



Maternity care coverage submission

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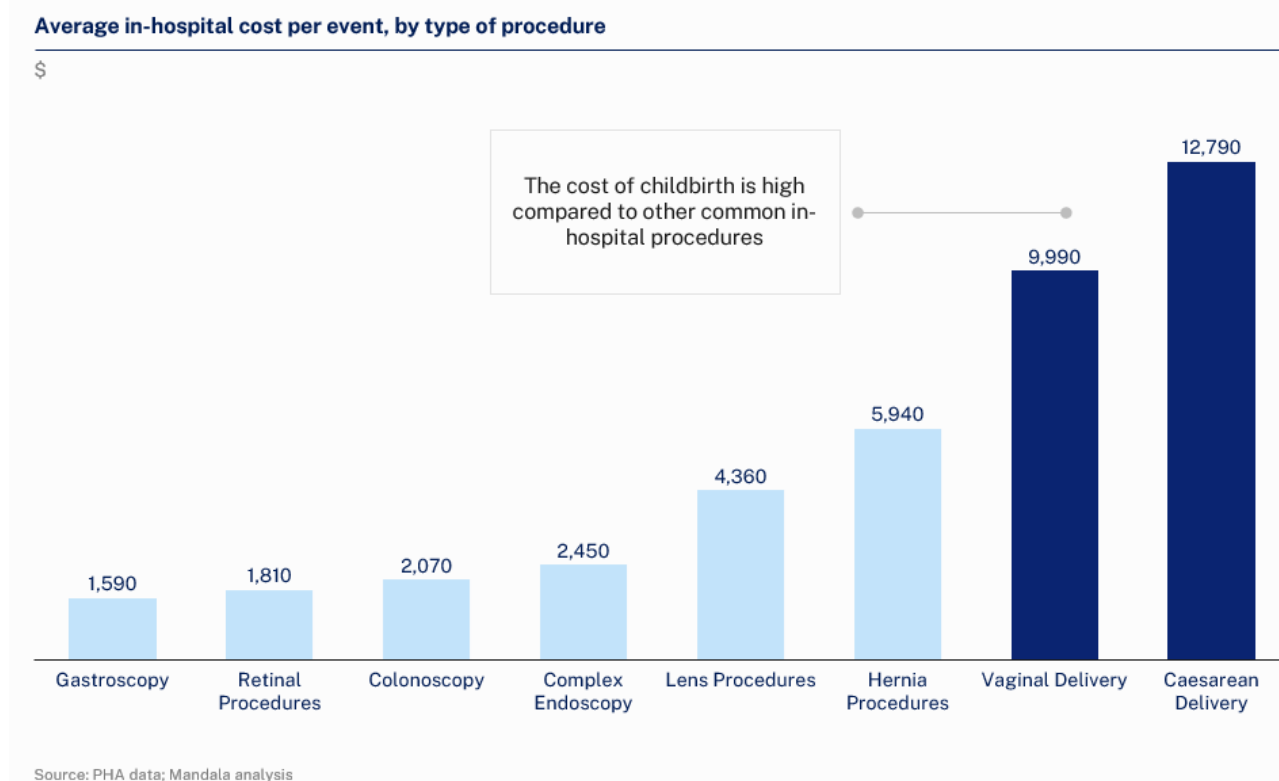
JANUARY 2025

SECTION 1: MATERNITY CARE IS BECOMING INCREASINGLY EXPENSIVE TO ADMINISTER AND INSURE

As the birthrate in Australia declines, the costs of maternity care are spread across fewer patient episodes

Maternity care is expensive for private hospitals to provide given significant fixed costs for staffing and infrastructure independent of patient demand, which is in decline. Average in-hospital costs for childbirth are higher than many other common procedures such as Hernia and Lens Procedures.

EXHIBIT 1: AVERAGE COST FOR IN-HOSPITAL MATERNITY CARE COMPARED TO OTHER COMMON PROCEDURES



Structural trends in the economy suggests that declining fertility rates in Australia are unlikely to reverse, similar to other developed countries. Further, Australian households are experiencing acute cost of living pressures, which may affect family planning decisions.

