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MEDIA RELEASE

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TREASURY FIGURES SHOW AN ADDITIONAL 900,000 AUSTRALIANS WILL RELY ON THE PUBLIC HOSPITAL SECTOR

The AHIA has released a paper detailing the impact of the Federal Government decision to modify the Medicare Levy Surcharge Thresholds.

Australian Health Insurance Association Chief Executive Officer, Dr Michael Armitage said the AHIA was keen to ensure all parties – Government, health professionals and consumers – had access to factual information about the impact of the MLS decision.

"In particular, it is important that Members of the Senate are aware of these facts as they debate the Government's proposed changes", Dr Armitage said.

The AHIA engaged Price Waterhouse Coopers to determine the number of rebate payments that would be required to achieve the budget estimates.

The Budget Papers show savings from the rebate of $231.6 million in 2008/09 from the change in thresholds.

PWC calculated that the Government savings would require 613,757 rebate payers. This equates to 613,757 PHI financial units, meaning 908,163 persons who would be covered by these policies (i.e. adjusting for family structures and including all persons on the policy such as children).

This number of people with PHI - 908,163 – represents 9.7% of the insured population which is a very large component, and therefore it is reasonable to say that their claiming patterns would be on par with the general claiming rates.

AHIA has calculated the cost of members to be $484 per annum. This is based on the average cost of a member under 65 years of age, and excludes from the calculation the over 65 PHI population who represent half of all hospital benefit outlays.

On the assumption that the budget papers are correct in asserting a savings of $231.6 million in PHI rebate outlays, the logical conclusion is that there will be an additional 908,163 people who will rely only on the public hospital sector.

This would mean that the State Governments would require an additional $439 million in 2008/09 to cover the hospital costs of these newly reliant people (908K at $484 per person).

Over four years this would equate to at least $1.76 Billion (not accounting for health inflation).

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FEDERAL BUDGET 2008/09
Impact of the Federal Government Decision to Modify the Medicare Levy Surcharge Thresholds

On 13 May 2008 the Federal Government announced an increase to the Medicare Levy (MLS) Thresholds from $50K to $100K for singles and $100K to $150K for Couples in the 2008/08 budget.

Discrepancies in Budget Projections

The Budget papers 2008/09 estimate a Private Health Insurance rebate saving of $231.6 million in 2008/09. The Treasurer announced on 14 May 2008 that the Government expected 485,000 members to drop their Private Health Insurance cover.

On 15 May 2008 AHIA representatives met with Treasury and DoHA officials. During this meeting the Treasury representative acknowledged a figure of 486,000 "taxpayers" consisting of 186,000 singles and 150,000 couples. Therefore each adult represented in the 486,000 figure can be taken to be a Financial Unit, or the equivalent of a premium for a single person (and double for a couple/family).

Industry experience dictates that the number of individuals is calculated by multiplying each "Financial Unit" by 1.48 to take account of Family Structures. This means that the Treasury figures would see an **additional 718,000 INDIVIDUAL PERSONS** reliant on the Public Hospital system.

Treasury modelling appears to be predicated on an industry average premium calculation of $1588. This is calculated on the basis that the $231.6 million equates to $772 million in premium income ($231.6K/30% = $772K), as the rebate savings would represent 30% of premiums.

However, the figure of $1588 is NOT representative of an average premium for hospital cover. The average premium for hospital cover is much closer to $1200 ($8 billion in HOSPITAL Contribution Income divided by 6.75 million Single Equivalent Units, which equate to Financial units).

AHIA is of the view that the assumptions of Treasury have been incorrectly based on **TOTAL** PHI contribution income and membership. They appear to have used the PHIAC 2006/07 Financial Report, from which, allowing for the 4.99% increase in premiums, the average TOTAL premium would equate to $1587, (which is significantly close to the figure of $1588 calculated from the Budget and information provided by Treasury).

It is important to note that the Medicare Levy Surcharge applies only to hospital cover, whereas the TOTAL PHIAC figures used above incorrectly include premiums for other health services such as dental, optical, physiotherapy etc.

What the Budget Papers Mean

The Budget Papers show a savings from the rebate of $231.6 million in 2008/09 from the change in thresholds.

AHIA engaged an Independent Accounting Company to determine the number of rebate payments that would be required to achieve the budget estimates. They calculated the Government would require 613,757 rebate payers. This equates to 613,757 financial units for the purpose of comparison to PHI membership statistics, and 908,163 persons who would be covered by these policies (i.e. including children). This number of people with PHI - 908,163 – represents 9.7% of the insured population which is a very large component, and therefore it is reasonable to say that their claiming patterns would be on par with the general claiming rates.

In deriving the benefit cost of members who may potentially leave Private Health Insurance due to the change in the Medicare Levy Thresholds, the AHIA has **excluded from the calculations the cost of the Over 65 PHI population who represent half of all hospital benefit claims**. The calculation of the cost of this cohort of members who may leave is $484 per annum.

On the assumption that the budget papers are correct in asserting a savings of $231.6 million in PHI rebate outlays, then there will be an additional 908,163 people who will rely only on the public hospital sector.

This would mean that the State Governments would require an additional $439 million in 2008/09 to cover the hospital costs of these newly reliant people (908K at $484 per person). Over four years this would equate to at least $1.76 Billion (not accounting for health inflation).

Even if it is assumed that all the people who leave PHI would be on the lowest forms of Private Health Insurance Cover offered by industry, (the AHIA does not agree with this assumption), then the claims cost per person would be about $300 per person, and the cost to States would still be more than $1 Billion.

Potential Budget Deficit

AHIA engaged the Independent Accountancy Company mentioned above to investigate the ramifications of the figures relating to the Medicare Levy Surcharges as presented in the Budget papers.

If the Treasurer's announced figures were correct and 485,000 "Taxpayers" were to leave Private Health Insurance, rather than the 613,757 "Financial Units" as estimated by PWC based on the Budget papers, then an additional $170 million dollars over the four year period would be required to meet the budget shortfall – based on an average premium of $1200.

An AHIA funded study based on focus group research suggests that 13% of members in the thresholds would drop their cover. This equates to 260,000 financial units who would drop their cover. Under this scenario the budget shortfall would be $535 million over the four year period.

Conclusion

The reality is that any drop in PHI will mean not only a financial impost on State Government Public Hospital budgets, but, because of the incorrect assumptions by Treasury relating to the average premiums, there will ALSO be a budget deficit. Further, any reduction in Private Health Insurance membership places upward pressure on Private Health Insurance premiums due to the system of community rating which supports the elderly and chronically ill.

AUSTRALIAN HEALTH INSURANCE ASSOCIATION
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