



PHI Rebate delivers value to health system

The value of the Private Health Insurance Rebate has been reaffirmed by an independent study into the financing of Australia's health system.

The [study](#), conducted by social policy research firm, Evaluate, concluded that at current settings, a dollar spent by the Government on the PHI Rebate is up to 15% more efficient than a dollar directed to the public system.

This confirms that Federal Government expenditure on healthcare via the PHI rebate is an economically efficient method of spending, both in terms of direct economic costs and in overall welfare gains. It also shows that the Private sector and the PHI rebate are essential components of Australia's highly successful 'mixed' health care system.

Commissioned by the industry's peak body Private Healthcare Australia, the study "[The relative efficiency of the Private Health Insurance Rebate v. direct public health expenditure](#)" examined three issues:

- The history of the Australian health system and the role of private health insurance (PHI) to look at how the current arrangements evolved;
- The total economic cost of funding procedures via PHI or direct expenditure on public hospitals; and
- The broader welfare gains associated with alternative methods of health finance.

Private Healthcare Australia CEO, Dr Rachel David said the current mix of expenditure is hitting the mark and delivering a world-class health system. Australia's mixed private – public health system is providing the right balance of healthcare for consumers.

Health policy experts across the political spectrum understand that the PHI rebate is critical to maintaining this balance and is an efficient and effective use of government money.

"The volume of incorrect information being circulated by people with a vested interest or a particular philosophical barrow to push against the PHI rebate needs to be challenged. This study confirms that further change to the current mix of expenditure would have a detrimental impact across the Australian health system.

"In the interests of maintaining affordability of PHI for low and middle income earners, no further reductions should be made to the rebate on PHI premiums for either hospital or 'extras'. Doing so will not benefit public hospitals or Medicare.

"The PHI Rebate allows a greater proportion of the population to access private health care, which benefits the wider community by reducing waiting times in public hospitals. A healthy private sector is essential to the sustainability of Australia's health system and the Private Health Insurance rebate is a key component of this," 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. PHA's CEO Dr Rachel David is available for interview.

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PHA Briefing Note – September 2017

PHI rebate delivers value to health system

Economic analysis of the relative efficiency of the Private Health Insurance Rebate versus direct public health expenditure

The value of the Private Health Insurance Rebate has been reaffirmed by an independent study into the financing of Australia's health system. The specific question studied was "is a dollar spent by Government via private health insurance (PHI) more or less efficient than a dollar spent directly in the public system?"

The study, conducted by social policy research firm, Evaluate, concluded that – at current settings – **a dollar spent by the Government on the PHI Rebate is up to 15% more efficient than a dollar directed to the public system.**

It demonstrates that Federal Government expenditure on healthcare via the PHI Rebate is an economically efficient method of spending, both in terms of direct economic costs and in overall welfare gains.

Commissioned by the industry's peak body Private Healthcare Australia, the study "The relative efficiency of the Private Health Insurance Rebate v. direct public health expenditure" examined three issues:

- The history of the Australian health system and the role of private health insurance (PHI) to look at how the current arrangements evolved;
- The total economic cost of funding procedures via PHI or direct expenditure on public hospitals; and
- The broader welfare gains associated with alternative methods of health finance.

Role of Private Health Insurance in Australia

The paper describes the function of PHI, and distinguishes between the benefits received by health fund members and the public benefits shared by the broader Australian population.

In summary, these are:

- The Government is able to balance the community's expectation of access to necessary healthcare within acceptable levels of taxation;
- Consumers with PHI are able to access health care sooner than they would be able to in the public system; and
- The removal of consumers with PHI from public healthcare reduces pressure on public system and benefits health consumers without PHI.

The PHI Rebate allows a greater proportion of the population to access private health care, which in turn benefits the wider community by reducing waiting times in the public hospital system.

History of Private Health Insurance in Australia

Australian Governments have long supported PHI, demonstrating the value that Governments have placed on the sector and its contributions to the health system. The *National Health Act 1953* introduced a system by which existing insurers received subsidies from the Commonwealth for the claims of chronically ill. The *Act* also established Australia's system of community rating.

In 1970, PHI coverage reached a national peak of 80%. The introduction of Medicare in 1983 coincided with the end of PHI subsidies and PHI coverage dropped sharply to 50% and continued to fall gradually over the next decade. The 1990s economic downturn saw PHI become increasingly unaffordable as unemployment rose and real wages stagnated. The downward spiral this created resulted in only about 30% of the population holding hospital cover by 1997.

Recognising the system was in crisis, the Howard Coalition Government introduced a number of measures to support PHI. These included the Private Health Insurance Rebate; the Medicare Levy Surcharge (MLS); and Lifetime Health Cover. The impact of the reform measures was significant and immediate. From March to September 2000, private hospital insurance coverage rose from 32% to 46%.

Since then, various changes have been made which have eroded the value of the PHI rebate, many announced in the 2009-10 Budget. These included means testing the rebate; changing the Medicare Levy Surcharge; and indexing the rebate to the CPI. They have slowed the growth of Commonwealth expenditure on the PHI rebate and this decline is forecast to continue.

The ACCC's annual report to the Australian Senate regarding PHI in July 2017 confirmed that affordability is a major concern for consumers with 61% of people who had allowed their health cover to lapse citing the cost of premiums. Australian Prudential Regulation Authority (APRA) figures show that PHI coverage has fallen from 47.4% in June 2015 to 46.5% in March 2017.

Economic efficiency of PHI Rebate

The paper considers the overall economic cost of the PHI Rebate compared to the overall economic cost of direct healthcare purchase by governments, comparing the efficiency of expenditure on a dollar for dollar basis.

Two critical factors were considered: the first is the marginal excess benefit of taxation, or the deadweight loss, for which the paper uses an income tax rate of 33c per dollar of tax raised. This is smaller for PHI as a smaller amount of tax is required for the rebate v. full purchase of services in the public system. The second factor the paper considers in this section is administrative costs: estimated to be higher for private insurances at 8.4% v. 2.4% in the public system.

Taking these figures into account, the paper finds that a dollar spent by the Government on the PHI Rebate is up to 15% more efficient than a dollar directed to the public system.

Expenditure efficiency: welfare effects of PHI

A key benefit of public expenditure via the PHI rebate is to address public hospital waiting lists and support the public hospital sector. It is argued that the PHI rebate supports those who might not otherwise purchase PHI to do so, therefore relieving pressure on the public system for those who are less able to fund their own care. The paper builds on previous work done in the UK market that looks at comparative welfare gains from a choice between:

- A marginal dollar added to the public system; and
- A marginal dollar added to the PHI rebate.

The outcome measure is based on the value placed by the community on waiting times.

The results show that there is currently a greater welfare gain from the PHI rebate than from marginal investment in public care and that redirecting expenditure from the PHI rebate to public hospitals would reduce efficiency. This would inevitably result in a more expensive health system that reduces patients' access to essential non-emergency care.

In summary the PHI rebate helps to keep premiums affordable, encourages Australians to take out private health cover and eases pressure on the public hospital system. A healthy private sector is essential to the sustainability of Australia's health system and the Private Health Insurance rebate is a critical component.