A greater share of parents are opting for births in public hospitals as a result of cost-of-living pressures and to avoid high out-of-pocket costs for private consultations.

In a recent survey of families, 43 per cent said that expensive out-of-pocket costs was the reason why they did not choose a private hospital for childbirth.¹ Out-of-pocket costs for in-hospital care is only a small proportion of all out-of-pocket costs which are dominated by out-of-hospital consultations with specialists. Just 8 per cent of respondents said that the price of maternity cover insurance is too expensive.² 11 per cent of those with private hospital cover said they would like to be covered for maternity care services but are not because they cannot afford the cost³.

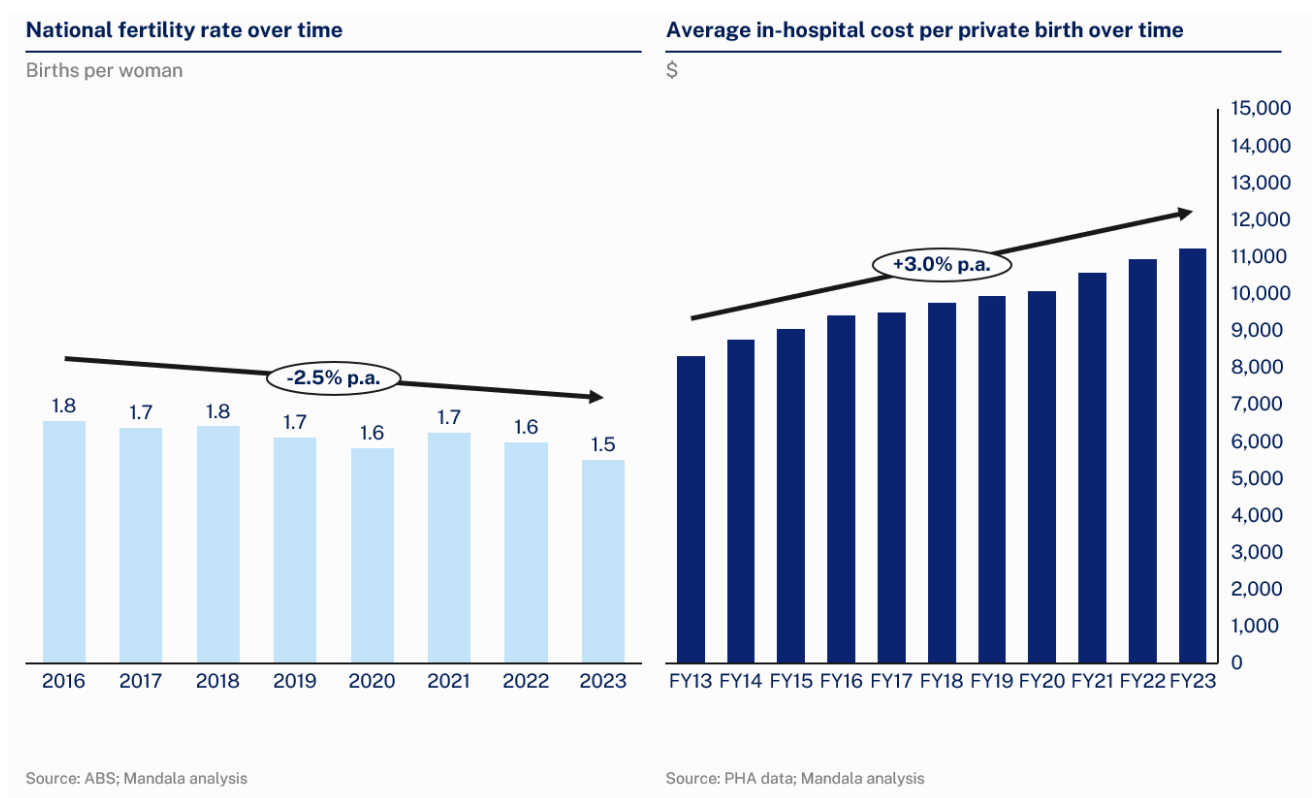
¹ IPSOS, Health Care and Insurance Australia (2023) Report 4, p. 83

² IPSOS, Health Care and Insurance Australia (2023) Report 4, p. 85

³ IPSOS, Health Care and Insurance Australia (2023) Report 11, p.80.

