor would continue to apply, with the headline rate changing to 23% once the Rebate Adjustment Factor took the background rate of the Rebate under 23.5%.

no more than paid in New Zealand would save Australian consumers and the government more than $300 million annually. If combined with a systematic program directed at reducing mispricing and inconsistencies across the Prescribed List of Medical Devices and Human Tissue Products (the PL), premiums for the typical family would be reduced by almost $100 per annum and produce savings to the Australian Government in excess of $120 million each year.

Second, more than 900,000 Australians on high incomes are currently paying the Medicare Levy Surcharge (MLS) rather than taking out private health insurance. Increasing the MLS to 1.5% for tier 1 earners, and 3% for tier 2 and 3 earners could see participation increase by 383,000 people, with the majority of these (292,000) aged under 50. This influx of new participants would take significant pressure off premium increases.

In addition, these changes would provide a net $410 million to government in additional revenue (increased taxation revenue less increased expenditure on the Rebate.)

These three reform measures – simplifying the Rebate, reducing the costs of medical devices and increasing the MLS – would provide more than $560 million in additional savings which could be used to offset our recommended changes to reduce the impact of the proposed Private Health Insurance Rebate cut on pensioners.

Appendix: modelling alternatives

Concerned about the impacts of the proposed Bill on vulnerable Australians, PHA has commissioned Mandala Partners to model a number of alternate approaches which aim to limit the impact on the most financially vulnerable older people should the government continue down this path.

While PHA opposes the Bill, if it is going to pass, we recommend the government quarantine pensioners from the Rebate cut.

PHA has modelled linking a higher Rebate level to government pensions (the aged pension, carers pension, disability support pension, parenting payment (single) or service pension.) As the Government has not published data on the actual number of pensioners receiving the Rebate, our modelling is based on administrative data sources, such as HILDA.

PHA asked Mandala to model three scenarios:

- All pensioners, regardless of age, receive a Rebate of 28%
- Aged pensioners over the age of 65 receive a Rebate of 28%, and
- Full pensioners over the age of 65 receive a Rebate of 28%.

Our estimate of the full four-year effect of the government's proposal is $3.7 billion, slightly higher than the figures in the Budget. Our modelling is based on full year effects, while the Budget includes the part year effect for 2026-27 with the Bill proposing the Rebate cut be introduced on 1 April 2027.

All pensioners, regardless of age, receive a Rebate of 28%

Under this scenario, every person receiving a government pension would receive a 28% Rebate, including part pensioners. The higher Rebate would be available to an estimated:

- 1.32 million people on the aged pension
- 100,000 people on the disability support pension, and
- 130,000 people on other types of pensions.

This option reduces the additional Rebate for everyone over 70 years old but expands eligibility to people on government pensions under 65; maintaining parity by paying the same Rebate to people on the same income.

Our modelling shows this option would ensure the government receives almost 70% of the proposed revenue from the Budget measure and reduces the impact on consumers and on State and Territory governments.

The net number of people dropping cover under this scenario is halved, with some pensioners at lower ages entering private health insurance and smaller numbers of older people dropping cover, for a net decrease of 29,000 people.

The impact on public hospital systems is reduced by around $300 million over four years.

All pensioners over the age of 65 receive a Rebate of 28%

Under this scenario, every person on an aged pension would receive a 28% Rebate including part pensioners. The higher Rebate would be available to an estimated 1.32 million people.

This option reduces the additional Rebate for everyone over 70 years old and maintains the Rebate level of 28% for people aged 65-70.

The age pension proposal delivers $2.8 billion rebate savings to the Commonwealth government, around 75% of the savings achieved under the government proposal, while significantly reducing the risk of vulnerable Australians exiting private health cover and placing additional pressure on an already stressed public hospital system.

Full pensioners over the age of 65 receive a Rebate of 28%

Under this scenario, only full pensioners over the age of 65 would receive a 28% Rebate. The higher Rebate would be available to around 870,000 people.

This option reduces the additional Rebate for everyone over 70 years old and maintains the Rebate level of around 28% for people aged 65-70.

This age pension proposal delivers $3.2 billion rebate savings to the Commonwealth government, around 85% of the savings achieved under the government proposal, while moderating the reducing the risk of the most vulnerable Australians exiting private health cover.