

Arbitrary cap on premiums threatens future of smaller health funds

The CEO of Private Healthcare Australia Dr Rachel David has confirmed Australia's smaller regional and employee-based health funds will be under threat in the immediate future, if premium increases are arbitrarily capped at 2%.

"If something sounds too good to be true it usually is, and Labor's 2% premium cap policy is no exception. The reason premiums increase is because health funds are paying for more healthcare. The reasons for this are the same as in the public system - an ageing population and advances in medical science," said Dr David.

"The introduction of a capped premium model will do nothing to address increasing utilisation of private and public health services. The key driver of premium growth is increases in input costs such as the cost of medical devices, hospital accommodation, and provider fees charged by medical specialists and allied health providers.

"Health funds desperately want to offer lower premiums and higher value, but this can only be done if Government and stakeholders work cooperatively to drive down input costs and address inappropriate regulation.

"A collaborative process to address affordability has been underway for the past two years and this has delivered results with this year's premium increase of 3.95% being the lowest in 17 years. It would be unfortunate to abandon this process for short term electoral purposes, which could have serious unintended consequences like the demise of some of our oldest not-for-profit funds.

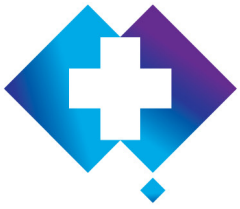
"An enforced premium pathway will put at risk a number of small, employee-based and regional not-for-profit health funds who are already close to breaching prudential reserves. These health funds have been serving their local communities for decades and a 2% premium cap will directly threaten their future and competition in the sector.

"Decision makers should consider the impact of this on regional communities, jobs and older Australians who have relied on their local health fund for security and peace of mind for decades," she said.

A recent study by social policy research firm, Evaluate, confirms the impact of a 2% cap will have far reaching consequences for Australia's health system, "...introducing a period of price capping in isolation – without simultaneously addressing the rising costs of health services – will threaten the sustainability and long term affordability of private health."

Evaluate's analysis found that the outcome of the 2% cap would result in:

- 8 of the 33 health funds would be in deficit or running at a loss in their current year of expenditure growth in year 1, whilst 26 would be in deficit at APRA's 98% sensitivity standard (if there were a substantial increase in costs);
- 15 funds would be in deficit at their current level of expenditure growth in year 2, and 31 at the 98th percentile;
- Further in year 2, 3 funds would be not only in deficit but would need to use more than 100% of their capital reserves if they faced expenditure growth at the 98th percentile. This is insolvency and the greatest stress is on the largest funds.



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“This study verifies that profit margins are not adequate to enable funds to bear the price cap. Health funds are not hiding a pot of gold; margins have remained stable at 4.5-6% over the last decade with funds consistently paying 86 cents in the premium dollar back to members to funds their healthcare. This is a modest return when compared with other forms of insurance and significantly below the returns made by private hospital groups and medical specialist practices.

“Private Healthcare Australia is working with Government, policy developers and health sector stakeholders to address the economic challenge of rising health costs, but this should be done in a considered way, with affordability for consumers and private health sector sustainability at the forefront,” said Dr David.

Private Healthcare Australia is the peak representative body for Australia’s private health insurance industry. PHA represents 20 Australian health funds with a combined membership of 12.9 million Australians, or 96% of the sector on membership. Promoting the value of private health insurance to consumers in the Australian economy and keeping premiums affordable for our members is the number one priority of PHA members.

Media contact: Jen Eddy 0439240755