These trends culminate in a spiral that is extremely challenging for providers. Their fixed costs are currently spread across a smaller patient base than in the past, driving up per-patient costs further. This has resulted in the closure of maternity wards throughout Australia.

EXHIBIT 2: NATIONAL FERTILITY RATE AND AVERAGE IN-HOSPITAL MATERNITY COSTS OVER TIME

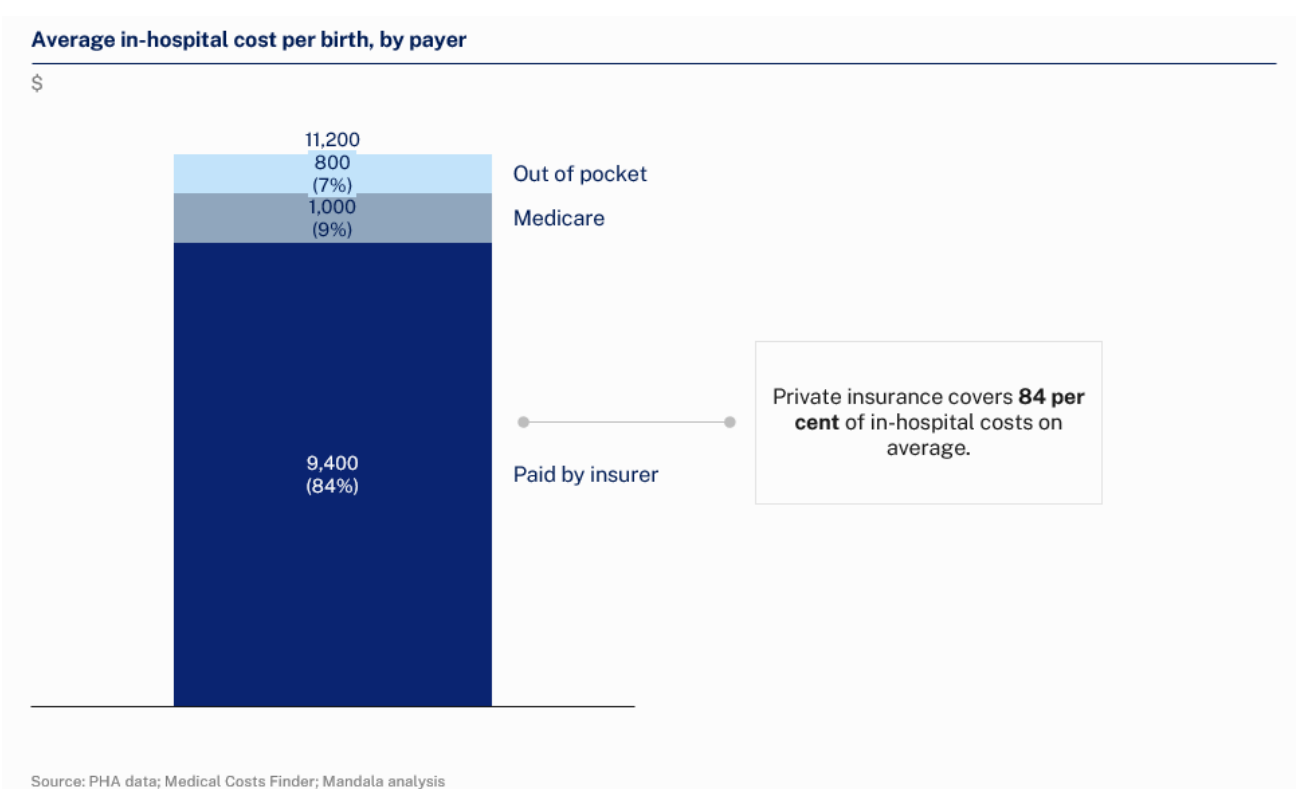


SECTION 2: IN RESPONSE TO THE PRIVATE HOSPITALS VIABILITY REVIEW, THE DEPARTMENT HAS PROPOSED MANDATING THE INCLUSION OF PREGNANCY COVER IN BRONZE AND SILVER POLICIES.

Currently, approximately 70,000 births occur each year in the private system at a total in-hospital cost of \$800m p.a., and an average cost of \$11k per episode⁴

The private hospital system delivers 26 per cent of births in Australia, playing a major role in the delivery of quality maternity care.⁵ On average, the total cost to the system of in-hospital care is \$11,200 per birth. 84 per cent of this cost is paid by insurers, with 9 per cent covered by Medicare and 7 per cent is paid out of patients' pockets.⁶

EXHIBIT 3: AVERAGE COST PER IN-HOSPITAL BIRTH, BY PAYER



If Silver and Bronze policies were required to cover pregnancy and birth care, premiums for those policies would increase by 6.5 per cent on average

We estimate that introducing in-hospital maternity coverage to Silver and Bronze-tiers would result in \$950 million of additional costs, as more participants would opt for private maternity care. This estimate is modelled off the current rates of uptake for those eligible participants, nearly all of whom have Gold-tier policies.

This cost would need to be borne by all Silver and Bronze-tier participants via an increase in premiums. This additional cost would see Silver premiums rise by 3.5 per cent and Bronze premiums by 13.3 per cent. The large impact on Bronze premiums is driven by the high concentration of younger Australians in this product tier. Women between the ages of 19 and 44 account for 22 per cent of all Bronze

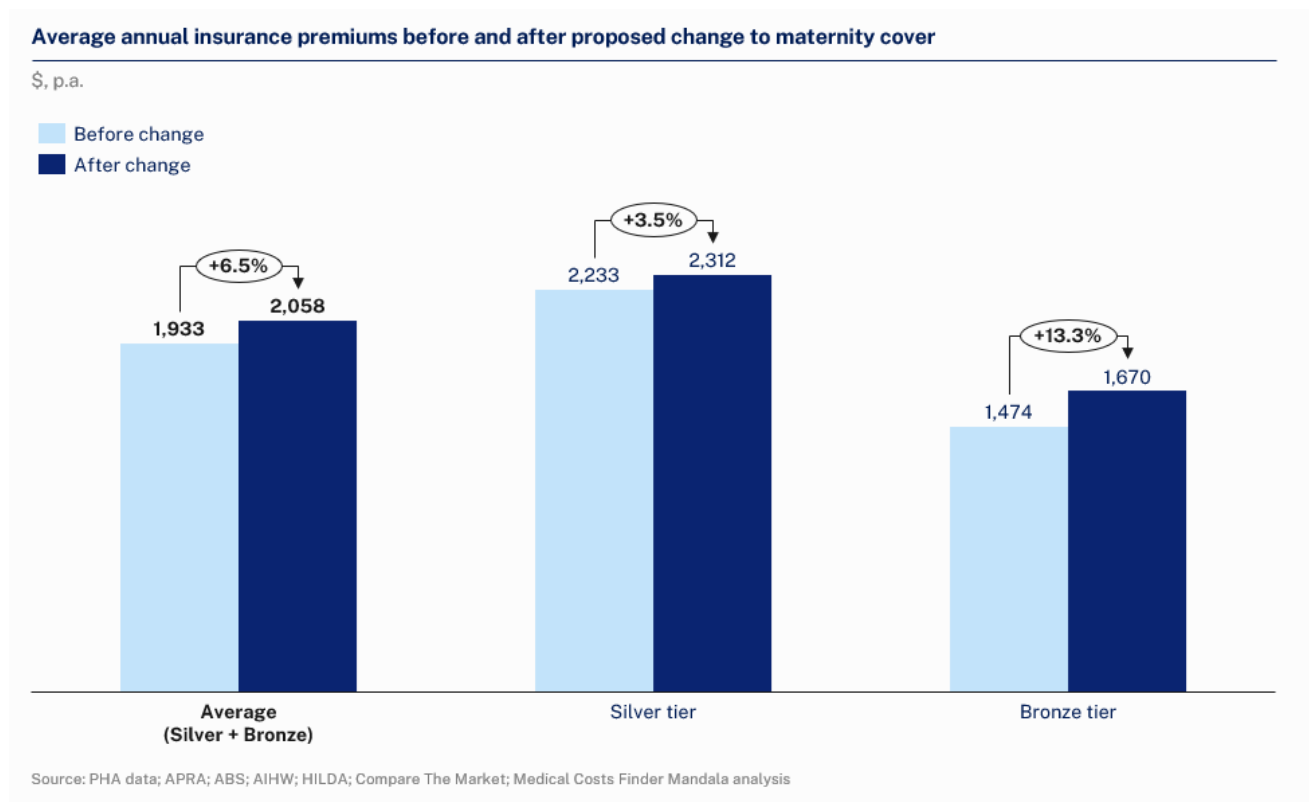
⁴ AIFS; AIHW; PHA data; Mandala analysis

⁵ AIHW

⁶ PHA data; Mandala analysis

policyholders, compared to 11 per cent of Silver and 16 per cent amongst Gold policyholders. Consequently, an expansion of maternity coverage for Bronze-tier products would see a significant increase in claims for maternity-care.⁷ In a community-rated system such as Australia's, introducing an expensive new benefit correspondingly results in more expensive policies for all policyholders. This has consequences for participation.

EXHIBIT 4: CHANGE IN ANNUAL PREMIUMS RESULTING FROM THE INTRODUCTION OF MATERNITY COVERAGE



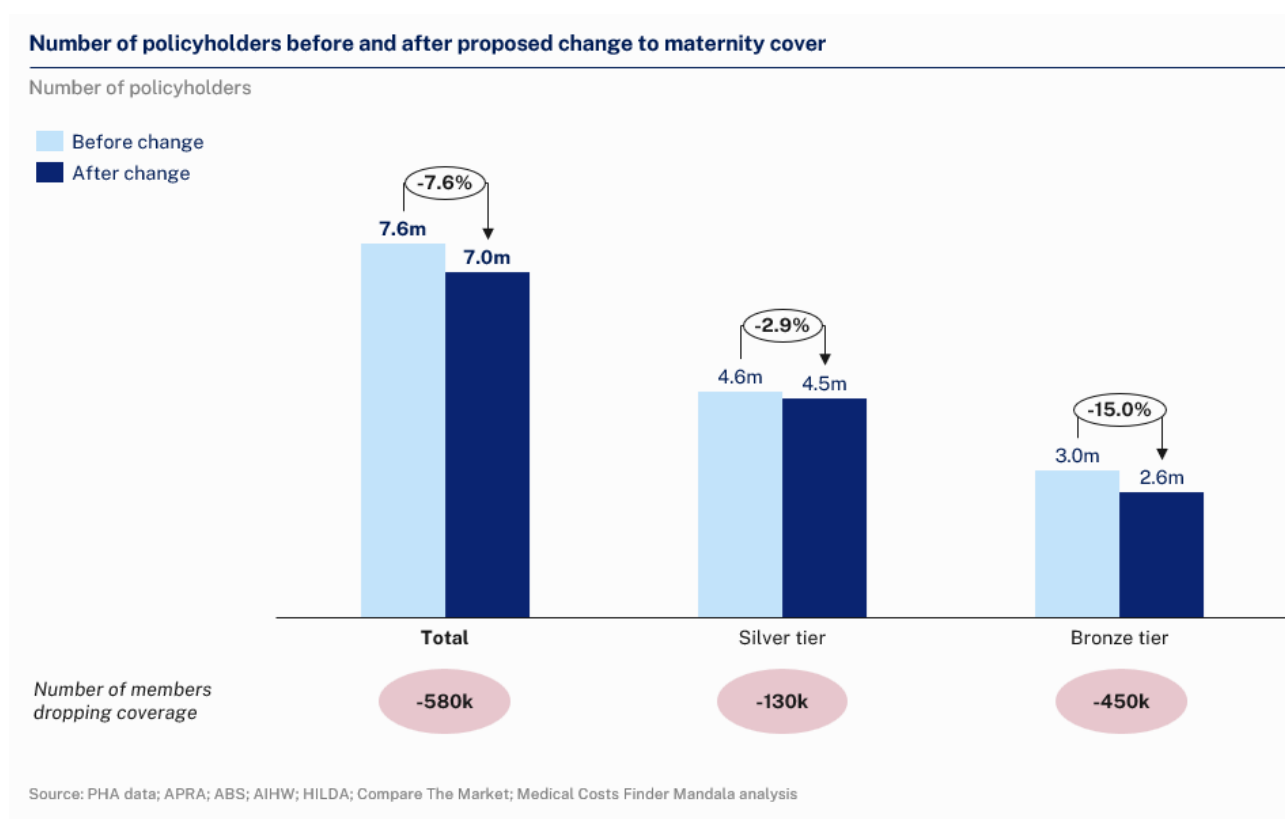
Consequently, our modelling suggests that a rise in premiums of that magnitude would result in 580k participants dropping their coverage in response.

⁷ PHA data; Mandala analysis

Following this projected increase in premiums, an estimated 580k Australians would drop their existing Silver and Bronze coverage. This is derived from age-based price elasticities that vary for Silver and Bronze policyholders based on the observed age distribution of each product.⁸

These elasticities reflect the fact that a share of participants – drawn from those who are not expecting to use maternity benefits – would drop their cover if premiums were to become more expensive. As such, the rise in premium prices would see approximately 580k participants drop their Silver and Bronze coverage, the equivalent of 4.6 per cent of the total privately insured population.

EXHIBIT 5: CHANGE IN PRIVATE HEALTH INSURANCE MEMBERSHIP RESULTING FROM THE INTRODUCTION OF MATERNITY COVERAGE⁹



The Department has the opportunity to investigate options that broaden access to high-quality private maternity care for non-Gold tiers, including a range of bundled care models that may include obstetrician, midwife, or GP-led care

⁸ Due to differences in the populations of policyholders the weighted average elasticity for Silver policyholders is a bit below -1 at -0.83, versus a bit above -1 at -1.17 for Bronze policyholders. An elasticity of -1 represents a perfectly uniform elasticity.

⁹ Figures may not sum to totals due to rounding.

Bundled care packages would allow lead practitioners, who are selected by the patient, to coordinate all the services required for maternity care. Lead practitioners would be responsible for coordinating care, negotiating prices and providing a single bill to the patient.

Such care options, well-implemented, would help drive down overall costs without any compromise to care quality, but practitioners would need to be compensated for the administrative burden.

For example, compensation could be provided by the health funds and the Australian Government. The Australian Government would only provide its funding on the condition the health fund provides no less than some agreed amount towards out-of-pocket costs. The health fund would also provide a package of funding equal to the existing legislative requirements for median medical rebates, as well as paying the hospital costs.

Legislation must change to allow health funds to pay for maternity services out of hospital, under strict conditions, to develop and deliver these care models.

Consumers would be better off under this model, given they would be aware of the total out-of-pocket cost before they commence their private maternity care journey. This model would also increase competition in the private healthcare sector, as practitioners would have to compete for patients by creating networks of medical professionals and offering transparent pricing and services as part of their bundled care packages.

SECTION 3: APPENDIX

The estimated impact on insurance premiums and membership highlighted in the submission above represents the central case from the model used in this analysis. Exhibit 6 compares this central case to an alternative, more conservative scenario.

The key difference between these scenarios is the assumed utilization rate of maternity services amongst women between the ages of 19 and 44, who represent over 99 per cent of all private hospital births.

In the central case used in the submission above, a utilisation rate of 11.7 per cent was used. This was estimated using the number of births that occur in private hospitals each year as a share of women aged 19-44 with Gold-tier coverage.¹⁰ This utilization rate was used in the central case, since it accounts for the impact of adverse selection. Participants within the 19-44 age band who pay for insurance that includes coverage for maternity care are more likely to be planning to have a child. Furthermore, there is an observed phenomenon in the private health insurance sector of individuals joining Gold-tier products for one to two years, and dropping the coverage after experiencing child birth.

The conservative scenario which is highlighted in the comparison below, does not account for adverse selection. Here, the utilisation rate is estimated by the total number of births that occur each year (in both the public and private hospital system) as a share of the total population of women between 19-44. Intuitively, this utilisation rate is lower than the central case rate, at 7.7 per cent.

EXHIBIT 6: TABLE OF CENTRAL CASE AND CONSERVATIVE CASE SCENARIOS

Scenario	Utilisation rate	Total additional expect cost p.a.	Increase in premiums (%)	Number of departing policyholders
Central case				
Silver	11.7%	\$365m	3.5%	-130k
Bronze	11.7%	\$590m	13.3%	-450k
Total	11.7%	\$950m	6.5% (average)	-580k
Conservative case				
Silver	7.7%	\$240m	2.3%	-85k
Bronze	7.7%	\$385m	8.7%	-300k
Total	7.7%	\$625m	4.2% (average)	-385k

¹⁰ While some of these private hospital births may apply to individuals with Silver plus insurance coverage, or who pay entirely out of pocket, these are assumed to represent a significant minority of cases. Thus, the utilization rate used assumes that all private births come from consumers with Gold tier private health insurance.

The model developed for the purposes of this analysis also focused on the “static effects” of the proposed increase in insurance coverage for in-hospital maternity care. As such, the model assumes that the current membership of each tier of insurance product remains constant before and after the change in coverage, resulting in a single premium increase which then results in a one-time decline in the number of Silver and Bronze policyholders. This assumption is necessary to produce a simple and interpretable result for the purposes of this analysis.

However, in practice, such a shift in insurance coverage would also spur an extended period of “dynamic effects” that go beyond the single time period modelled in this report. The reduction in policyholders from a particular tier from the initial increase in premiums could increase the average risk level of the insurance pool (since departing policyholders are also less likely to make insurance claims). This could induce a second round of premium increases which in turn prompt more participants to leave. The result is a continuous “death spiral” of price hikes and departures, as is commonly discussed in models of adverse selection in insurance.

Beyond these spiral effects however, a more immediate consideration is the impact of individuals changing their insurance product tier following the expansion of maternity coverage. Exhibit 7 below highlights some of the likely effects that may result from the proposed changes that were not incorporated as part of the quantitative analysis, but warrant consideration and discussion.

EXHIBIT 7: TABLE OF DYNAMIC EFFECTS

Qualitative impact of dynamic effects on policy premiums

Dynamic effect	Impact on premiums by product:			Discussion
	Gold	Silver	Bronze	
Non-PHI participants entering the market				Previously uninsured individuals may be inclined to enter the market by purchasing Bronze or Silver products specifically for maternity coverage. These new entrants may typically have a higher propensity to claim maternity benefits in the near term, which could create upward pressure on premiums for both tiers.
Movement from Gold Tier product	 			- Gold policyholders, particularly those of childbearing age, may downgrade to Silver or Bronze tiers given the expanded maternity coverage, potentially leading to: - Increased maternity claims in Silver and Bronze tiers, which may create upward premium pressure - Decreased maternity claims in Gold tier, which could create downward premium pressure - Potential demographic shift in Gold tier toward older policyholders, as younger members who may typically have lower overall claiming patterns transfer out, potentially creating additional upward pressure on Gold premiums.¹
Inter-tier movement from Bronze to Silver				Changes in the relative price difference between Silver and Bronze tiers may trigger policyholder movement, particularly among those who might use maternity services. This movement pattern may create: - Upward pressure on Silver tier premiums due to potentially increased maternity claims - Downward pressure on Bronze tier premiums due to potentially reduced maternity claims The ultimate premium impact may depend on the relative size of these movements and the claiming patterns of the migrating cohorts.

¹ This effect may be partially offset by risk equalisation, which helps insurers manage higher claims costs across the industry.
Source: Mandala analysis.